

## Economic Analysis

# Headline inflation surprises to the upside while core inflation points to some improvement in domestic demand

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**Headline: actual: 0.32% MoM (BBVAe: 0.27%; consensus: 0.25%)****Core: actual: 0.24% MoM (BBVAe: 0.25%; consensus: 0.22%)**

- **Headline inflation surprised to the upside as non-core inflation remains pressured by perishable prices. Core inflation was broadly in line with our above-consensus forecast**
- **Risks to our 3.8% year-end inflation forecast are tilted to the upside, due to perishable prices**

Headline inflation increased 0.32% FoF in the first fortnight of September. This print surprised on the upside (BBVAe: 0.27%; consensus: 0.25%). Annual inflation reached 4.21% from 4.23% in the previous fortnight. Core inflation was 0.24% FoF, close to our above-consensus forecast and slightly stronger than market expectations (BBVAe: 0.25%; consensus: 0.22%). In annual terms, core inflation stood at 3.34%, somewhat lower than in the previous fortnight (3.41%).

**Non-core inflation remains pressured by perishable prices.** Non-core inflation was 0.60% FoF, pushed up again by large increases in both fruit and vegetable prices and meat and egg prices which rose 1.81% FoF and 0.88% FoF, respectively. These increases were mainly driven by tomatoes (11.3% FoF), meat (1.5% FoF), chicken (1.12% FoF) and onion prices (7.79% FoF). Considering that a reversal of recent pressures seems unlikely in the short term, perishable prices skew risks to our year-end inflation forecast (3.8%) to the upside.

**Core inflation was broadly in line with our above-consensus forecast.** Core inflation was 0.24% FoF, close to our above-consensus forecast and slightly stronger than market expectations (BBVAe: 0.25%; consensus: 0.22%). Core goods registered another strong print (0.35% FoF) as we expected, which combined with the seasonal increase in tuitions (2.18% FoF) explain the increase in core prices. Meanwhile, other services prices decreased (-0.17% FoF) as we anticipated. In annual terms, core inflation stood at 3.34%, somewhat lower than in the previous fortnight (3.41%). Recent core inflation readings have been on balance somewhat higher than anticipated, suggesting a gradual strengthening of domestic demand. We remain comfortable with our 3.4% 2014 year-end forecast but we have revised slightly to the upside the expected path for 2015. We now expect core inflation to stand at 3.3% by December 2015 (vs. 3.1% previously).

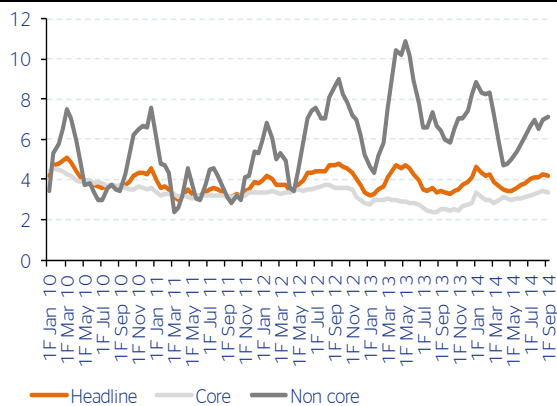
**Bottom line: Annual inflation is likely to stand above the upper bound of the inflation target at least until October, before decreasing slightly in the last two months of the year. However, risks to our 3.8% year-end inflation forecast are tilted to the upside, due to perishable prices. Although we now expect slightly higher core prices in 2015, the absence of demand-side pressures continues.**

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

CPI Inflation						
	Bi-weekly % change			Annual % change		
	1F Sep 2014	BBVAe	Consensus	1F Sep 2014	BBVAe	Consensus
Headline	0.32	0.27	0.25	4.21	4.16	4.14
Core	0.24	0.25	0.22	3.34	3.36	3.32
Non Core	0.60	0.34	0.35	7.09	6.82	6.83

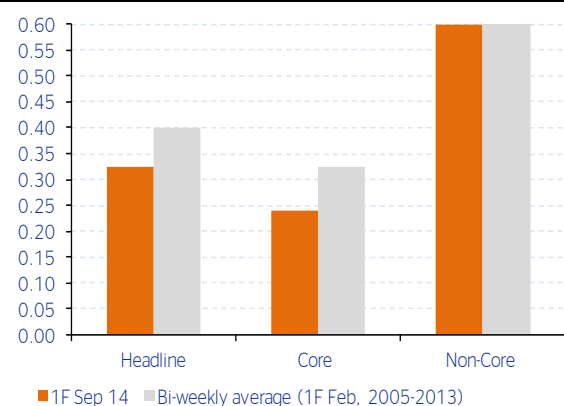
Source: BBVA Research, INEGI

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



Source: BBVA Research, INEGI

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



Source: BBVA Research, INEGI

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