

Economic Analysis

July CPI forecast: inflation continues to ease

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

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Headline inflation likely eased 0.1 pp in July with core probably inching down only 0.03pp in annual terms. We expect increases of 0.42% and 0.26% MoM for headline and core inflation, translating into 3.83% and 3.82% YoY, respectively, compared to 3.95% and 3.85%, respectively in June. If our forecasts prove accurate, core inflation would have remained sticky to the downside while headline inflation would have declined for the third month in a row after reaching a year-high 4.41% in April. The recent decline in inflation is in line with our forecasts at the start of the year when we were already expecting below 4.0% inflation in the summer. We expect it to further decline to 3.6% (-0.2pp) next month. The expected stickiness for core prices rests on somewhat higher services inflation offset by lower goods inflation (see table). Our fresh food price trackers continue to signal pressures in fruits and vegetables prices in the second half of the month. Meanwhile, our gasoline prices tracker points to the first monthly increase since March (see chart). Looking ahead, headline inflation is likely to ease to 3.6% next month and to stay on average on that level during Aug-Nov before falling down to 3.4% in December. Core inflation is likely to ease slightly to 3.7% by the end of 3Q before easing significantly in 4Q19. We continue to expect 3.3% by year-end.

Figure 1. Inflation Breakdown

	July 2019		June YoY %
	MoM%	YoY %	
Headline	0.42	3.83	3.95
Core	0.26	3.82	3.85
Core goods	0.11	3.81	3.92
Core food	0.27	4.84	5.01
Non-food core	-0.05	2.73	2.84
Core services	0.42	3.84	3.75
Core Housing	0.20	2.84	2.84
Core Education (tuitions)	0.15	4.90	4.86
Core Other Services	0.68	4.52	4.39
Non-Core	0.92	3.83	4.19
Non-core Food	2.49	6.84	6.23
Fruits and Vegetables	4.00	6.77	9.32
Meat and Eggs	1.27	6.99	4.89
Energy-related and Regulated	-0.20	1.71	2.83
Energy-related	-0.37	0.82	2.51
Regulated	0.18	3.84	3.74

Source: BBVA Research / INEGI

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



Source: BBVA Research

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