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## Inflation Forecast for the 1st Fortnight of May 2020: COVID-19 related supply-side shocks at work?

- **Based on our price monitor, we expect headline inflation for the 1<sup>st</sup> Fortnight of May 2020 at 0.31%, with underlying core and non-core inflations at 0.23% and 0.54%, respectively** (see Figure 1 and Table 1).
- Accordingly, incidences of the core and non-core components in our headline inflation forecast are 0.18 and 0.12 percentage points (pps), respectively (see Figure 2 and Table 1):<sup>1</sup>
  - a. On the core component's side, Food merchandises prices contribute 0.15 pps to the headline estimate.
  - b. On the non-core component's side, Fruits and Vegetables prices contribute 0.21 pps. This effect is only partially offset by Energy prices that subtract -0.09 pps to the final figure.
- Should our estimates materialize, INPC prints for 1F May 2020 (to be released by INEGI this Friday) will be very much atypical due to three factors related to current extraordinary shocks:
  - i. Core inflation figures, which we expect to be affected by the continuing increase in Food merchandises prices.
  - ii. Fruits and Vegetables prices reversing its recent downward trend.
  - iii. Seasonal effects supporting low Energy prices (due to reduced electricity tariffs) –which generally push biweekly non-core inflation to negative domain at this time of the year–, being offset to a great extent by Gasoline prices dynamics which, albeit at still very low levels, we see increasing from its local minimum.

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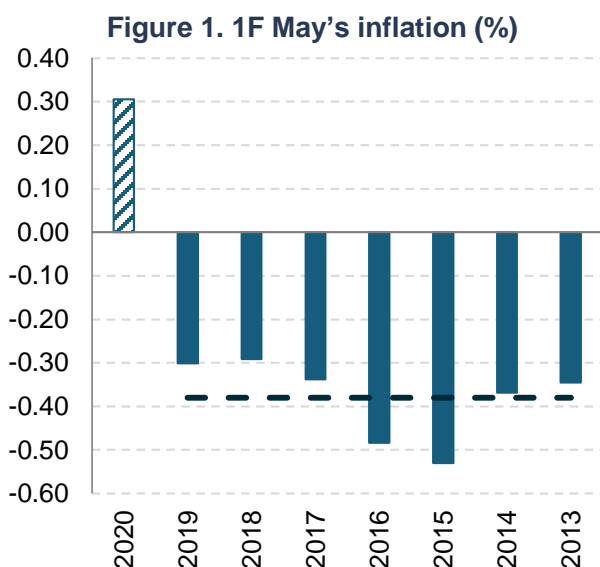
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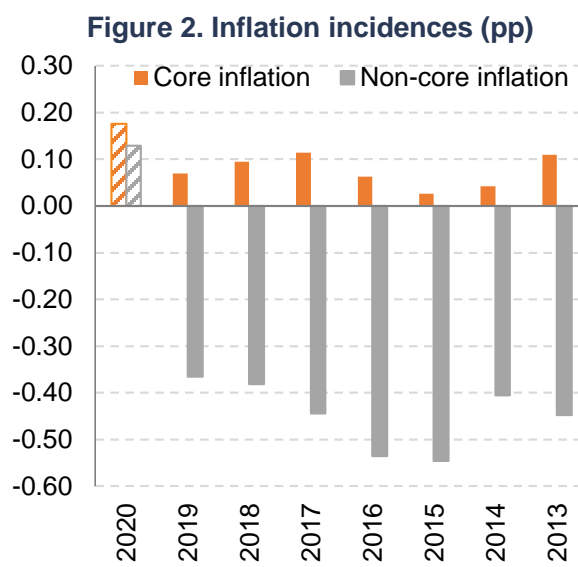
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<sup>1</sup> The sum of incidences can differ from the headline number due to rounding effects.

- As a result, our 12-month headline inflation forecast goes up, from 2.21% in 2F Apr, to 2.84%, with both 12-month core and non-core inflation estimates increasing from 3.61% and -2.00% to 3.75% and 0.02%, respectively.



Source: Finamex Economic Research with data from INEGI.



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

CPI	Bi-weekly variation (%)				Bi-weekly contribution (%)		
	Forecast Finamex	Observed			Forecast Finamex	Observed 1F May 2020	Difference
		1F May 2020	1F May 2019	1F May 2018			
<b>Headline CPI</b>	<b>0.31</b>	<b>-0.30</b>	<b>-0.29</b>	<b>0.30</b>			
<b>Core</b>	<b>0.23</b>	<b>0.09</b>	<b>0.13</b>	<b>0.18</b>			
<b>Merchandise</b>	<b>0.38</b>	<b>0.13</b>	<b>0.06</b>	<b>0.15</b>			
Food merchandise	0.72	0.20	0.19	0.15			
Non-food merchandise	0.02	0.04	-0.04	0.00			
<b>Services</b>	<b>0.06</b>	<b>0.05</b>	<b>0.18</b>	<b>0.02</b>			
Housing	0.07	0.15	0.09	0.01			
Education (tuitions)	0.01	0.04	0.02	0.00			
Other services	0.07	-0.02	0.33	0.01			
<b>Non-core</b>	<b>0.54</b>	<b>-1.49</b>	<b>-1.51</b>	<b>0.12</b>			
<b>Agriculture</b>	<b>2.01</b>	<b>0.21</b>	<b>-0.69</b>	<b>0.21</b>			
Fruit and vegetables	4.34	-0.65	-1.60	0.21			
Livestock	0.02	0.93	-0.16	0.00			
<b>Energy and government approved fares</b>	<b>-0.70</b>	<b>-2.69</b>	<b>-1.99</b>	<b>-0.09</b>			
Energy	-1.05	-3.87	-3.00	-0.09			
Government approved fares	0.00	0.14	0.05	0.00			

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

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