May 9, 2024

April inflation –Pressures rekindled at the non-core

- **Headline inflation (April): 0.20% m/m; Banorte: 0.20%; consensus: 0.18% (range: 0.08% to 0.23%); previous: 0.29%**
- **Core inflation (April): 0.21% m/m; Banorte: 0.25%; consensus: 0.23% (range: 0.20% to 0.27%); previous: 0.44%**
- **The result was mainly influenced by the 1st fortnight, noting the 13.0% m/m decline in electricity due to the onset of the summer discounts in said period. Remaining energy items were more mixed, while agricultural goods (2.3%) were pressured on the back of a 3.9% expansion in fruits and vegetables. At the core, services (0.1%) were limited by a positive seasonality in tourism branches, with goods slightly higher at 0.3% given increases in both components**
- **With this, annual inflation in April accelerated to 4.65% from 4.42% in March, adding two months higher. The core pushed on with its downward trend, standing at 4.37% (previous: 4.55%)**
- **We believe this report continues to underline challenges in the fight against inflation, which is key for Banxico to hold the reference rate at 11.00% later today**

Inflation of 0.20% m/m in April. Much of the result was dictated by the dynamics in the 1st half of the month, when the main highlight was the 13.0% m/m decline in electricity as the first tranche of summer discounts was implemented, as usual for this period. The remainder of energy items were mixed, with a decline in LP gas (-0.8%) but with low-grade gasoline higher (1.0%). In agricultural items (2.3%), fruits and vegetables increased throughout the month, with an expansion of 3.9% –noting higher prices of tomatoes, serrano chilies, and husk tomatoes, along with declines in onions and cucumbers. 'Meat and egg' was more modest at 0.9%, albeit with marked expansions in some items in the 2nd fortnight. Closing with the non-core, government tariffs picked up only 0.2%. At the core (0.21%), we highlight the positive seasonality in services (0.1%). This is primarily seen in 'others' (0.0%), with steep declines in tourism items such as airfares (-21.4%) and tourism services (-4.4%). However, pressures persist in 'dining away from home' (0.6%). Meanwhile, housing was more modest, up 0.3% and giving some signs of normalization after substantial advances in the first months of the year. Goods (0.3%) seem to show a temporary acceleration, with increases of 0.3% in both processed foods and 'other goods'.

April 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	8.1	13.7
Serrano chilies	6.1	64.4
Low-grade gasoline	4.9	1.0
Husk tomatoes	3.8	24.3
Other fresh chilies	3.6	33.6
Goods and services with the largest negative contribution		
Electricity	-26.2	-13.0
Onions	-8.8	-22.0
Air fares	-6.2	-21.4
Tourism services	-1.6	-4.4
LP gas	-1.3	-0.8

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

www.banorte.com/analisiseconomico
@analisis_fundam

Winners of the awards as the best economic forecasters in Mexico by *LSEG* and *Focus Economics* in 2023

LSEG STARMINE AWARD FOR REUTERS POLLS
Best Forecaster Economic Indicators for Mexico 2023

Annual headline inflation kept climbing, with a modest downward adjustment for the core. With this result, annual headline inflation rose to 4.65% from 4.42% y/y in March, making two months of upward adjustments. At the detail, the non-core rose to 5.54% from 4.03%, driven in large part by a more challenging base effect, albeit with other factors also in play. The core moderated to 4.37% (previous: 4.55%), with a mixed performance inside. Regarding the former, the recent acceleration in agricultural products stands out after declines in the previous two months. In particular, fruits and vegetables maintained a double-digit increase (at 18.6%) for a fifth consecutive month, although 'meat and egg' continues to mitigate this after four months in negative territory (at -1.1%). For the latter, we believe that higher imports –due to MXN strength peso and lower tariff restrictions– have been key in explaining its dynamics. In energy, differences continue to deepen as several issues affect supply and demand conditions, as well as geopolitical tensions that are impacting different hydrocarbons. Turning to the core, the positive effect of goods remains very clear, reaching 3.7% and adding 17 months of moderations. As we have pointed out previously, two drivers have been key: (1) Additional improvements in supply chains; and (2) the accumulated appreciation of the MXN, which is more evident in imported goods and raw materials. However, our concerns remain in services as they have stayed above 5% since August 2022, still with no signs of consolidating downwards. In this sense, labor cost pressures remain latent, with the latest INEGI employment report still showing double-digit wage hikes. Moreover, risks of possible pass-through effects from additional increases in energy and food from the non-core component are still in place.

Banxico will likely keep the reference rate at 11.00% in today's decision. At 2:00pm ET, the central bank will release the statement from its third policy meeting of the year, where we anticipate that the target rate will be unchanged. As we elaborated in our last *View from the Top*, we think several factors will drive a pause today, including a challenging inflationary outlook –which we believe was more clearly captured in today's report– and less room to maneuver in terms of the relative monetary stance with the US. However, reductions will likely continue throughout the year, expecting the rate to close 2024 at 10.00%.

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, Marcos Saúl García Hernandez, 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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	Reference
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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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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) 1105 - 1438

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

Marcos Saúl García Hernandez
Analyst, Fixed Income, FX and Commodities
marcos.garcia.hernandez@banorte.com
(55) 1670 - 2296

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

Ana Gabriela Martínez Mosqueda
Strategist, Equity
ana.martinez.mosqueda@banorte.com
(55) 5261 - 4882

Paula Lozoya Valadez
Analyst, Equity
paula.lozoya.valadez@banorte.com
(55) 1103 - 4000 x 2060

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) 1670 - 2904

Andrea Muñoz Sánchez
Analyst, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1105 - 1430

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