
2nd Fortnight May 2020 Inflation Forecast: COVID-19 initial downward pressures fading away.

- **Based on our price monitor, we expect headline inflation for the 2nd Fortnight of May 2020 at 0.24%, with core and non-core inflations at 0.20% and 0.39%, respectively** (see Figure 1 and Table 1).
- Accordingly, incidences of the core and non-core components in our headline inflation forecast are 0.15 and 0.09 percentage points (pps), respectively (see Figure 2 and Table 1):¹
 - a. Within the core component, we continue expecting above average increases in Food merchandise prices (Food, Beverage and Tobacco prices). This contributes 0.11 pps to our headline estimate.
 - b. Within the non-core component, rising Energy prices contribute 0.23 pps to our headline estimate, while lower Agricultural prices (driven by the decrease in selected fruits and vegetable items) partially offset the former effect by -0.12 pps.
- As a result, our 12-month headline inflation forecast goes up from 2.83% in 1F May's print to 3.11%. 12-month core inflation estimate also increase to 3.79%, from 3.76%.
- **Should our estimates materialize, together with 1F May prints, they would entail May20 headline annual inflation at 2.97%, vs its 2.15% level observed in Apr20. Core annual inflation would increase from 3.50% to 3.78%, level not seen since Aug19** (see Figure 3).

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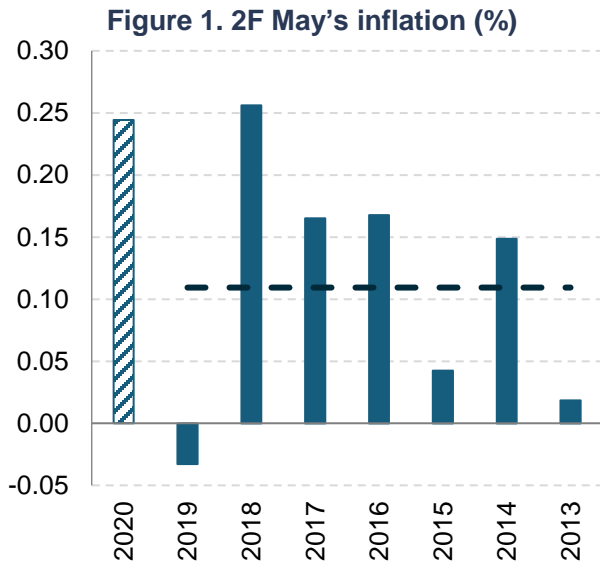
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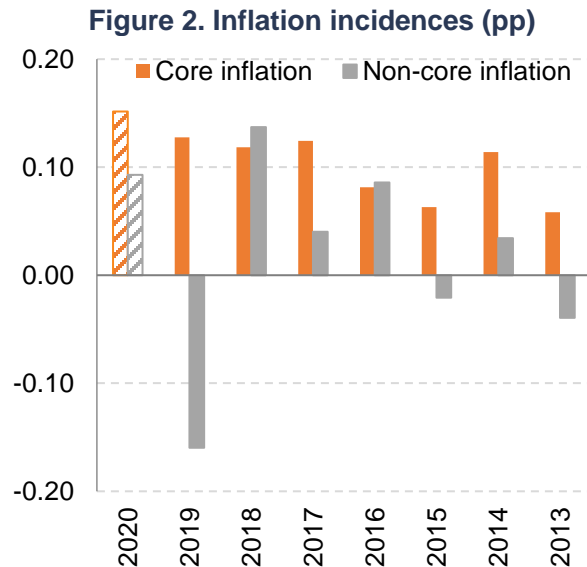
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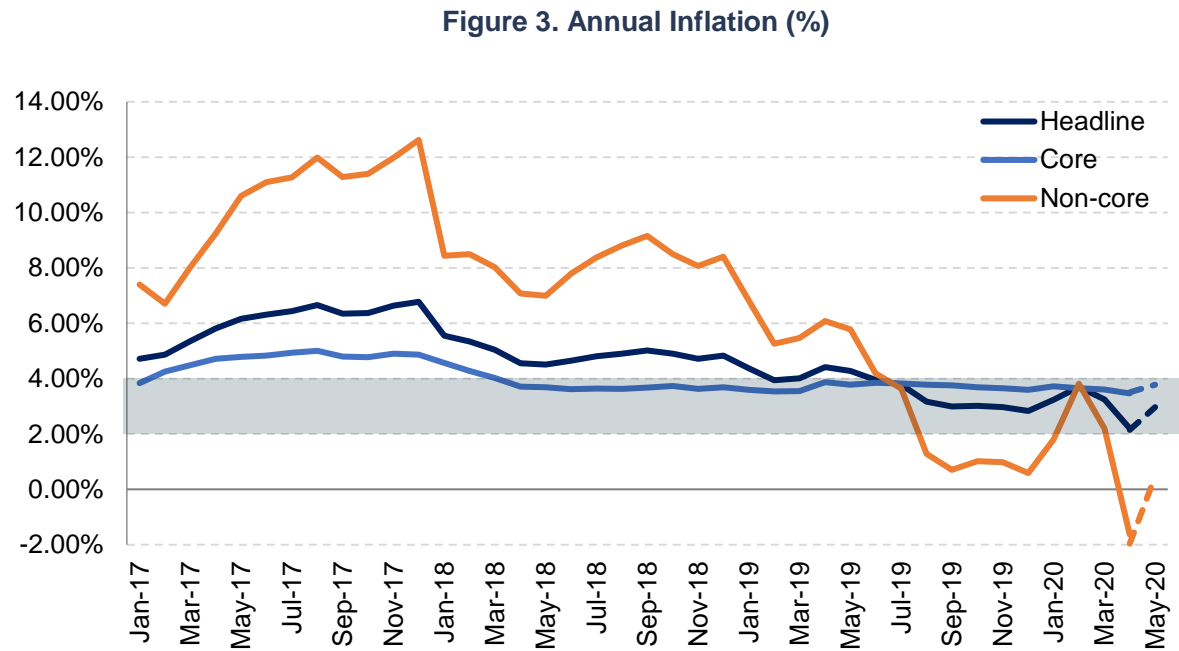
¹ The sum of incidences can differ from the headline number due to rounding effects.



Source: Finamex Economic Research with data from INEGI.



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

CPI	Bi-weekly variation (%)				Bi-weekly contribution (%)		
	Forecast Finamex	Observed			Forecast Finamex	Observed 2F May 2020	Difference
		2F May 2020	2F May 2019	2F May 2018			
Headline CPI	0.24	-0.03	0.26	0.24			
Core	0.20	0.17	0.16	0.15			
Merchandise	0.30	0.25	0.22	0.12			
Food merchandise	0.52	0.26	0.16	0.11			
Non-food merchandise	0.05	0.24	0.28	0.01			
Services	0.09	0.08	0.10	0.03			
Housing	0.07	0.12	0.12	0.01			
Education (tuitions)	0.00	0.03	0.04	0.00			
Other services	0.13	0.06	0.11	0.02			
Non-core	0.39	-0.65	0.54	0.09			
Agriculture	-1.23	-1.12	-0.11	-0.14			
Fruit and vegetables	-3.72	-2.71	-0.40	-0.20			
Livestock	1.09	0.17	0.06	0.06			
Energy and government approved fares	1.81	-0.32	0.93	0.23			
Energy	2.74	-0.47	1.42	0.23			
Government approved fares	0.03	0.05	-0.02	0.00			

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

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