

Economic Analysis

1H July CPI forecast: fruit and vegetable prices will prevent a decrease in annual inflation

Core inflation will likely remain sticky to the downside during 3Q19

Javier Amador
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Both headline and core inflation are likely set to remain steady in annual terms in the first half of July. We expect increases of 0.31% and 0.17% 2Wo2W for headline and core inflation, translating into 3.89% and 3.81% YoY, respectively, compared to 3.89% and 3.83%, respectively in the second half of June. The expected mild increase for core prices rests on a slight increase in core goods prices as seasonal summer discounts continue offset by a sizable seasonal increase in tourism-related prices due to summer holidays. Our fresh food price trackers signal increases in both fruit and vegetable and meat and egg prices. Pressures are more significant for fruits and vegetables prices but chicken prices remain also under pressure. Meanwhile, our gasoline prices tracker suggests that low octane gasoline prices will increase for the first time in the last eight fortnights (see chart).

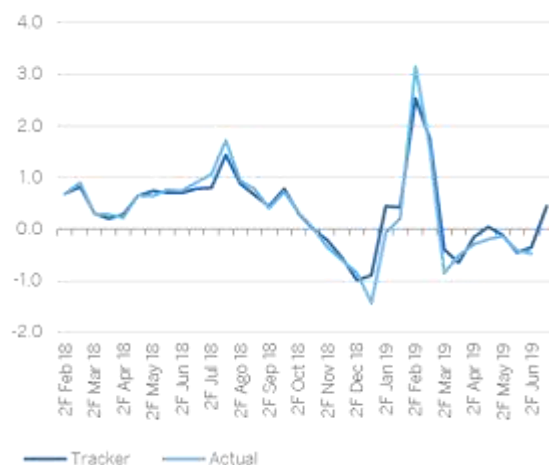
Looking ahead, headline inflation is likely to ease to 3.7% next month before falling more markedly in 4Q19. We continue to expect 3.4% by year-end. Core inflation is likely to hover around 3.7-3.8% before easing significantly in 4Q19. We continue to expect 3.3% by year-end.

Figure 1. Inflation Breakdown

	1H Jul 19		H2 Jun 19
	2Wo2W %	YoY %	YoY %
Headline	0.31	3.89	3.89
Core	0.17	3.81	3.83
Core goods	0.08	3.79	3.90
Core food	0.19	4.89	4.99
Non-food core	-0.03	2.66	2.80
Core services	0.27	3.83	3.75
Core Housing	0.10	2.85	2.83
Core Education (tuitions)	0.07	4.86	4.87
Core Other Services	0.46	4.50	4.37
Non-Core	0.76	4.09	4.04
Non-core Food	1.52	7.08	6.64
Fruits and Vegetables	2.90	8.12	9.20
Meat and Eggs	0.40	6.52	5.52
Energy-related and Regulated	0.21	1.99	2.26
Energy-related	0.28	1.26	1.68
Regulated	0.06	3.73	3.73

Source: BBVA Research / INEGI

Chart 1. Low octane gasoline prices: actual vs tracker (HoH % change)



Source: BBVA Research

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