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## 2nd Fortnight December 2019 Inflation Forecast: Headline inflation in check.

- **Based on our price monitor, we expect headline inflation for the 2<sup>nd</sup> Fortnight of December 2019 at 0.35%, with core and non-core inflations at 0.07% and 1.22%, respectively (see Figure 1 and Table 1).**
- Accordingly, incidences of the core and non-core components in our headline inflation forecast are 0.05 and 0.30 percentage points (pp), respectively (see Figure 2 and Table 1):<sup>1</sup>
  - a. Within the core component, Food, beverages and tobacco prices contribute 0.03 pp to our headline estimate.**
  - b. Within the non-core component, an increase in Fruit and vegetables prices contribute 0.27pp.**
- As a result, our 12-month headline inflation forecast implies an increase from 2.63% in the 1<sup>st</sup> fortnight of December to 3.05% in the 2<sup>nd</sup> one. Within, 12-month core inflation marginally decreases from 3.59% to 3.58%, while non-core inflation goes significantly up from -0.15% to 1.50%.
- **Should our estimates materialize, together with 1F December prints, they would entail 2019 headline annual inflation at 2.84%, further below Banxico's 3% target (see Figure 3). With this, we see 2019 core annual inflation at 3.59%.**

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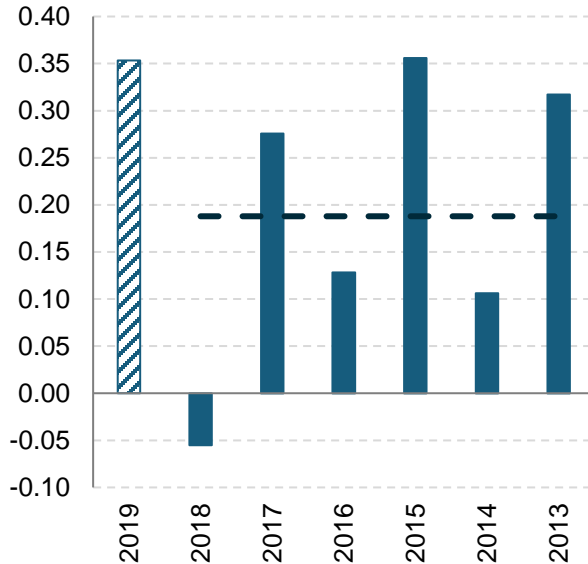
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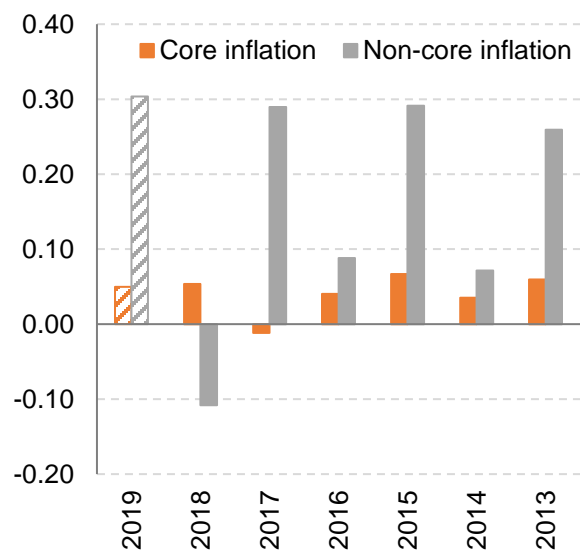
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**Figure 1. 2F December's inflation (%)**



