

1st Fortnight December 2019 Inflation Forecast: The non-core driven improvement.

- **Based on our price monitor, we expect headline inflation for the 1st Fortnight of December 2019 at 0.35%, with core and non-core inflations at 0.35% and 0.36%, respectively** (see Figure 1 and Table 1).
- Accordingly, incidences of the core and non-core components in our headline inflation forecast are 0.26 and 0.09 percentage points (pp), respectively (see Figure 2 and Table 1):¹
 - a. Within the core component, Other services prices contribute 0.17 pp to our headline estimate.**
 - b. Within the non-core component, Energy and Fruit and vegetables prices contributes 0.04 pp each.**
- As a result, our 12-month headline inflation forecast is 2.64%, which entails a significant decrease from 2FNov's print (at 2.85%). 12-month core and non-core inflation estimates are 3.57% and -0.10%, respectively (down from observed numbers of 3.65% and 0.51%).
- The significant decrease in headline inflation that we expect for the forecasted period, coupled with our estimate for the last fortnight of 2019, implies **an update in our year-end forecast for headline inflation from 3.04% to 2.83%. Importantly, as the main revision comes from non-core inflation dynamics, we only adjust our year-end estimate for core inflation mildly, from 3.59% to 3.57%.**

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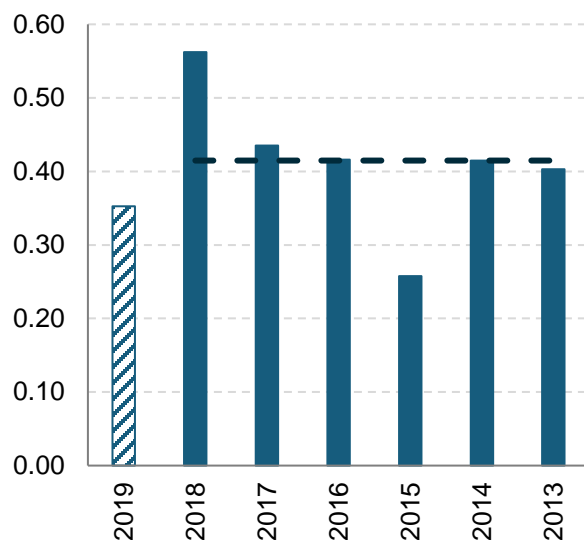
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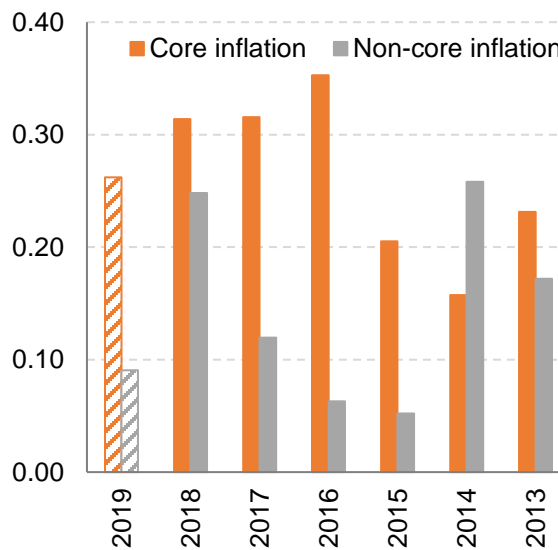
¹ The sum of incidences can differ from the headline number due to rounding effects.

Figure 1. 1F December's inflation (%)



Source: Finamex Economic Research with data from INEGI.

Figure 2. Inflation incidences (pp)



Source: Finamex Economic Research with data from INEGI.

Table 1. 1F December's inflation: Forecast and past prints

CPI	Bi-weekly variation (%)			Bi-weekly contribution (%)		
	Forecast Finamex	Observed		Forecast Finamex	Observed 1F Dec 2019	Difference
		1F Dec 2019	1F Dec 2018			
Headline CPI	0.35	0.56	0.44	0.35		
Core	0.35	0.42	0.43	0.26		
Merchandise	0.20	0.28	0.27	0.08		
Food, beverages and tobacco	0.25	0.31	0.25	0.05		
Non-food merchandise	0.15	0.25	0.29	0.03		
Services	0.51	0.58	0.56	0.18		
Housing	0.09	0.09	0.07	0.01		
Education (tuitions)	0.00	0.00	0.00	0.00		
Other services	0.99	1.13	1.25	0.17		
Non-core	0.36	0.97	0.46	0.09		
Agriculture	0.47	2.56	0.58	0.05		
Fruit and vegetables	0.86	4.77	1.06	0.04		
Livestock	0.15	0.56	0.27	0.01		
Energy and government approved fares	0.29	-0.16	0.39	0.04		
Energy	0.38	-0.24	0.44	0.04		
Government approved fares	0.07	0.06	0.29	0.00		

*The sum of the components among a subindexes may have differences due to rounding.

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