

## Economic Analysis

# We adjust our year-end forecast from 3.7% to 3.8%

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**Headline: actual: 0.36% MoM (BBVAe: 0.31%; consensus: 0.31%)****Core: actual: 0.21% MoM (BBVAe: 0.18%; consensus: 0.20%)**

- **Headline inflation surprised to the upside while core inflation was slightly above market expectations**
- **We adjust our year-end forecasts for both headline and core inflation to 3.8% and 3.4%, from 3.7% and 3.3%, respectively**

Headline inflation increased 0.36% MoM in August. This print was above expectations (BBVAe: 0.31%; consensus: 0.31%). Annual inflation accelerated to 4.15% from 4.07% in July. Core inflation increased 0.21% MoM, slightly above market expectations (BBVAe: 0.18%; consensus: 0.20%). In annual terms, core inflation increased to 3.37% from 3.25% in July. Although core prices, particularly core services prices continue to reflect the absence of demand-side pressures, core food prices have been increasing at a faster pace than last year, even after excluding the effect of the new taxes in January. Although we continue to expect core inflation to remain low and relatively stable, we revise up our year-end forecast to 3.4%, from 3.3% previously.

**Non-core inflation pushed up inflation in the second half of the month as we were expecting.** Non-core inflation was 0.83% MoM in August (BBVAe: 0.76%) pushed up by large increases in both fruit and vegetable prices and meat and egg prices which rose 2.11% MoM and 1.87% MoM, respectively (BBVAe: 2.01% and 1.53%, respectively). Meanwhile, administered and regulated prices increased broadly in line with our expectations (0.16% MoM; BBVAe: 0.18%).

**Core inflation surprised us slightly on the upside, driven mainly by other services prices which decreased less than we anticipated.** We were expecting a slightly lower core inflation print (0.18% MoM). However, core inflation increased 0.21% MoM. Core goods increased a tad less than our forecast (0.45%; BBVAe: 0.49%) but core services increased 0.02% MoM (BBVAe: -0.07%) as the decline in other services prices was significantly milder than our forecast (-0.39% MoM; BBVAe: -0.57%). To allow for slightly higher other services prices and core food prices and although we continue to expect core inflation to remain low and relatively stable, we revise up our year-end forecast to 3.4%, from 3.3% previously.

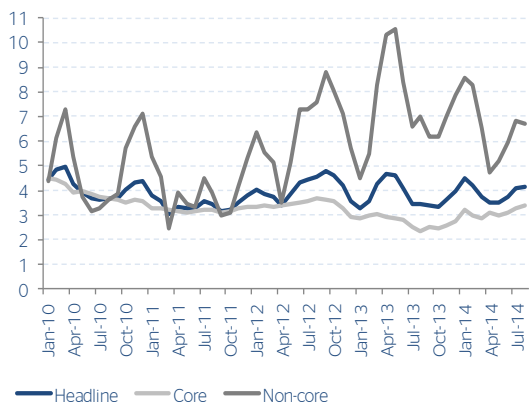
**Bottom line: Annual inflation is likely to stand above the upper bound of the inflation target until October, before decreasing slightly in the last two months of the year. However, to allow for slightly higher perishable prices and considering our upward revision in core prices, we adjust our year-end forecast from 3.7% to 3.8%.**

Table 1  
**Inflation (MoM and YoY % change)**

Inflation					
	MoM % change			YoY % change	
	Aug-14	BBVAe	consensus	Aug-14	Jul-14
CPI	0.36	0.31	0.31	4.15	4.07
Core	0.21	0.18	0.20	3.37	3.25
Non Core	0.83	0.74	0.67	6.72	6.83

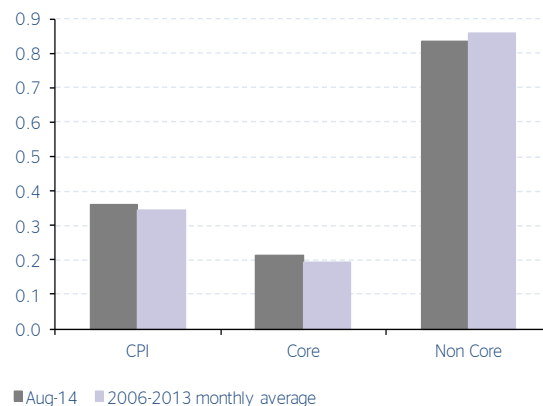
Source: BBVA Research, INEGI

Graph 1  
**Inflation and components (YoY % change)**



Source: BBVA Research, INEGI

Graph 2  
**Inflation and components (MoM % change)**



Source: BBVA Research, INEGI

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