

Economic Analysis

1H of November inflation forecast: relatively stable YoY inflation in the first half, but lower in November

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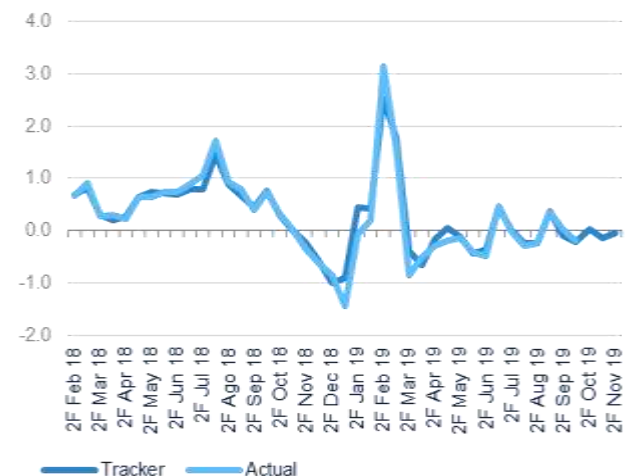
We expect headline inflation to increase 0.66% HoH in the first half of November (3.08% YoY), with core coming in at 0.16% HoH (3.66% YoY). If our forecasts prove accurate, headline inflation would edge up temporarily from 3.03% in the second half of October, while core would edge down from 3.69% in the same period. For November, we have a preliminary forecast of 0.76% MoM for headline and 0.22% for core, which would take annual rates to 2.93% and 3.66%, respectively. If confirmed, annual headline inflation would decrease for the seventh month in a row and core for the fifth. To the seasonal increase of electricity tariffs, a large expected increase of LP gas prices will contribute to high inflation. Core is easing but at a gradual pace. With an increasingly negative output gap, core prices will continue to ease. 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. Under such a backdrop, the easing cycle, which just started last week with the third 25bp rate cut, has plenty of room to go. We expect the policy rate to reach 7.25% in December and 6.0% in August.

Chart 1. Inflation Breakdown

	1H Nov		2H Oct
	HoH%	YoY %	YoY %
Headline	0.66	3.08	3.03
Core	0.16	3.66	3.69
Core goods	0.17	3.75	3.82
Core food	0.20	4.63	4.70
Nonfood core	0.14	2.83	2.90
Core services	0.15	3.56	3.55
Core Housing	0.10	2.92	2.94
Core Education (tuitions)	0.00	4.73	4.73
Core Other Services	0.24	3.90	3.84
Non-Core	2.19	1.34	1.04
Non-core Food	1.11	3.39	3.68
Fruits and Vegetables	1.50	0.92	2.13
Meat and Eggs	0.80	5.47	4.97
Energy-related and Regulated	2.96	-0.07	-0.78
Energy-related	4.19	-2.09	-3.12
Regulated	0.07	5.06	5.03

Source: BBVA Research / INEGI

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



Source: BBVA Research / Petroleintelligence

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