

Economic Analysis

# October inflation forecast: stable headline inflation and lower core in annual terms

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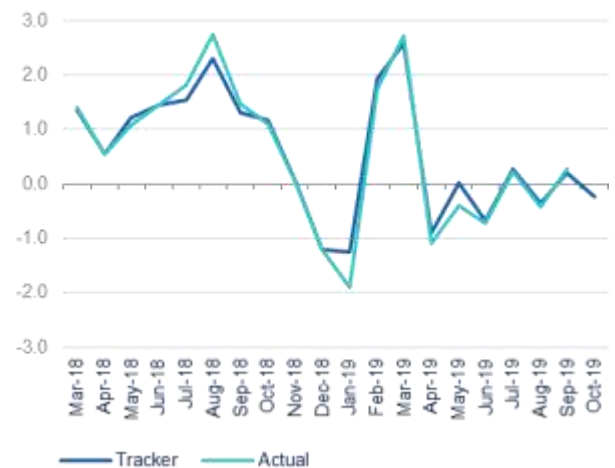
**We expect headline inflation to increase 0.51% MoM in October (2.99% YoY), with core coming in at 0.22% MoM (3.66% YoY).** If our monthly forecasts prove accurate, headline inflation would edge down from 3.00% in September, and would have decreased for the six month in a row (-1.4pp in total) since reaching 4.4% in April. Core inflation would have declined 0.09pp for the fourth consecutive month (-0.2pp in total). We continue to expect inflation to ease further in Nov-Dec, driven by positive base effects from non-core food prices, which increased markedly over the last two months of last year, and core food and core services which also showed an outsized increase over Nov-Dec 2018. October inflation print will thus most likely reinforce our view that that inflation will close the year closer to 2.5% than to 3.0%. For the moment, we keep unchanged our 2.7% year-end headline inflation forecast but we now have a downward bias. Consensus expectations will sooner rather than later move closer to our forecast, to below 3.0% by year-end. We continue to expect annual core inflation to ease markedly in Nov-Dec, to 3.3% 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

	Oct		Sep
	MoM%	YoY %	YoY %
<b>Headline</b>	<b>0.51</b>	<b>2.99</b>	3.00
<b>Core</b>	<b>0.22</b>	<b>3.66</b>	3.75
Core goods	0.24	3.76	3.77
Core food	0.31	4.67	4.61
Nonfood core	0.16	2.82	2.88
Core services	0.20	3.54	3.73
Core Housing	0.19	2.93	2.89
Core Education (tuitions)	0.00	4.73	4.73
Core Other Services	0.25	3.84	4.28
<b>Non-Core</b>	<b>1.42</b>	<b>0.98</b>	0.71
Non-Core Food	0.08	3.79	2.98
Fruits and Vegetables	0.06	2.00	0.71
Meat and Eggs	0.10	5.26	4.86
Energy-related and Regulated	2.39	-0.98	-0.90
Energy-related	3.28	-3.22	-3.09
Regulated	0.30	4.49	4.35

Source: BBVA Research / INEGI

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



Source: BBVA Research / Petroleintelligence

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