

## Economic Analysis

# Annual inflation has peaked. We expect it to reach 3.8% by year-end

Javier Amador Diaz

**Headline: actual: 0.50% FoF (BBVAe: 0.46%; consensus: 0.46%)****Core: actual: 0.12% MoM (BBVAe: 0.14%; consensus: 0.16%)**

- **Core inflation was somewhat lower than anticipated and remains stable in annual terms. The seasonal adjustment of electricity prices was stronger than expected but was partially offset by the decrease in perishable food prices**
- **Annual inflation has peaked. We expect annual inflation to reach 3.8% by year-end.**

Headline inflation increased 0.50% FoF in the first fortnight of October, mainly driven by the seasonal adjustment of electricity prices. This print surprised slightly on the upside (BBVAe: 0.46%; consensus: 0.46%). Annual inflation reached 4.32% from 4.22% in the previous fortnight. Core inflation was 0.12% FoF, below both our above-consensus forecast and market consensus (BBVAe: 0.16%; consensus: 0.14%). In annual terms, core inflation stood at 3.32%, somewhat lower than in the previous fortnight (3.34%).

**Non-core inflation was driven by the seasonal increase of electricity prices but pressures on perishable food prices seem to be easing.** Non-core inflation was 1.72% FoF, pushed up by the seasonal increase of electricity prices (20.22% FoF), which contributed with 0.38 pp of the fortnightly inflation increase. This increase was partially offset by a 0.13% FoF drop in perishable food prices driven by slight decreases in both fruit and vegetable prices (-0.15% FoF) and meat and egg prices (-0.11% FoF). Although as we expected pressures on beef prices continued (0.75% FoF), poultry prices decreased (-0.99% FoF). The easing of pressures on perishable food prices is favorable for our year-end 3.8% inflation forecast.

**Core inflation was lower than expected and remains stable in annual terms.** Core inflation was 0.12% FoF, below both our above-consensus forecast and market consensus (BBVAe: 0.16%; consensus: 0.14%). The surprise was mainly driven by an unexpected decrease (-0.03% FoF) in the core other goods component and by a milder-than-expected increase of core food prices (0.21% FoF).

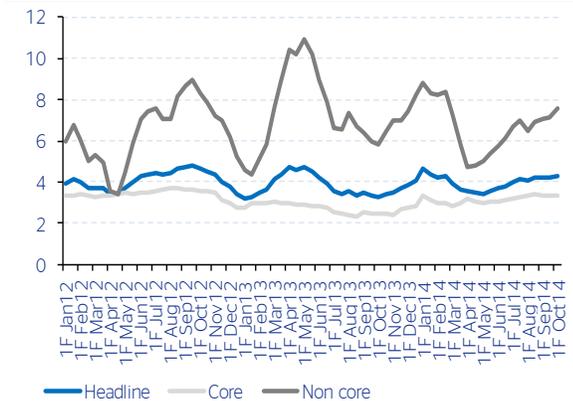
**Bottom line: Annual inflation has peaked. Although headline inflation surprised slightly on the upside, the breakdown of the fortnightly increase is favorable for our year-end below consensus forecast (BBVAe: 3.8%; consensus: 4.0%) given that it is clear that there are no demand-side pressures and the pressures on perishable food prices seem to be easing.**

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

CPI Inflation						
	Bi-weekly % change			Annual % change		
	1F Oct 2014	BBVAe	Consensus	1F Oct 2014	BBVAe	Consensus
Headline	0.50	0.46	0.46	4.32	4.29	4.28
Core	0.12	0.16	0.14	3.32	3.37	3.35
Non Core	1.72	1.51	1.56	7.59	7.37	7.42

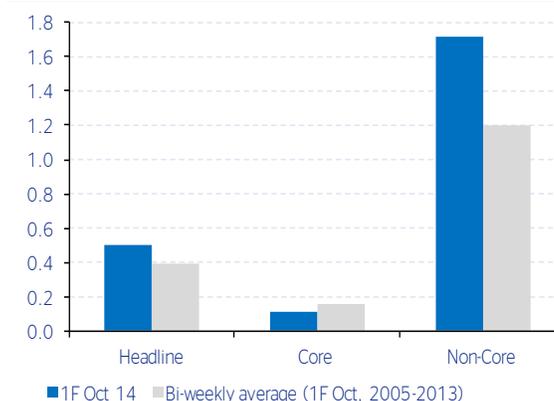
Source: BBVA Research, INEGI

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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