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June inflation – Significant pressures in fruits and vegetables, albeit with the core better


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

- **Headline inflation (June): 0.38% m/m; Banorte: 0.28%; consensus: 0.29% (range: 0.00% to 0.39%); previous: -0.19%**
- **Core inflation (June): 0.22% m/m; Banorte: 0.22%; consensus: 0.23% (range: 0.17% to 0.30%); previous: 0.17%**
- **A large part of the result was driven by the 1st fortnight, although with some adverse adjustments exacerbated in the second half. This was the case for fruits and vegetables, up 3.3% in the month. In the rest of the non-core, energy items were also higher (0.2%), although more limited. At the core, goods (0.2%) were impacted by the rebound in 'others' (0.2%), which was already known. In services (0.3%), housing remained somewhat high at 0.4%, with 'others' more stable at 0.2% –noting more modest changes in some key categories–**
- **With this, annual inflation increased once again, now at 4.98% from 4.69% in May. The core kept moderating, reaching 4.13% (previous: 4.21%)**
- **Considering recent dynamics and some changes in our outlook for prices, we revise our call for year-end headline inflation to 4.4% (previous: 4.3%), with the core lower at 3.7% (previous: 4.4%)**
- **Attention on Banxico's minutes on Thursday, expecting additional information to assess upcoming moves from the monetary authority**

Inflation of 0.38% m/m in June. Several trends that drove the result were seen also in the 1st half of the month. As such, within the non-core (0.87%), pressures in fruits and vegetables stood out, climbing 3.3% –with strong increases in squashes, oranges, and avocadoes, to name a few. Closing with agricultural items (1.5%), meat and egg were more modest at 0.0%. Energy (0.2%) was mixed, with more relevant adjustments in global benchmark prices in the second half. LP gas and low-grade gasoline stood at -0.5% and +0.5%, respectively. Meanwhile, government tariffs accelerated to 0.3%. At the core (0.22%), goods (0.2%) were skewed by the 0.2% rebound in 'others' after *Hot Sale* discounts in the previous month, albeit with processed foods once again low (0.2%). In services (0.3%), housing maintained a bias to the upside at 0.4%. Nevertheless, 'others' (0.3%) were helped by a decline in internet, phone, and TV packages in the 1st fortnight, although with more modest changes in other categories (*e.g.* 'dining away from home' at 0.2%) –a situation already seen in previous reports.

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

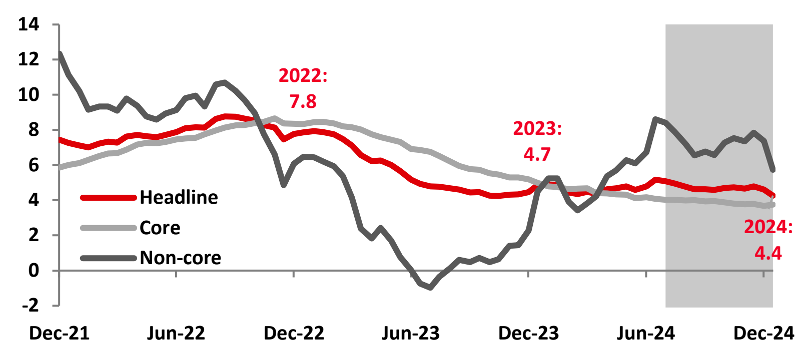
Goods and services with the largest positive contribution	Incidence	% m/m
Squashes	9.3	128.6
Oranges	7.7	31.4
Other vegetables	4.9	15.5
Avocadoes	4.6	17.7
Bananas	3.9	14.0
Goods and services with the largest negative contribution		
Tomatoes	-9.6	-12.8
Serrano chilies	-5.2	-27.0
Eggs	-3.0	-3.1
Internet, phone, and TV packages	-2.7	-3.9
Grapes	-2.5	-28.1

Source: INEGI

Headline inflation climbed further in annual terms, with the core lower. With this, headline inflation increased to 4.98% y/y from 4.69% in May, marking four months of gains. As in recent reports, this is explained by the non-core, now at 7.67% (previous: 6.19%), recognizing a more challenging base effect –which will peak next month– and pressures in several components –mainly fruits and vegetables at 19.7% y/y, now with a seventh month with double-digit variations. Meanwhile, the core continued to decline, reaching 4.13% (previous: 4.21%), its lowest level since early 2021.

Considering recent dynamics and changes in the balance of risks, we revise our year-end inflation forecasts. Dynamics at both the core and non-core in the last fortnights have been very revealing. This, along with a reassessment of various drivers, has led us to rethink our trajectories for the remainder of the year. Starting with the core, goods have been better than expected –falling to 3.3% y/y– helped by changes in consumption patterns and MXN strength. Despite recent exchange rate adjustments, we believe positive dynamics will continue, not expecting a substantial pass-through effect in coming months. In services, we elaborated on improvements in some key components in our last *View from the Top*, mainly within 'others'. These seem to be showing signs of having already peaked. However, we will keep a close eye on housing and education in the short term. Thus, we now anticipate this category at 3.7% by year-end, with our previous forecast at 4.4%. On the other hand, challenges have increased for the non-core. As already emphasized in several publications, pressures and volatility in fruit and vegetable prices have made it increasingly difficult to make accurate forecasts, although undoubtedly inserting an upward bias to the component. Meanwhile, we expect the speed of exchange rate pass-through to be more evident in meat and egg as imports of these goods have increased strongly. Lastly, we believe that shock absorbers for gasolines and LP gas will prevent disorderly adjustments in energy, albeit in a scenario with a plethora of geopolitical risks that still implies a negative balance ahead. All in all, our forecast for the headline would be higher by 10bps at 4.4%, as shown in the graph below, despite of the improvements described above.

Inflation forecasts
% 2w/2w, bi-weekly frequency



Source: Banorte with data from INEGI

Attention on Banxico's minutes this week, key to define the most likely date for the next reference rate adjustment. On top of Omar Mejia's dissent, we will analyze comments from remaining Board members on the conditions that need to be met to continue easing. At the margin, we believe this could materialize relatively soon, at least considering the known bias of the participants so far.

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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

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
Strategist, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1105 - 1430

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