

ECONOMIC ANALYSYS

Inflation: 1st January CPI FoF forecast

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We anticipate that headline inflation will show a large drop in the first half of January, while core inflation is likely to resume its downward trend following the uptick seen over the last two months.

Our forecast for the 1st-January fortnight headline inflation print is 0.33% FoF, translating into a 5.60% YoY number (1.2pp lower than the 2017 close i.e., compared to 6.77% in December; 6.85% in the second half of December). We expect core inflation to increase 0.20% FoF, 4.66% YoY, down from 4.87% in December, 4.83% in the second half of December.

Core prices will benefit from seasonal January sales (in non-food core goods) **and lower tourism-related services prices** following December's peak season. Significant increases in processed food prices (core foods) and restaurants and loncherías prices (other services) will partially offset the favorable seasonality effects.

Non-core inflation will continue to be pressured by energy prices. We expect gasoline prices (1.8% FoF expected increment; recall that this prices are now fully liberalized) to add around 8bp to headline inflation, and LPG to add another 4bp (2.8% expected increment, 0.5pp above the 2.3% approved increment). **These pressures could be partially offset by a large expected drop in tomatoes prices** (see Figure 1 with tracker).

Table 1. Core inflation breakdown

	Weight (1pp=core)	Expected change (FoF, %)
Core	1.00	0.20
Goods	0.44	0.25
Food	0.19	0.42
Non-food	0.25	0.12
Services	0.56	0.17
Housing	0.25	0.12
Education	0.07	0.33
Other	0.24	0.17

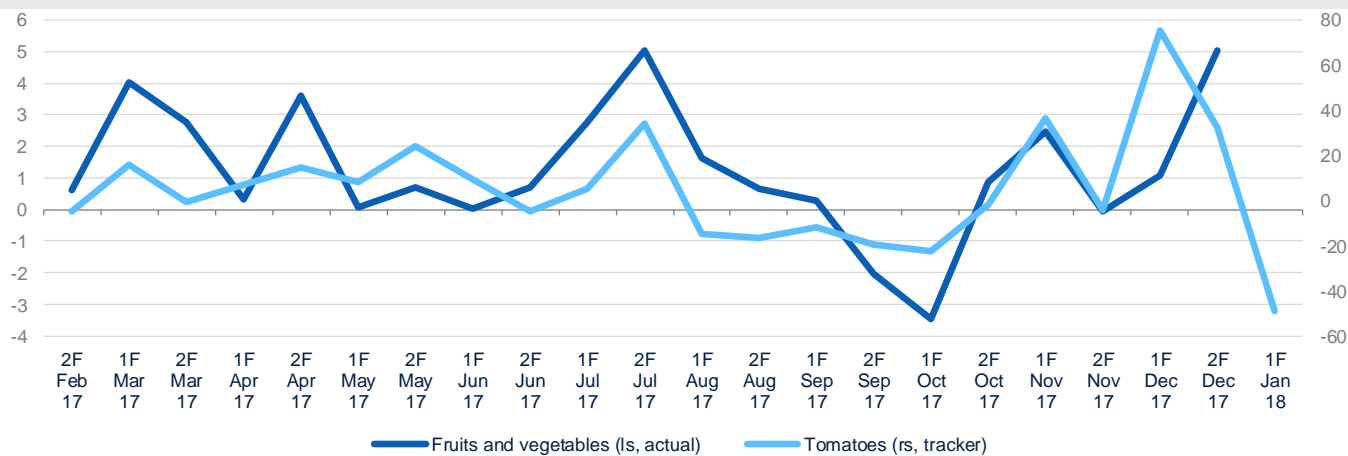
Source: BBVA Research with Inegi data

Table 2. Non-core inflation breakdown

	Weight (1pp=non-core)	Expected change (FoF, %)
Non-core	1.00	0.76
Perishable	0.37	-0.38
Fruits & Vegetables	0.16	-1.65
Meat & Eggs	0.22	0.54
E&G	0.63	1.44
Energy	0.39	1.45
Tariffs	0.24	1.42

Source: BBVA Research with Inegi data

Figure 1. Tomatoes prices vs Fruits and vegetables prices



Source: BBVA Research with Inegi data

In our view, risks to our headline forecast are slightly tilted to the downside, as fruits & vegetables prices could decline more than our expected increment (i.e., -1.65% FoF) if tomatoes prices drop as much as our tracker shows.

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