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Inflation 1H-March – Mixed results between components, albeit higher than consensus

- **Headline inflation (1H-Mar): 0.27% 2w/2w; Banorte: 0.34%; consensus: 0.25% (range: 0.06% to 0.36%); previous: 0.06%**
- **Core inflation (1H-Mar): 0.33% 2w/2w; Banorte: 0.28%; consensus: 0.27% (range: 0.22% to 0.30%); previous: 0.32%**
- **We noted a mixed performance, with some seasonal patterns impacting part of the results. At the core (0.33%), these were mainly seen in 'other services' (1.0%), which were skewed higher by increases in tourism-related items ahead of the *Easter* holiday. Goods were more modest at 0.1%. In the non-core (0.09%) there was a reversion to the upside in agricultural items (0.3%), with a 1.8% increase in meat and egg, but with fruits and vegetables extending their move lower at -1.3%. Energy (0.2%) was helped by a contraction in LP gas (-1.4%), albeit with an uptick in electricity (0.4%)**
- **In bi-weekly terms, annual inflation rebounded to 4.48% from 4.35% in 2H-February. Meanwhile, the core added a second fortnight to the upside at 4.69% (previous: 4.66%)**
- **We believe that some key categories still suggest challenges ahead. Therefore, we still think that Banxico will pause in its upcoming meeting, holding the rate at 11.00%**

Prices up 0.27% 2w/2w in the 1st half of March. The result was slightly higher than consensus. We saw a mixed performance, with some seasonal patterns and prevailing pressures impacting price changes. Within the core (0.33%), seasonal effects were most evident in 'other services' (1.0%), with increases in tourism items such as air fares (36.0%) and tourism services (10.1%). Nevertheless, upticks continued in 'dining away from home' (0.4%). Moving to goods (0.1%), adjustments were more muted, with 'others' (0.0%) quite contained. Within the non-core (0.09%), agricultural items advanced 0.3%, with a 1.8% expansion in meat and egg, but with fruits and vegetables down 1.3%. Inside the former, we highlight the 7.0% increase in chicken. However, decreases in goods such as onions and nopales within the latter were able to mitigate the rebound in tomatoes. Turning to energy (-0.2%), we highlight the improvement in some items after the uptick in previous fortnights. Both LP gas (-1.4%) and low-grade gasoline (-0.2%) were lower, albeit with electricity rebounding marginally at 0.4%. Lastly, government tariffs remained contained at 0.2%.

1H-March inflation: Goods and services with the largest contributions
% 2w/2w; bi-weekly incidence in basis points

Goods and services with the largest positive contribution	Incidence	% 2w/2w
Chicken	11.1	7.0
Air fairs	8.4	36.0
Tourism services	3.3	10.1
Lettuce and cabbage	2.3	14.8
Housing	2.2	0.2
Goods and services with the largest negative contribution		
Onions	-8.1	-16.0
LP gas	-2.3	-1.4
Nopales	-2.1	-18.7
Squash	-0.9	-8.5
Low-grade gasoline	-0.9	-0.2

Source: INEGI


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Slight rebound in annual headline inflation, with the outlook still somewhat uncertain. With these results, headline inflation came in at 4.48% y/y from 4.35% in the 2nd half of February. We focus on the core, which accelerated to 4.69% (previous: 4.66%), adding two fortnights of increases after 25 consecutive periods of declines. On the other hand, the non-core was more stable in 3.84% (previous: 3.42%). As we have mentioned recently, we believe risks for the consolidation of a downward trajectory for both headline and core inflation are concentrated in some items, subject to both some persistence to the upside and greater volatility. Within the former, we continue to insist on services (at 5.57% in the current fortnight), with pressures from both education (6.36%) and 'others' (6.85%). To evaluate a true change in the level of the first, we need to wait until the new school year begins –a situation that materializes between the 1st half of August and the 1st half of September–, complicating its analysis. Meanwhile, in the latter we will continue monitoring wage adjustments, input costs, and certain changes in consumption patterns, factors that we believe will continue to exert pressures on prices. Turning to more volatile commodities, the drought continues to represent a very relevant risk for crops, anticipating greater supply distortions. Regarding energy, benchmark international prices suggest that LP gas could stabilize at the margin, although gasolines will likely rebound –contained partly by additional increases in the excise tax subsidies for these fuels. Overall, we recognize that an important share of the items that make up the index has improved, although we believe that some categories need greater progress to consolidate inflation within the central bank's target range.

A cautious tone and challenges in the inflation outlook will support a pause in May. Despite the 25bps cut in yesterday's decision, Banxico reiterated that upcoming decisions will be made based on available information, in addition to stressing that they will carry out a prudent management of monetary. If we add to these continued pressures in key items –as outlined above–, we believe the monetary authority will opt to keep the rate at its current level in its May 9th decision. However, it is our take that cuts will resume in June, becoming continuous in -25bps steps, taking the reference rate to 9.75% by the end of the year.

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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, 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.

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