

Economic Analysis

1H October inflation forecast: stable inflation in annual terms

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We expect headline inflation to increase 0.44% HoH in the first half of October (3.05% YoY), with core coming in at 0.16% HoH (3.71% YoY). That is, we expect both headline and core inflation to stay relatively stable in annual terms compared to 3.01% and 3.72%, respectively in the second half of September. Our preliminary monthly forecasts are 0.55% MoM for headline inflation and 0.27% for core inflation. If confirmed, headline inflation would stay at 3.0% in October, while core inflation would drop to 3.7% (from 3.75% to 3.72%), easing for the fourth month in a row. The relatively high print in the first fortnight of October will be driven by the seasonal increase in electricity tariffs (19.0% HoH expected). That increase will be somewhat offset by a slight decline in gasoline prices (-0.22% HoH expected, see graph 1). We continue to expect annual core inflation to ease markedly in 4Q, mainly in Nov-Dec, to 3.3% by year-end. We also anticipate annual headline inflation to ease further to 2.7% by year-end. If our 1H Oct forecasts prove accurate, they will reinforce our view that that inflation will close the year closer to 2.5% than to 3.0%. We believe that consensus expectations will soon have to move to below 3.0% by year-end. In this backdrop, we continue to expect Banxico to ease its monetary policy stance somewhat faster than market expectations. We expect the policy rate to reach 7.0% by year-end and 6.0% by year-end 2020, reaching neutral levels in real terms in the summer of next year. We think that an easing stance would be more appropriate but the Board will likely remain cautious.

Chart 1. Inflation Breakdown

	1H Oct		2H Sep
	HoH%	YoY %	YoY %
Headline	0.44	3.05	3.01
Core	0.16	3.71	3.72
Core goods	0.16	3.78	3.76
Core food	0.18	4.64	4.57
Non-food core	0.14	2.88	2.91
Core services	0.17	3.64	3.67
Core Housing	0.09	2.92	2.90
Core Education (tuitions)	0.00	4.73	4.73
Core Other Services	0.28	4.05	4.14
Non-Core	1.30	1.05	0.84
Noncore Food	0.26	4.29	3.51
Fruits and Vegetables	0.20	2.62	1.65
Meat and Eggs	0.30	5.66	5.05
Energy-related and Regulated	2.05	-1.19	-1.03
Energy-related	2.89	-3.47	-3.28
Regulated	0.10	4.41	4.40

Source: BBVA Research / INEGI

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



Source: BBVA Research / Petroleintelligence

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