

Economic Analysis

# September inflation forecast: annual headline inflation will ease for the fifth month in a row and core inflation for the fourth consecutive month

Javier Amador  
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**We expect a 0.25% MoM headline inflation print in September (2.99% YoY), with core coming in at 0.27% MoM (3.72% YoY).** If our monthly forecasts prove correct, annual headline inflation would further slow down to 3.0% from 3.2% in August. September will mark the fifth month in a row with annual headline inflation declining since reaching 4.4% in April. It will stand below 3.0% for the first time in three years. Meanwhile, core inflation will most likely ease to 3.7% (from 3.8% in August), staying in a downward trend for the fourth consecutive month. We have been expecting core inflation to somewhat ease in 3Q and to ease markedly in 4Q. As we have been arguing, in a backdrop of a widening negative output gap and a stable MXN, core inflation was set to begin to slow down. Recent data supports our view. We expect core inflation to ease to 3.6% in October, to 3.5% in November and to 3.3% by year-end. Meanwhile, we further adjusted to the downwards our year-end headline inflation forecast, now to 2.7% (from 2.9%), well below the recently adjusted consensus forecast (3.1%). We are certain that headline inflation will end the year below 3.0%, but we fine-tuned our year-end forecast to allow for a more likely close of the year and to signal that we now believe that inflation will close the year somewhat closer to 2.5% than to 3.0%. Inflation’s backdrop along with a weakening economy and a stable MXN points to a faster monetary policy-easing pace. We now expect the monetary policy rate to reach 7.0% by year-end and 6.0% by year-end 2020.

Chart 1. **Inflation Breakdown**

	Sep		Aug
	MoM%	YoY %	YoY %
<b>Headline</b>	0.25	2.99	3.20
<b>Core</b>	0.27	3.72	3.78
Core goods	0.37	3.75	3.76
Core food	0.41	4.63	4.63
Non-food core	0.34	2.84	2.85
Core services	0.17	3.70	3.79
Core Housing	0.22	2.91	2.92
Core Education (tuitions)	2.11	4.73	4.66
Core Other Services	-0.28	4.19	4.40
<b>Non-Core</b>	-0.18	0.93	1.02
Non-core Food	0.26	3.27	2.78
Fruits and Vegetables	0.26	0.66	-0.75
Meat and Eggs	0.26	5.44	5.77
Energy-related and Regulated	0.12	-1.07	0.20
Energy-related	0.19	-3.21	-1.53
Regulated	-0.04	4.11	4.30

Source: BBVA Research / INEGI

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



Source: BBVA Research

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