February 8, 2024

January inflation – Core surprises to the upside, highlighting that risks remain

- **Headline inflation (January): 0.89% m/m; Banorte: 0.93%; consensus: 0.88% (range: 0.83% to 1.00%); previous: 0.71%**
- **Core inflation (January): 0.40% m/m; Banorte: 0.38%; consensus: 0.36% (range: 0.31% to 0.39%); previous: 0.44%**
- **The non-core (2.37%) was driven by the strong advance in fruits and vegetables (9.5%), with energy also up, albeit more limited at 0.5% –highlighting pressures in most items within. In the core (0.40%), seasonality is somewhat mixed, with 'processed foods' (0.6%) and some categories within 'other services' (0.3%) skewed up by the usual adjustments at the start of the year –both from taxes and the minimum wage increase. Housing was somewhat high (0.5%), with 'other goods' (0.2%) more limited**
- **With this, inflation in January accelerated to 4.88% from 4.66%, its highest level since June. The core kept moderating, reaching 4.76% (previous: 5.09%), with the non-core higher at 5.24% (previous: 3.39%)**
- **Attention to Banxico's decision at 2:00pm ET, expecting a less *hawkish* tone with signals that cuts could start in March**

Inflation at 0.89% m/m in January. The result was again pressured by the non-core (2.37%), particularly by the 9.5% increase in fruits and vegetables –adding a second month of relevant increases. The largest incidences came from tomatoes, onions, and squash to name a few. On the contrary, meat and egg were largely contained at -0.3% –helped by the latter. Within, we highlight some advances in energy (0.5%), with most components higher. Thus, we note the 2.4% increase in LP gas along with +0.2% in low-grade gasoline –both pressured by higher international reference prices. To close with the category, government tariffs were relatively limited vs. previous years, although with the negative seasonality driving them up by 0.7%. Moving to the core (0.40%), as we mentioned in the 1st fortnight, there is a relatively adverse seasonality in 'processed foods' (0.6%) due to the adjustments to excise taxes of some goods –reflected mainly in soft drinks and cigarettes–, while we believe that 'other services' (0.3%) were likely impacted, among other factors, by the 20% increase in the minimum wage, translating into higher costs for businesses. However, within the latter, the result of tourism items helped moderate the increase –noting the 26.8% decline in air fares. Finally, housing was also somewhat elevated at 0.5%, with 'other goods' more restrained at 0.2% –in our opinion helped by MXN strength in recent months.

January inflation: Goods and services with the largest contributions
% m/m; monthly incidence in basis points

Goods and services with the largest positive contribution	Incidence	% m/m
Tomatoes	40.4	52.1
Onions	8.1	21.2
Dinning away from home	5.9	1.2
Cigarettes	3.7	3.9
LP gas	3.6	2.4
Goods and services with the largest negative contribution		
Air fares	-8.3	-26.8
Eggs	-3.3	-3.4
Poblano chillies	-3.0	-29.7
Tourism services	-2.3	-6.8
Papaya	-2.2	-16.0

Source: INEGI


Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com


Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com

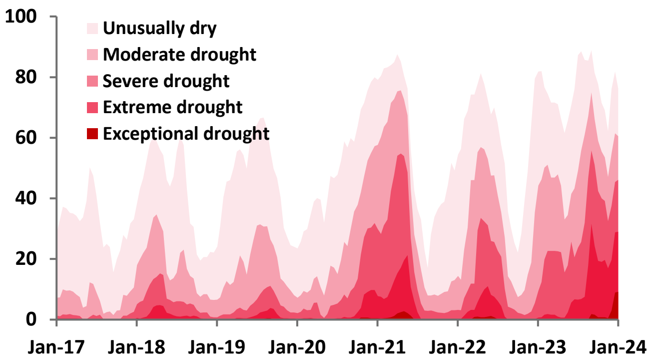

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com


Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com


Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com

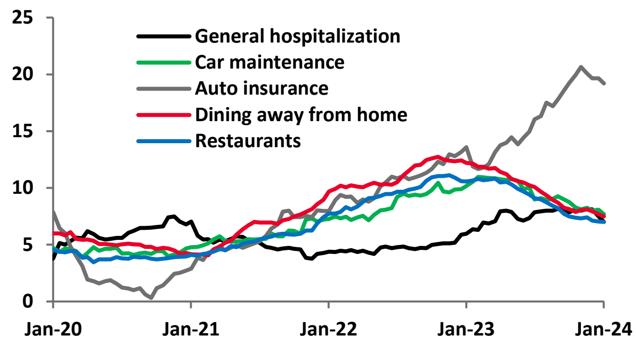
Annual inflation continues to accelerate. With this result, inflation rose to 4.88% from 4.66% in the previous month, its highest level since June. Although part of this was explained by a more challenging base effect, we highlight the strong increase of the non-core, reaching 5.24% (previous: 3.39%). As mentioned in recent reports, much of this is explained by adverse dynamics in fruits and vegetables –with an annual rise of 21.8%, its highest since the end of 2021. According to our monitoring, some of the items with the highest increases may already be reaching their peak. However, we do not believe that eventual declines will occur at the same rate as gains did, considering elevated drought levels –with around 76% of the country experiencing 'abnormally dry' conditions or worse (see graph below, left)– along other challenges to production. The core marked a year of declines, standing at 4.76% (previous: 5.09%). While this is very positive (and something the central bank will surely focus on), we note that the behavior within still suggests risks. Especially services, particularly non-tourism categories within 'other services', which keep catching our attention. It comprises 31 generic items, with 65% of the total showing annual changes above 5%, noting some key items such as 'dining away from home' (7.6%), restaurants (7.0%), and auto insurance (19.4%), to name some (see graph, below right). This is noteworthy as we think risks prevail from rising costs –including agricultural inputs, wage adjustments stemming from the revision to the minimum wage at the start of the year, and GDP growth above potential. Considering this, we maintain our year-end estimate at 4.6%, above consensus at 4.1% –although noting that the latter has been adjusting upwards in recent fortnights.

