

## Inflation 1H-June – Seasonal pressures along with some positive surprises

- **Headline inflation (1H-Jun): 0.21% 2w/2w; Banorte: 0.34%; consensus: 0.16% (range: 0.05% to 0.34%); previous: -0.20%**
- **Core inflation (1H-Jun): 0.17% 2w/2w; Banorte: 0.25%; consensus: 0.18% (range: 0.11% to 0.25%); previous: -0.02%**
- **Part of the result was explained by rebounds in several categories within the core after discounts from the *Hot Sale*, noting increases in ‘other goods’ (0.3%) and some tourism items (e.g. air fares at 3.9%). Nevertheless, other lines within the component such as processed foods (0.1%) and housing (0.2%) were more limited. In the non-core (0.34%) we saw stability in energy (0.1%), while volatility persisted in agricultural items (0.6%)**
- **In bi-weekly terms, annual inflation increased to 4.78% from 4.59% in the second half of May. Meanwhile, the core ended its downward trend by coming in at 4.17% (previous: 4.11%)**
- **Today’s results reaffirm that the inflationary backdrop remains challenging, being a key factor behind our expectation of an additional pause from Banxico in this week’s decision, leaving the reference rate at 11.00%**

**Inflation at 0.21% 2w/2w during the first half of June.** We highlight some negative seasonal patterns, explaining the increase in the headline index, although with some surprises to the downside. Within the core (0.17%), the main driver was the adjustment in prices after the *Hot Sale* discounts in the previous fortnight. As such, we note rebounds in ‘other goods’ (0.3%) and in tourism categories such as air fares (3.9%) and tourism services (3.8%). However, within ‘other services’ (0.1%), the 3.9% decline in internet, telephone and TV packages stands out. In addition, the performance in processed foods (0.1%) and housing (0.2%) was more limited. Turning to the non-core (0.34%), energy items were stable (0.1%). Inside of the latter, LP gas came in at 0.0%, with low-grade gasoline at 0.1%. It is relevant to mention that international references for the former did show an increase, while they declined for the latter. A volatile performance persisted in agricultural items, now at 0.6%. This was especially evident in fruits and vegetables, up 1.3% –after falling 2.1% in the previous fortnight–, noting pressures in squash and oranges, albeit with tomatoes lower. Meat and egg was more modest at -0.1%, helped by eggs (-1.8%). Finally, government tariffs accelerated to 0.3%, expecting larger adjustments in these in coming weeks.

### 1H-June 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 |
|---|-----------|---------|
| Squash  | 6.1       | 79.3    |
| Oranges   | 4.9       | 19.3    |
| Bananas   | 3.2       | 11.2    |
| Other vegetables  | 3.0       | 9.5     |
| Lettuce   | 2.6       | 15.4    |
| Goods and services with the largest negative contribution |           |         |
| Tomatoes  | -8.6      | -11.8   |
| Serrano chilies   | -3.3      | -18.5   |
| Internet, telephone and TV packages                       | -2.7      | -3.9    |
| Grapes  | -2.0      | -22.4   |
| Eggs  | -1.8      | -1.8    |

Source: INEGI



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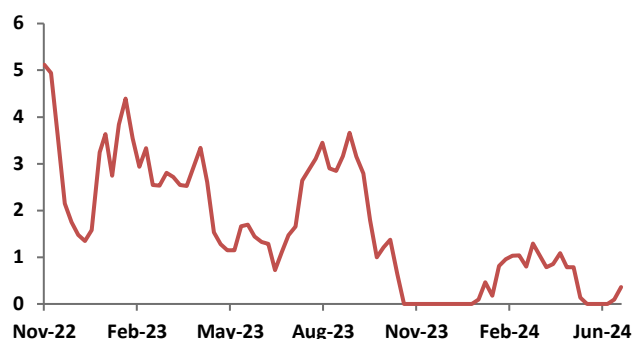


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**Headline inflation climbs once again, with the core also higher.** As such, headline inflation came in at 4.78% y/y from 4.59% in the 2<sup>nd</sup> half of May. Part of this is due to a distortion from the *Hot Sale*, with the discount period being brought forward relative to the previous year to avoid interfering with Election Day (June 2<sup>nd</sup>). Similarly, the core also rebounded, standing at 4.17% (previous: 4.11%). Meanwhile, and as has been the case for several fortnights, the non-core kept facing a more challenging base, reaching 6.73% (previous: 6.10%), its highest level since end of 2022. Nevertheless, it is relevant to mention that several headwinds have materialized for this latter category, mainly impacting the performance of fruits and vegetables –with their annual comparison at 17.3%. On this, we will be looking at the aftermath of the tropical storm *Alberto* across several states, also remembering that drought levels remain elevated. In energy, we will remain on the look to dynamics stemming from the recent adjustments in the exchange rate, although remembering that shock absorbers –being the subsidies to gasoline excise taxes (see chart below, left) and a price ceiling to LP gas– should support a relatively orderly behavior. In the core, our attention will remain on services, where we still haven’t seen signs of a change in the trend given the persistence to the upside of several of its components. On these, only housing remains below 4%, with education and ‘other services’ even surpassing 6% (see chart below, right).

**Subsidy to low-grade fuel excise tax\***

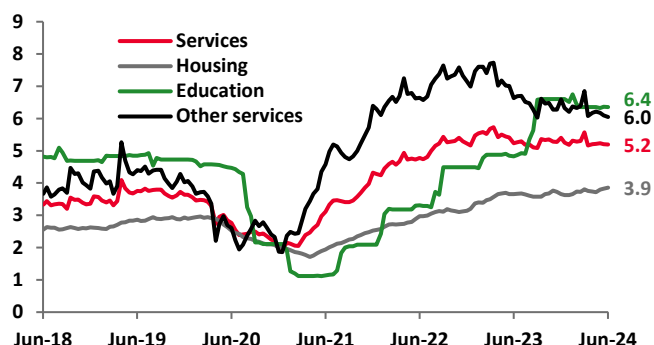
Pesos per liter



\*Total excise tax per liter is the following: 2022: \$5.4917; 2023: \$5.9195; 2024: \$6.1752. Source: Banorte with figures from the Official Gazette

**Services inflation**

% y/y, bi-weekly frequency



Source: Banorte with figures from INEGI

**Challenges continue, with Banxico remaining cautious and extending the pause.** With today’s result, inflation so far in 2Q24 averages 4.69% y/y. As such, for 4.6% estimate from the central bank to be fulfilled, the print for the 2<sup>nd</sup> half of June would have to come in between -0.74% and -0.17% 2w/2w, which we believe is highly unlikely. Meanwhile, the forecast for the core will likely be met, with the average so far at 4.26% (vs. 4.3% from the monetary authority). Considering this and an outlook that incorporates risks to the upside, as we mentioned in the previous section, we believe Banxico will maintain a cautious and prudent tone. Therefore, and as we elaborated in our last [View from the Top](#), we think that the Board will opt for leaving the reference rate unchanged at 11.00% in its meeting this Thursday, June 27<sup>th</sup>.

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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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