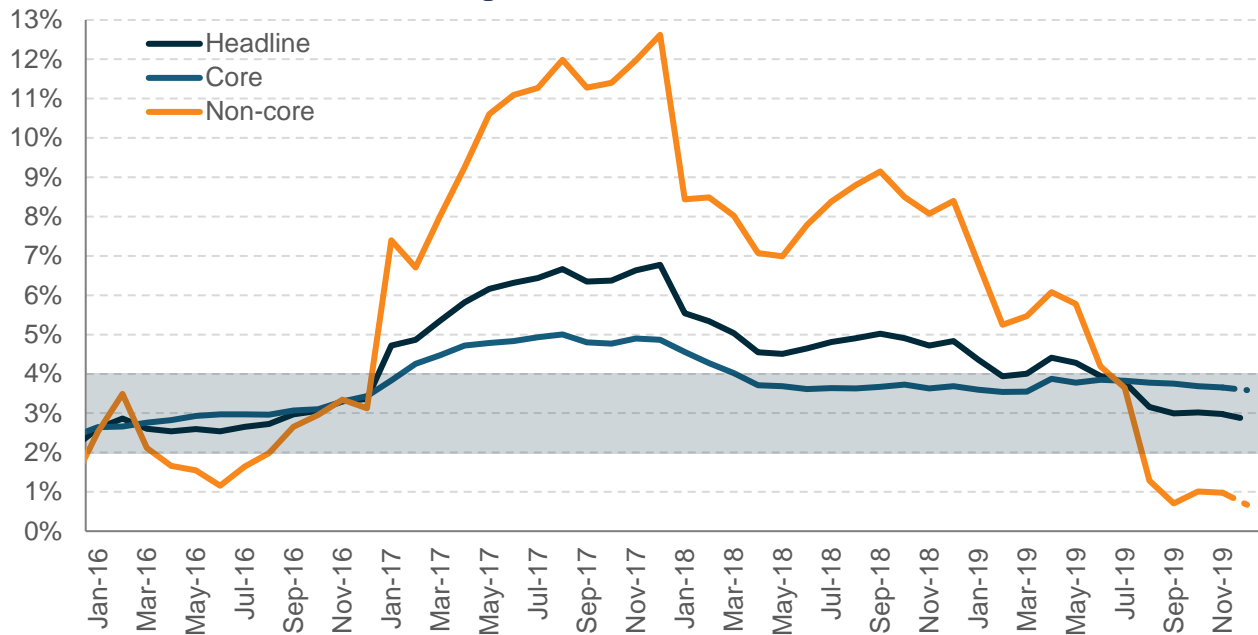
Source: Finamex Economic Research with data from INEGI.

**Figure 2. Inflation incidences (pp)**



Source: Finamex Economic Research with data from INEGI.

**Figure 3. Annual Inflation**



Source: Finamex Economic Research with data from INEGI.

**Table 1. 2F December's inflation: Forecast and past prints**

CPI	Bi-weekly variation (%)				Bi-weekly contribution (%)		
	Forecast Finamex	Observed			Forecast Finamex	Observed 2F Dec 2019	Difference
		2F Dec 2019	2F Dec 2018	2F Dec 2017			
<b>Headline CPI</b>	<b>0.35</b>	<b>-0.06</b>	<b>0.28</b>	<b>0.35</b>			
<b>Core</b>	<b>0.07</b>	<b>0.07</b>	<b>-0.02</b>	<b>0.05</b>			
<b>Merchandise</b>	<b>0.07</b>	<b>0.08</b>	<b>0.14</b>	<b>0.03</b>			
Food, beverages and tobacco	0.14	0.14	0.29	0.03			
Non-food merchandise	0.00	0.01	0.01	0.00			
<b>Services</b>	<b>0.06</b>	<b>0.07</b>	<b>-0.15</b>	<b>0.02</b>			
Housing	0.08	0.09	0.10	0.01			
Education (tuitions)	0.00	0.00	0.00	0.00			
Other services	0.06	0.07	-0.45	0.01			
<b>Non-core</b>	<b>1.22</b>	<b>-0.43</b>	<b>1.11</b>	<b>0.30</b>			
<b>Agriculture</b>	<b>2.78</b>	<b>-0.60</b>	<b>2.50</b>	<b>0.29</b>			
Fruit and vegetables	5.87	-1.45	5.02	0.27			
Livestock	0.23	0.20	0.84	0.01			
<b>Energy and government approved fares</b>	<b>0.12</b>	<b>-0.30</b>	<b>0.28</b>	<b>0.02</b>			
Energy	0.01	-0.50	0.31	0.00			
Government approved fares	0.37	0.21	0.23	0.02			

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

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