Drought in Mexico
% of the country's territory



Source: Banorte with figures from CONAGUA

Inflation in 'other services'
% y/y, bi-weekly frequency



Source: Banorte with figures from INEGI

Banxico will start debating cuts today, setting the stage for a first reduction in March. Attention to the monetary policy meeting today at 2:00pm ET. We expect the central bank to leave the reference rate unchanged at 11.25%**.** We will focus on the statement's tone, particularly on the forward guidance and if it changes to give additional clarity about the next move. We expect adjustments to signal the possibility of a rate cut in the short-term. We will also be looking to the balance of risks to inflation, which in our opinion remains challenging. This is the main reason that will likely prevent a cut from materializing this time. Other topics that could be discussed include the global monetary stance and the ex-ante real interest rate, factors that we believe will trigger the first easing in March, expecting -25bps in said decision.

Analyst Certification.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

Directory

Research and Strategy

Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com
(55) 1103 - 4043

Raquel Vázquez Godinez
Assistant
raquel.vazquez@banorte.com
(55) 1670 – 2967

Itzel Martínez Rojas
Analyst
itzel.martinez.rojas@banorte.com
(55) 1670 - 2251

Lourdes Calvo Fernández
Analyst (Edition)
lourdes.calvo@banorte.com
(55) 1103 - 4000 x 2611

María Fernanda Vargas Santoyo
Analyst
maria.vargas.santoyo@banorte.com
(55) 1103 - 4000 x 2586

Economic Research

Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com
(55) 1103 - 4046

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com
(55) 1670 - 2957

Katia Celina Goya Ostos
Director of Economic Research, Global
katia.goya@banorte.com
(55) 1670 - 1821

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com
(55) 5268 - 1694

Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com
(55) 1103 - 4000

Luis Leopoldo López Salinas
Economist, Global
luis.lopez.salinas@banorte.com
(55) 1103 - 4000 x 2707

Market Strategy

Santiago Leal Singer
Director of Market Strategy
santiago.leal@banorte.com
(55) 1670 - 1751

Marissa Garza Ostos
Director of Equity Strategy
marissa.garza@banorte.com
(55) 1670 - 1719

Víctor Hugo Cortes Castro
Senior Strategist, Technical
victorh.cortes@banorte.com
(55) 1670 - 1800

José Itzamna Espitia Hernández
Senior Strategist, Equity
jose.espitia@banorte.com
(55) 1670 - 2249

Carlos Hernández García
Senior Strategist, Equity
carlos.hernandez.garcia@banorte.com
(55) 1670 - 2250

Hugo Armando Gómez Solís
Senior Analyst, Corporate Debt
hugoa.gomez@banorte.com
(55) 1670 - 2247

Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com
(55) 5268 - 1698

Isaías Rodríguez Sobrino
Analyst, Fixed Income, FX and Commodities
isaias.rodriguez.sobrino@banorte.com
(55) 1670 - 2144

Gerardo Daniel Valle Trujillo
Analyst, Corporate Debt
gerardo.valle.trujillo@banorte.com
(55) 1670 - 2248

Juan Carlos Mercado Garduño
Strategist, Equity
juan.mercado.garduno@banorte.com
(55) 1103 - 4000 x 1746

Paula Lozoya Valadez
Analyst, Equity
paula.lozoya.valadez@banorte.com
(55) 1103 - 4000

Quantitative Analysis

Alejandro Cervantes Llamas
Executive Director of Quantitative Analysis
alejandro.cervantes@banorte.com
(55) 1670 - 2972

José Luis García Casales
Director of Quantitative Analysis
jose.garcia.casales@banorte.com
(55) 8510 - 4608

Miguel Alejandro Calvo Domínguez
Senior Analyst, Quantitative Analysis
miguel.calvo@banorte.com
(55) 1670 - 2220

José De Jesús Ramírez Martínez
Senior Analyst, Quantitative Analysis
jose.ramirez.martinez@banorte.com
(55) 1103 - 4000

Daniel Sebastián Sosa Aguilar
Senior Analyst, Quantitative Analysis
daniel.sosa@banorte.com
(55) 1103 - 4000 x 2124

Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1103 - 4000

Andrea Muñoz Sánchez
Analyst, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1103 - 4000