

Economic Analysis

# August CPI forecast: annual headline inflation set to fall to 3.16%, with core easing to 3.74%

Core inflation to ease slightly but unlikely to fall notably in annual terms until 4Q

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**We expect a -0.02% MoM headline inflation print in August (3.16% YoY), with core at 0.17% MoM (3.74% YoY).** If our monthly forecasts prove correct, annual headline inflation would fall (-)0.6pp to 3.16% YoY from 3.78% YoY in July, with annual core inflation falling down 0.08pp to 3.74% from 3.82% in July. The positive monthly inflation print will rest on a -0.6% MoM non-core inflation print favored by both a positive month for fresh food inflation and another contraction in monthly energy prices (see chart 1). In our view, core inflation is set to begin to ease slightly in the next few months but it is still unlikely to fall notably in annual terms until 4Q.

**We revise down our year-end 3.4% below-consensus headline inflation forecast to 2.9%. We keep unchanged our 3.3% year-end core inflation forecast.** Our expectation of lower core inflation by year-end is mainly explained by our belief that core food inflation is set to begin to finally slow as fresh food inflation will likely stand below 3.0% YoY in August and the supply shocks that affected these prices in the summer of 2018 and 4Q18 will fade away.

Chart 1. Inflation Breakdown

	Aug		Jul
	MoM%	YoY %	YoY %
<b>Headline</b>	<b>-0.02</b>	<b>3.16</b>	<b>3.78</b>
<b>Core</b>	<b>0.17</b>	<b>3.74</b>	<b>3.82</b>
Core goods	0.25	3.71	3.85
Core food	0.13	4.57	4.87
Non-food core	0.38	2.80	2.78
Core services	0.08	3.78	3.79
Core Housing	0.24	2.94	2.86
Core Education (tuitions)	1.07	4.53	4.91
Core Other Services	-0.27	4.38	4.40
<b>Non-Core</b>	<b>-0.02</b>	<b>1.37</b>	<b>3.04</b>
Non-core Food	-1.26	3.03	6.33
Fruits and Vegetables	-0.79	-0.24	5.61
Meat and Eggs	-1.64	5.79	7.06
Energy-related and Regulated	-0.16	0.15	1.73
Energy-related	-0.44	-1.59	0.76
Regulated	0.50	4.30	4.04

Source: BBVA Research / INEGI

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



Source: BBVA Research

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