

Economic Analysis

Annual inflation is on a downward trend but is unlikely to end the year below 4.0%

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Headline: actual: 0.74% FoF (BBVAe: 0.66%; consensus: 0.71%)**Core: actual: 0.13% FoF (BBVAe: 0.11%; consensus: 0.14%)**

- **Headline inflation surprised us on the upside. We revised up our year-end estimate to 4.0%**
- **Yet, today's print confirms that annual inflation is on a downward trend and the outlook remains favorable as it remains clear that there are no demand-side pressures**

Headline inflation increased 0.74% FoF in the first fortnight of November. This print was above our below-consensus forecast (BBVAe: 0.66%; consensus: 0.71%), mainly due to increases in meat and egg prices. Notwithstanding the surprise on the upside, annual inflation declined to 4.16% from 4.28% in the previous fortnight. Core inflation was 0.13% FoF, slightly above our below-consensus forecast (BBVAe: 0.11%; consensus: 0.14%). In annual terms, core inflation remains stable at 3.3%.

Non-core inflation was driven by the seasonal increase of electricity prices; perishable food price pressures continue. Non-core inflation was 2.66% FoF, pushed up by the seasonal increase of electricity prices (24.8% FoF), which contributed with 0.55 pp of the fortnightly inflation increase. Fruit and vegetable prices increased as we expected (1.40% FoF). We were expecting that this increase would be partially offset by a slight drop in meat and egg prices, driven by an expected decrease in poultry prices that did not materialize. Besides, pressures on beef prices continued (1.0% FoF) and egg prices had a strong unexpected increase (2.36% FoF).

Core inflation was broadly in line with expectations and remains stable in annual terms. Core inflation continues to reflect the absence of demand side pressures. We continue to expect annual core inflation to remain stable at 3.3% the rest of the year before declining below 3.0% in January next year.

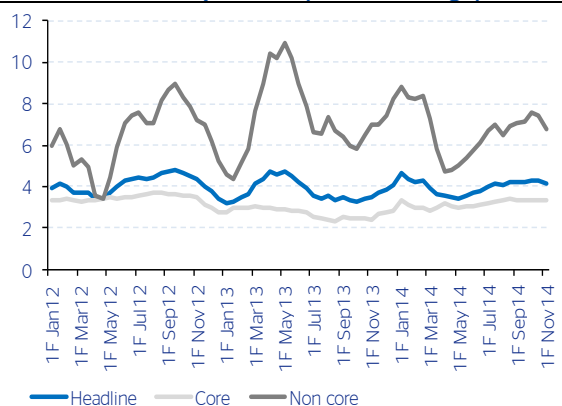
Bottom line: Although inflation surprised us on the upside, today's print confirms that annual inflation is on a downward trend. Yet, today's data is not supportive of our year-end 3.9% forecast. We now expect annual inflation to end the year at 4.0% before declining to 3.6% in January next year. Although headline inflation is now unlikely to close the year within Banxico's inflation target range, the outlook remains favorable as it remains clear that there are no demand-side pressures.

Table 1
Inflation (FoF and YoY % change)

CPI Inflation						
	Bi-weekly % change			Annual % change		
	1F Nov 2014	BBVAe	Consensus	1F Nov 2014	BBVAe	Consensus
Headline	0.74	0.66	0.71	4.16	4.08	4.13
Core	0.13	0.11	0.14	3.33	3.31	3.34
Non Core	2.66	2.55	2.67	6.79	6.67	6.80

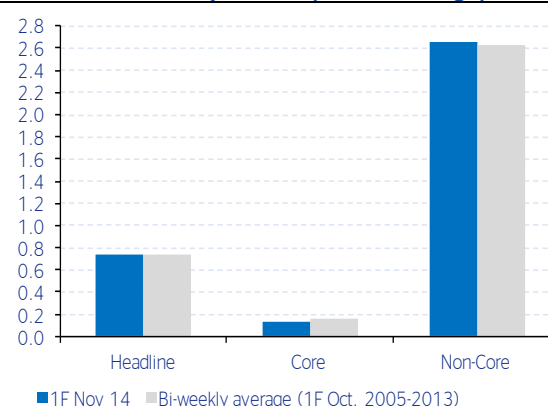
Source: BBVA Research, INEGI

Graph 1
Inflation and components (YoY % change)



Source: BBVA Research, INEGI

Graph 2
Inflation and components (FoF % change)



Source: BBVA Research, INEGI

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