

April 24, 2024

## Inflation 1H-April – Uptick due to pressures in vegetables, outweighing a positive seasonality

- **Headline inflation (1H-Apr): 0.09% 2w/2w; Banorte: 0.00%; consensus: -0.02% (range: -0.19% to 0.08%); previous: -0.03%**
- **Core inflation (1H-Apr): 0.16% 2w/2w; Banorte: 0.16%; consensus: 0.15% (range: 0.04% to 0.20%); previous: 0.02%**
- **As usual, much of the performance was dictated by the beginning of summer discounts to electricity tariffs in some of the country's cities, resulting in a 13.0% drop in this item. Remaining energy items saw generalized increases. In contrast, agricultural goods within the non-core advanced 1.7%, driven by fruits and vegetables (3.4%). Within the core, goods accelerated marginally to 0.2%. Services were more mixed at 0.1%, with positive seasonal patterns (e.g. tourism) clashing with persistent pressures in other items (e.g. dining away from home)**
- **In bi-weekly terms, annual inflation increased to 4.63% from 4.37% in 2H-March. Meanwhile, the core added a second fortnight to the downside at 4.39% (previous: 4.41%)**
- **We continue to believe that Banxico will opt for a pause in its May 9<sup>th</sup> decision, holding the rate at 11.00% on the back of a relative stagnation in inflation improvements**

**Inflation at 0.09% 2w/2w in the 1<sup>st</sup> half of April.** The result is impacted by the seasonal effect from the first tranche of summer discounts on electricity tariffs. Thus, this component declined 13.0% (with a negative contribution of -26bps to the headline). Nonetheless, remaining energy items were higher, especially LP gas (1.1%) and low-grade gasoline (0.3%). In agricultural items (1.7%), we saw notable increases in fruits and vegetables (3.4%), with meat and egg more modest (0.2%). Within the former, tomatoes and husk tomatoes stood out, although limited by declines in onions and potatoes. Finishing with the non-core, government tariffs were a bit higher at 0.2%. Moving to the core (0.16%), goods accelerated at the margin to 0.2%, with some momentum from both processed foods (0.2%) and 'other goods' (0.3%). However, these increases appear in line with their usual performance in the period. In services (0.1%), positive seasonal patterns contrasted with persistent pressures in some items. Thus, within 'others' (0.0%) we saw relevant decreases in tourism components such as airfares (-12.7%) and tourism services (-0.9%). However, gains persisted in 'dining away from home' (0.4%). Finally, housing moderated marginally to 0.2%.

### 1H-April 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
Tomatoes	7.0	12.1
Husk tomatoes	3.6	23.0
Chilies	3.2	31.8
Other chilies	2.0	18.4
Dining away from home	2.0	0.4
Goods and services with the largest negative contribution		
Electricity	-26.2	-13.0
Onions	-3.7	-9.9
Air fares	-3.4	-12.7
Potatoes	-0.4	-1.1
Sugar	-0.4	-0.9

Source: INEGI



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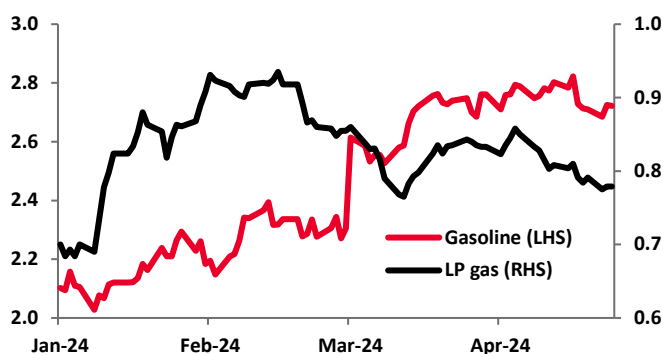
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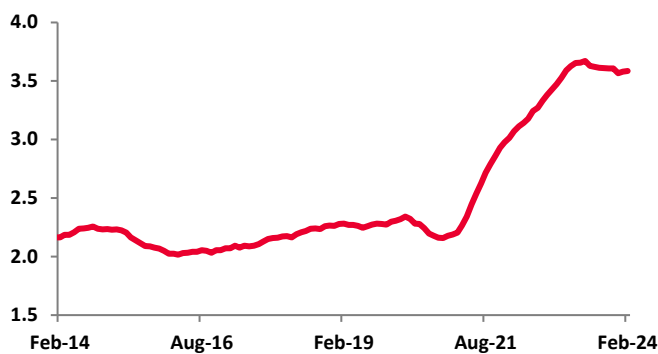
**New increase in annual headline inflation, with the core moderating at a slower pace.** With these results, headline inflation came in at 4.63% y/y from 4.37% in the 2<sup>nd</sup> half of March. The core declined for a second consecutive fortnight to 4.39% (previous: 4.41%), although it is worth noting that improvements have been more limited. This is due to services, which remain high at 5.2%, and have not given signs of an inflection point. Pressures appear broader in this front, with two of its three main subcomponents, ‘education’ and ‘other services’, stuck with annual variations above 6% for a while now. Goods have been considerably better at 3.7%. We believe they have benefitted from: (1) Mexican peso appreciation; and (2) further supply chain normalization. The non-core accelerated to 5.38% (previous: 4.23%), although with part of the adjustment responding to a more challenging base effect. We believe that energy face more challenges, with risks from bouts of geopolitical tensions and expectations of more robust global growth at the margin. However, we anticipate that its dynamics could be more differentiated among components, expecting greater adjustments in gasoline than in LP gas in coming fortnights (see chart below, left). In agriculture, higher imports (chart below, right) –benefited by a strong exchange rate and a reduction in tariff barriers– have helped to limit more substantial increases despite very adverse weather conditions. In this context, [we continue to expect a moderation in headline inflation towards the end of the year to 4.3%](#), although the core probably will stagnate around current levels, standing at 4.4% in December.

**LP gas (Mont Belvieu) and gasoline (XB1) futures**  
US\$/gallon



Source: Banorte with figures from Bloomberg

**Imports of agricultural items**  
US\$ billion (12 month moving average)



Source: Banorte with figures from INEGI

**More limited improvements on inflation, as well as other challenges, will lead Banxico to pause in May.** We believe that conditions are set for the Board to [keep the reference rate unchanged at 11.00% in its May 9<sup>th</sup> meeting](#). More importantly, it is our take that improvements in inflation have not been sufficient to warrant a further downward adjustment for now –especially given the persistence to the upside in core services. In addition, and consistent with some comments from various participants of a greater focus on the Fed, the space for cuts in the US seems to be shrinking, which also limits the room to maneuver. Nonetheless, we continue to expect cuts to be gradual after this, albeit not continuous –at least in the short-term– with our year-end estimate at 10.00%.

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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, Marcos Saúl García Hernández, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, 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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