

## Economic Analysis

# Annual inflation is on a downward trend and the outlook remains favorable

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**Headline: actual: 0.81% MoM (BBVAe: 0.80%; consensus: 0.82%)****Core: actual: 0.16% MoM (BBVAe: 0.15%; consensus: 0.17%)**

- **Today's print confirms that headline inflation is on a downward trend and core inflation remains stable**
- **In a context of weak demand and ample economic slack, pass-through should be contained**

Headline inflation increased 0.81% MoM in November. This print was in line with expectations (BBVAe: 0.80%; consensus: 0.82%). In annual terms, inflation declined to 4.17% from 4.30% in October. Core inflation was 0.16% MoM, also in line with expectations (BBVAe: 0.15%; consensus: 0.17%). Core inflation in the second fortnight was 0.0% FoF with core goods prices declining 0.09% FoF. In annual terms, core inflation remains stable at 3.3%. This report is in line with our recently revised year-end forecast (4.0%).

**Core inflation remains stable.** The soft core print inflation continues to reflect the absence of demand side pressures. We continue to expect annual core inflation to close the year at 3.3% and to stand below 3.0% levels in Q1 15 and close to 3.0% in Q2 15. Although pass-through risks have risen given peso's continued weakness, our models suggest that pass-through has been declining over the years and is now very limited. Besides, domestic demand remains rather weak.

**Non-core inflation was driven by the seasonal increase of electricity prices; pressures on beef prices continue.** Non-core inflation was 2.83% MoM (BBVAe: 2.86%), pushed up by the seasonal increase of electricity prices (24.8% MoM), which contributed with 0.55 pp of the monthly inflation increase. Fruit and vegetable prices increased broadly in line with our expectations (2.89% MoM; BBVAe: 2.82%), driven by large increases in tomato and lemon prices (20.7% and 19.0% MoM, respectively). Although pressures on beef prices continued even in the second fortnight of the month (2.1% MoM), they were partially offset by declines in poultry and pork meat prices (-0.8% and -1.1% MoM, respectively).

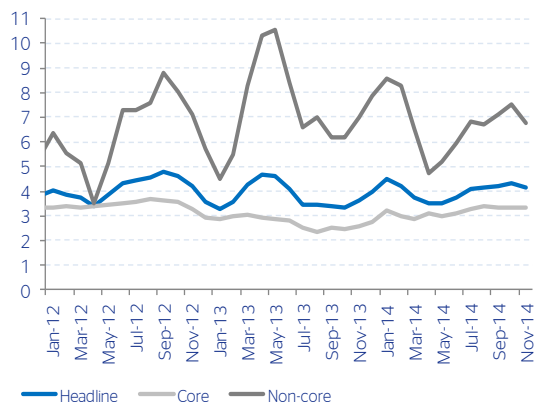
**Bottom line: Today's print confirms that annual inflation is on a downward trend and is supportive of our recently revised year-end 4.0% forecast. We expect annual inflation to decline to 3.6% in January next year. Although there are some risks due to the recent increase in the exchange rate, the outlook remains favorable as the pass-through should be contained in a context of weak demand.**

Table 1  
**Inflation (MoM and YoY % change)**

| Inflation |              |       |           |              |        |
|-----------|--------------|-------|-----------|--------------|--------|
|           | MoM % change |       |           | YoY % change |        |
|           | Nov-14       | BBVAe | consensus | Nov-14       | Oct-14 |
| Headline  | 0.81         | 0.80  | 0.82      | 4.17         | 4.30   |
| Core      | 0.16         | 0.15  | 0.17      | 3.34         | 3.32   |
| Non Core  | 2.83         | 2.94  | 2.96      | 6.78         | 7.51   |

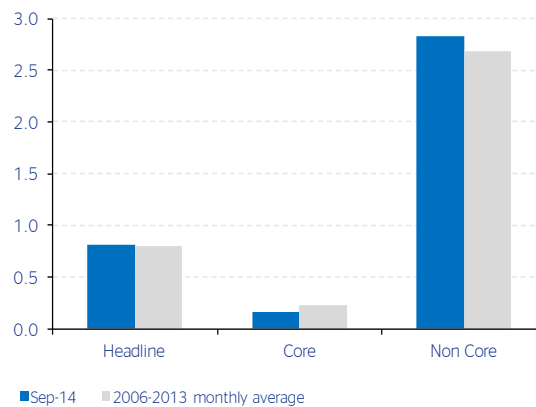
Source: BBVA Research, INEGI

Graph 1  
**Inflation and components (YoY % change)**



Source: BBVA Research, INEGI

Graph 2  
**Inflation and components (MoM % change)**



Source: BBVA Research, INEGI

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