

Economic Analysis

1H August CPI forecast: annual inflation set to drop considerably

Core inflation still set to remain sticky to the downside during 3Q19

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August 20, 2019

We expect annual headline to ease 0.25pp in the first half of August with core likely inching down only 0.02 pp in annual terms. We expect increases of 0.10% and 0.15% HoH for headline and core inflation, translating into 3.47% and 3.81% YoY, respectively, down from 3.72% and 3.83%, respectively in the second half of July. If our forecasts prove accurate, core inflation would have remained sticky to the downside for the fourth consecutive fortnight (ranging between 3.81 and 3.83%) while headline inflation would have declined for the seventh fortnight in a row after reaching a year-high 4.44% in the second half of 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 and a significant drop in the summer on the back of a favorable base effect as the energy supply shock seen in May-Nov 2018 continues to fade out.

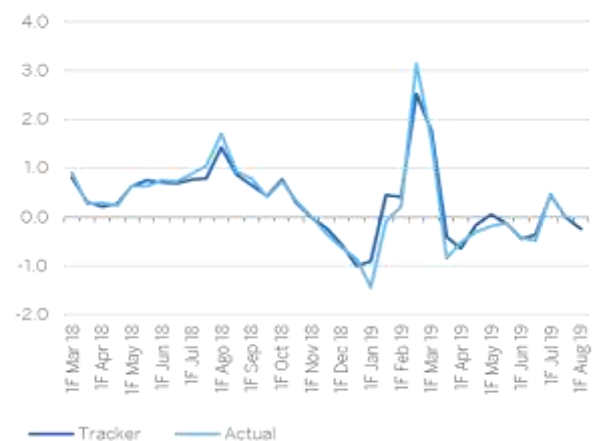
Two weeks ago, we mentioned that inflation would further decline (-0.2pp) to 3.6% in August (see) but considering that non-core inflation is set to decrease slightly in the first fortnight driven by a drop in gasoline prices coupled with a possible decline in fruits and vegetables prices, we are now expecting a (-)0.4pp decline to 3.4% in August. Thus, we now have a downward bias to our below-consensus 3.4% year-end forecast. The expected stickiness for core prices rests on the core services subindex which is likely to remain stable as core food annual inflation starts to ease somewhat and non-food core goods inflation remains low. We continue to expect core inflation to ease more significantly in 4Q19. We continue to expect 3.3% by year-end.

Figure 1. Inflation Breakdown

	1H Aug		2H Jul
	HoH%	YoY %	YoY %
Headline	0.10	3.47	3.72
Core	0.15	3.81	3.83
Core goods	0.26	3.87	3.91
Core food	0.18	4.81	4.90
Non-food core	0.35	2.89	2.87
Core services	0.03	3.74	3.75
Core Housing	0.09	2.92	2.88
Core Education (tuitions)	1.10	4.68	4.93
Core Other Services	-0.25	4.28	4.29
Non-Core	-0.06	2.42	3.37
Non-core Food	-0.09	4.93	5.97
Fruits and Vegetables	-0.20	1.33	4.38
Meat and Eggs	0.00	7.96	7.26
Energy-related and Regulated	-0.05	0.61	1.51
Energy-related	-0.15	-0.94	0.33
Regulated	0.19	4.29	4.25

Source: BBVA Research / INEGI

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



Source: BBVA Research

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