

Economic Analysis

Non-core food price pressures receded in the second half of the month as we expected

Javier Amador Diaz

Headline: actual: 0.44% MoM (BBVAe: 0.44%; consensus: 0.47%)**Core: actual: 0.29% MoM (BBVAe: 0.30%; consensus: 0.31%)**

- **Headline inflation was in line with our below-consensus forecast and core inflation was also broadly in line with our below-consensus forecast**
- **We continue to think that annual inflation peaked in September and will start decreasing slowly from October onwards but risks to our year-end 3.84% forecast remain tilted slightly to the upside**

Headline inflation increased 0.44% MoM in September, in line with our below-consensus forecast (BBVAe: 0.44%; consensus 0.47%), as non-core food prices declined in the second half of the month as we expected. In annual terms, inflation reached 4.22% from 4.15% in August. Core inflation was 0.29% MoM, broadly in line with our below-consensus forecast (BBVAe: 0.30%; consensus: 0.31%). In annual terms, core inflation remained at 3.34%. We continue to think that annual inflation peaked in September and will start decreasing slowly from October onwards. However, should the increase in meat prices turn out to be more persistent, inflation may not have yet found its peak. All in all, although September's inflation print supports our scenario, risks to our year-end 3.84% forecast remain tilted slightly to the upside. Core inflation was on the weak side in the second half of the month as we expected, favored by the slack in the economy. We expect annual core inflation to remain relatively stable the rest of the year and to stand at 3.4% by year-end.

Non-core food prices declined in the second half of the month as we expected. Non-core inflation was 0.92% MoM (BBVAe: 0.93%; consensus: 1.0%), mostly driven by large increases in fruit and vegetable prices (2.88% MoM; BBVAe: 2.48%) and meat and egg prices (1.58% MoM; BBVAe: 1.68%). However, non-core food price deflation in the second half of the month was behind the surprise relative to the consensus forecast.

Core inflation was broadly in line with our below-consensus forecast. Core inflation was 0.29% MoM, broadly in line with our (0.30%) and the market's expectation (0.31%). Core goods increased 0.32% MoM (BBVAe: 0.32%) while services prices were 0.27% MoM higher than in August (BBVAe: 0.28%), mostly driven by tuitions (2.26% MoM; BBVAe: 2.27%) and partially offset by other services prices (-0.24% MoM; BBVAe: -0.19%). Today's print continues to suggest the absence of demand-side pressures.

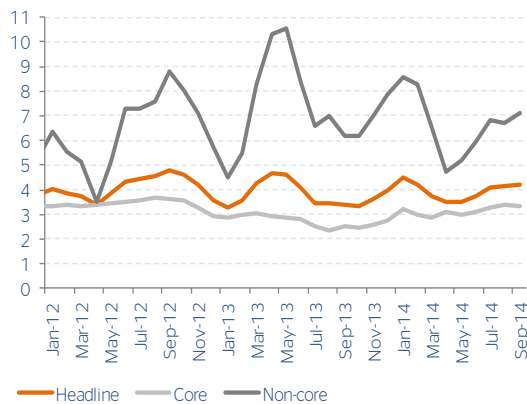
Bottom line: We continue to think that annual inflation peaked in September and will start decreasing slowly from October onwards but risks to our year-end 3.84% forecast remain tilted slightly to the upside.

Table 1
Inflation (MoM and YoY % change)

Inflation					
	MoM % change			YoY % change	
	Sep-14	BBVAe	consensus	Sep-14	Aug-14
CPI	0.44	0.44	0.47	4.22	4.15
Core	0.29	0.30	0.31	3.34	3.37
Non Core	0.92	0.92	1.00	7.11	6.72

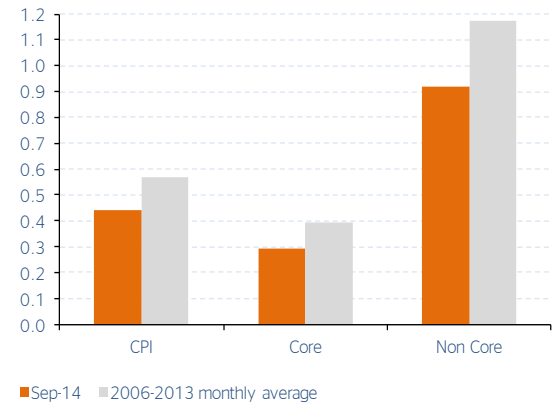
Source: BBVA Research, INEGI

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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