

Economic Analysis

1H Sep CPI forecast: annual headline inflation likely stayed stable close to 3.0%, with core still sticky

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We expect a 0.26% HoH headline inflation print in the first half of September (3.07% YoY), with core at 0.19% MoM (3.77% YoY). If our monthly forecasts prove correct, annual headline inflation would have fallen (-)1.4pp since reaching a 4.44% year-high in the second fortnight of April. In contrast, core inflation would have fallen only (-)0.15pp since it reached 3.94% in the first fortnight of April. We expect a relatively mild increase of energy prices that is likely to moderate in the monthly print since gasoline prices increased at a faster pace in the first half of the month. Meanwhile, our fresh food prices tracker suggests that a relatively large increase in fruits and vegetables prices was likely partially offset by a good performance of meat and eggs prices, mainly driven by a further drop in chicken prices. We expect core inflation to remain sticky in the first half of the month (at 3.8%) but to ease 0.1pp to 3.7% in the month, and we continue to anticipate that it will ease markedly in 4Q.

If our fortnightly forecasts prove correct we would have a downward bias to our well-below year-end 2.9% inflation forecast (consensus:3.2%). 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, while the other components should perform favorably in a context of a relatively stable MXN and a backdrop of low firms pricing power with a weak economy and a widening negative output gap.

Chart 1. Inflation Breakdown

	1H Sep		2H Aug
	HoH%	YoY %	YoY %
Headline	0.26	3.07	3.07
Core	0.19	3.77	3.77
Core goods	0.21	3.77	3.77
Core food	0.18	4.60	4.60
Non-food core	0.25	2.90	2.90
Core services	0.17	3.81	3.80
Core Housing	0.09	2.87	2.89
Core Education (tuitions)	1.95	4.77	4.78
Core Other Services	-0.13	4.46	4.42
Non-Core	0.00	0.30	0.30
Non-core Food	0.60	3.05	2.06
Fruits and Vegetables	2.00	1.76	-1.51
Meat and Eggs	-0.53	4.10	5.09
Energy-related and Regulated	0.33	-0.66	-0.17
Energy-related	0.41	-2.76	-2.03
Regulated	0.14	4.38	4.24

Source: BBVA Research / INEGI

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



Source: BBVA Research

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