

Economic Analysis

November inflation forecast: core continued to ease slowly in November

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We expect headline inflation to increase 0.79% MoM in November (2.96% YoY), with core coming in at 0.22% MoM (3.65% YoY). If our forecasts prove accurate, headline inflation would stand below 3.0% for the first time since September 2016, while core would edge down for the fifth month in a row. Core inflation has come down at a slower pace than we anticipated, but it will likely fall more markedly in December (to 3.5%). To the seasonal increase of electricity tariffs, increases in LP gas prices and fresh food prices will contribute to the high monthly print. Core food inflation is finally easing. With an increasingly negative output gap, core prices will most likely continue to ease. Yet, it will likely increase slightly again to 3.6% in 1Q19 due to base effects before easing to 3.4% in 2Q. Barring a large surprise from fresh food prices in December, headline inflation will close the year well below 3.0%, as we have been expecting (2.7% expected). Under such a backdrop, the easing cycle, which actually just started with the third 25bp rate cut, has plenty of room to go. Given that Banxico showed in its November meeting that it prefers to ease policy at a very gradual pace, we expect 25bp rate cuts in each of the six following meetings, taking the policy rate to 7.25% in December and 6.0% in August.

Chart 1. Inflation Breakdown

	Nov		Oct
	MoM%	YoY %	YoY %
Headline	0.79	2.96	3.02
Core	0.22	3.65	3.68
Core goods	0.15	3.66	3.78
Core food	0.20	4.51	4.67
Nonfood core	0.09	2.77	2.85
Core services	0.29	3.63	3.58
Core Housing	0.15	2.86	2.93
Core Education (tuitions)	0.00	4.73	4.73
Core Other Services	0.47	4.08	3.91
Non-Core	2.55	0.91	1.01
Non-core Food	2.16	2.49	3.82
Fruits and Vegetables	3.28	-1.08	2.36
Meat and Eggs	1.25	5.61	5.02
Energy-related and Regulated	2.84	-0.19	-0.91
Energy-related	3.86	-2.29	-3.20
Regulated	0.44	5.13	4.78

Source: BBVA Research / INEGI

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



Source: BBVA Research / Petroleintelligence

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