
Inflation Forecast for the 1st Fortnight of July 2020: Gasoline prices approaching their pre-crisis levels

- **Based on our price monitor, we expect headline inflation for the 1st Fortnight of July 2020 at 0.40%, with underlying core and non-core inflations at 0.17% and 1.12%, respectively** (see Figure 1 and Table 1).
- Accordingly, incidences of the core and non-core components in our headline inflation forecast are 0.13 and 0.27 percentage points (pps), respectively (see Figure 2 and Table 1):¹
 - a. On the core component's side, we expect Food merchandise prices to continue increasing above their historical average level, thus contributing 0.05 pps to the headline estimate, as Non-food merchandise prices also increase, adding 0.04 pps to it. Although Merchandise prices have remained unusually high since the beginning of the pandemic –mainly due to the dynamics of the former, but, more recently, also due to significant uptick of the latter– we expect Services prices to increase at a relatively low pace.
 - b. On the non-core component's side, we see a continued increase in Gasoline prices (according to our price monitor they are quite close to their pre-crisis levels), which makes us anticipate that Energy prices will contribute with 0.30 pps to the overall estimate.
- As a result, our 12-month headline inflation forecast goes up, from 3.50% in 2F Jun, to 3.63% in 1F Jul. Within, the 12-month core inflation estimate marginally rises, from 3.76% to 3.77%, while that corresponding to non-core inflation goes up from 2.69% to 3.22%, during the same period.

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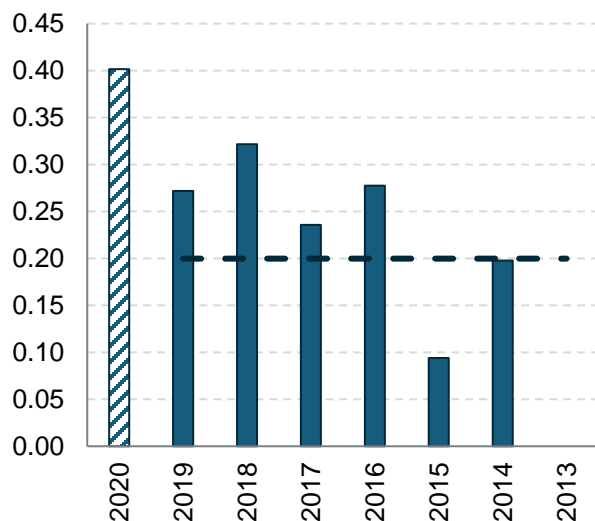
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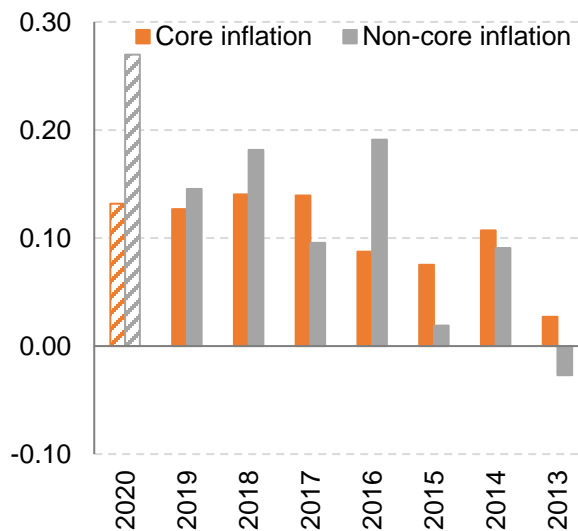
¹ The sum of incidences can differ from the headline number due to rounding effects.

Figure 1. 1F July'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 July's inflation: Forecast and past prints

CPI	Bi-weekly variation (%)			Bi-weekly contribution (%)		
	Forecast Finamex	Observed		Forecast Finamex	Observed 1F Jul 2020	Difference
		1F Jul 2020	1F Jul 2019			
Headline CPI	0.40	0.27	0.32	0.40		
Core	0.17	0.17	0.19	0.13		
Merchandise	0.23	0.07	0.19	0.09		
Food merchandise	0.23	0.14	0.29	0.05		
Non-food merchandise	0.22	0.00	0.10	0.04		
Services	0.12	0.27	0.19	0.04		
Housing	0.05	0.08	0.08	0.01		
Education (tuitions)	0.05	0.09	0.08	0.00		
Other services	0.19	0.47	0.34	0.03		
Non-core	1.12	0.60	0.71	0.27		
Agriculture	-0.29	1.15	1.11	-0.03		
Fruit and vegetables	-0.62	1.70	3.92	-0.03		
Livestock	-0.02	0.72	-0.54	0.00		
Energy and government approved fares	2.25	0.18	0.48	0.30		
Energy	3.30	0.20	0.69	0.30		
Government approved fares	0.02	0.14	0.05	0.00		

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

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