
2nd Fortnight March 2020 Inflation Forecast: Covid-19 and oil prices plunge first effects on inflation

- **Based on our price monitor, we expect headline inflation for the 2nd Fortnight of March 2020 at -0.81%, with core and non-core inflations at 0.06% and -3.41%, respectively** (see Figure 1 and Table 1).
- Accordingly, incidences of the core and non-core components in our headline inflation forecast are 0.04 and -0.86 percentage points (pps), respectively (see Figure 2 and Table 1):¹
 - a. Within the core component, Services prices contribute -0.07 pps to our headline estimate, mainly driven by an expected decrease in Other services prices related to travel services.
 - b. Within the non-core component, Energy prices contribute with -0.73 pps, mainly due to the recent reduction of gasoline prices. An additional downwards push of -0.13 pps is given by Agriculture prices.
- As a result, our 12-month headline inflation forecast is 2.75%, which entails a decrease of almost 1 pp from 1F March's print (at 3.71%). 12-month core inflation estimate is 3.52% down from 3.60%.
- **Should our estimates materialize, together with 1F March prints, they would entail Mar20 headline annual inflation at 3.23%, which compares to the 3.70% observed in Feb20. Core annual inflation would decrease from 3.66% to 3.56%** (see Figure 3).

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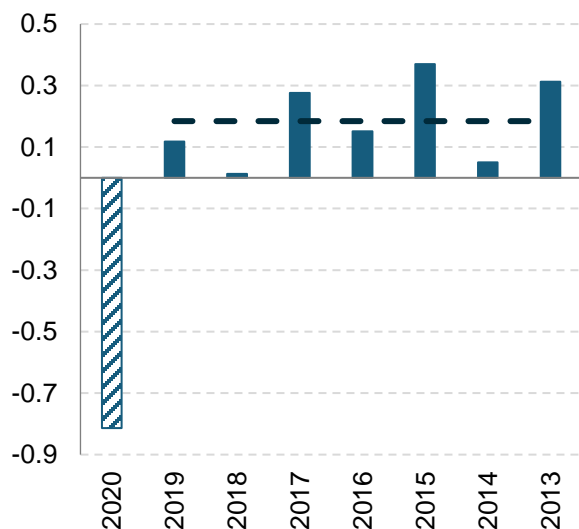
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¹ The sum of incidences can differ from the headline number due to rounding effects.

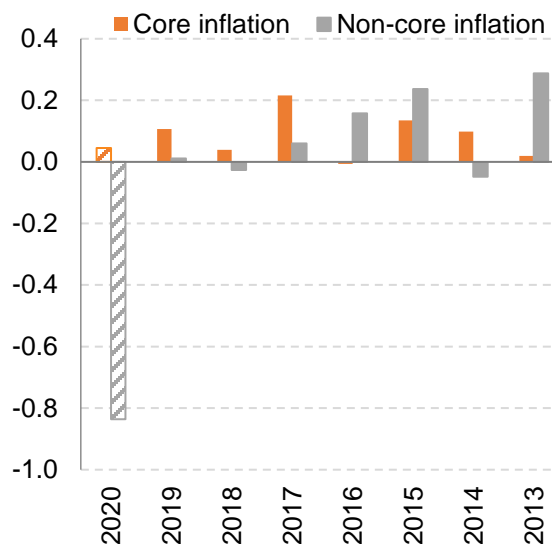
- It is important to highlight that due to the state of health emergency declared in the country, the methodology to measure certain indicators, including the INPC (CPI), by INEGI (National Institute of Statistics and Geography) has changed. In particular, for the time being, prices will be collected mainly through online and telephone surveys and other ITs. As a result, there could be effects that distort historical comparisons.

Figure 1. 2F March's inflation (%)



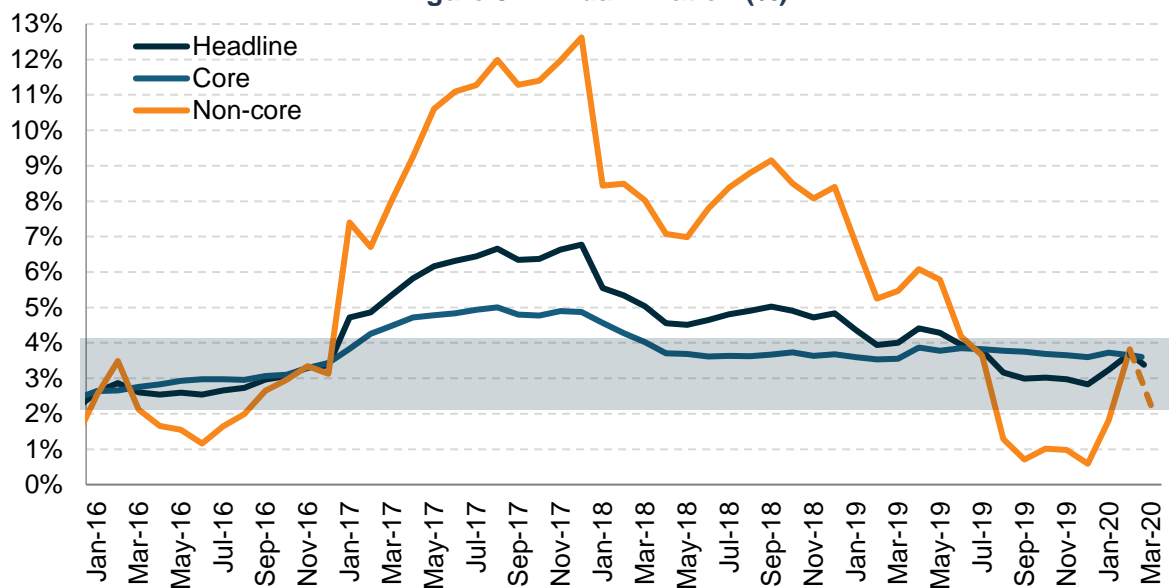
Source: Finamex Economic Research with data from INEGI.

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 March's inflation: Forecast and past prints

CPI	Bi-weekly variation (%)				Bi-weekly contribution (%)		
	Forecast Finamex	Observed			Forecast Finamex	Observed 2F Mar 2020	Difference
		2F Mar 2020	2F Mar 2019	2F Mar 2018			
Headline CPI	-0.81	0.12	0.01	-0.81			
Core	0.06	0.14	0.05	0.04			
Merchandise	0.23	0.10	0.04	0.09			
Food, beverages and tobacco	0.34	0.12	0.05	0.07			
Non-food merchandise	0.12	0.08	0.03	0.02			
Services	-0.13	0.19	0.06	-0.05			
Housing	0.13	0.17	0.12	0.02			
Education (tuitions)	0.00	0.00	0.00	0.00			
Other services	-0.39	0.25	0.02	-0.07			
Non-core	-3.41	0.04	-0.10	-0.86			
Agriculture	-1.24	0.40	0.58	-0.13			
Fruit and vegetables	-3.49	0.67	1.70	-0.18			
Livestock	0.83	0.17	-0.07	0.05			
Energy and government approved fares	-5.05	-0.20	-0.50	-0.72			
Energy	-7.23	-0.37	-0.76	-0.73			
Government approved fares	0.05	0.25	0.06	0.00			

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

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