

July 24, 2024

## Inflation 1H-July – New upward surprise entirely driven by high pressures at the non-core

- **Headline inflation (1H-Jul): 0.71% 2w/2w; Banorte: 0.42%; consensus: 0.50% (range: 0.07% to 0.69%); previous: 0.53%**
- **Core inflation (1H-Jul): 0.18% 2w/2w; Banorte: 0.15%; consensus: 0.18% (range: 0.14% to 0.25%); previous: 0.13%**
- **Within the non-core (0.32% 2w/2w), we highlight once again the increase in fruits and vegetables, now at 6.1% and adding three fortnights of strong increases. Meanwhile, meat and egg also came high at 1.0%. In energy (1.6%), we saw notable upticks in LP gas (4.7%), electricity (2.1%), and low-grade gasoline (0.6%). Turning to the core, goods remained low at 0.0% –with a decline in ‘other goods’ (-0.1%). In services (0.4%), we highlight an adverse seasonality in ‘others’ (0.6%) due to the holiday period, with housing still somewhat pressured (0.2%)**
- **In bi-weekly terms, annual inflation increased to 5.61% from 5.17% in the second half of June, its highest level since May 2023. The core kept moderating, standing at 4.02% (previous: 4.08%)**
- **We believe improvements in core inflation will drive Banxico’s dovish wing to cut the reference rate by 25bps to 10.75% in its August meeting, albeit with recent data complicating the outlook at the margin**

**Inflation at 0.71% 2w/2w in the first half of July.** Similar to recent fortnights, pressures were concentrated at the non-core (2.32%), especially in fruits and vegetables, which climbed 6.1%. Inside, some of the goods with the largest adjustments included tomatoes, onions, and avocados, although with modest declines in serrano chilies and husk tomatoes. Meat and egg also came high at 1.0%, with a relevant expansion in eggs. Energy (1.6%) picked up broadly, highlighting LP gas (4.7%) and low-grade gasoline (0.6%) –with international references increasing in previous weeks–, as well as electricity (2.1%). Government tariffs rose 0.4%, accelerating in line with expectations. Moving to the core (0.18%), goods remained low at 0.0%, with processed foods stable (0.1%) and a decline in ‘others’—where the decline in autos (-0.4%) stood out. In services (0.4%), an adverse seasonality for tourism items (e.g. air fares at 12.0% and tourism packages at 6.9%) kicked given the end of the school year within ‘others’ (0.6%). Finally, housing remained relatively pressured, up 0.2%.

### 1H-July 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	18.5	28.0
LP gas	7.4	4.7
Onions	4.3	16.7
Egg	3.3	3.6
Avocados	3.3	10.0
Goods and services with the largest negative contribution		
Serrano chilies	-1.2	-9.0
Husk tomatoes	-0.9	-5.3
Autos	-0.7	-0.4
Grapes	-0.6	-11.0
Sugar	-0.6	-1.4

Source: INEGI



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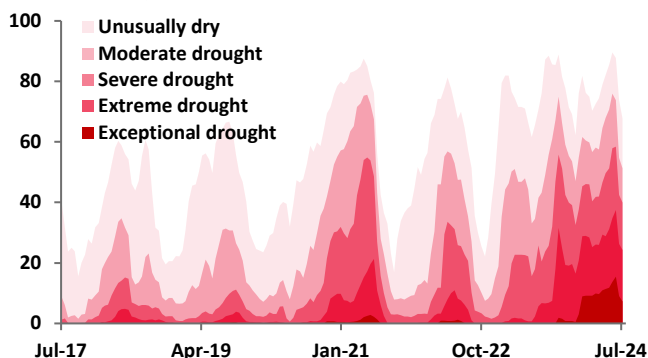
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**Headline inflation rises again, but the core extended its decline.** The former came in at 5.61% y/y from 5.17% in the second half of June, its highest level since May 2023. This is due to the non-core, which shot up to 10.64% (previous: 8.61%). While a base effect in energy has contributed to the uptick—with the peak already reached this fortnight—the recent rise in agricultural items—especially in fruits and vegetables, which reached 25.7%—has also impacted substantially. On short-term dynamics, energy prices could find some relief as US reference prices have adjusted lower, although they are likely to maintain some upward bias. In agriculture, the start of the rainy season has resulted in some improvements in drought levels (see chart below, left). However, the positive effect could take at least a couple of months to materialize given the lag in harvests. On the other hand, the core stood at 4.02% (previous: 4.08%), its lowest since February 2021. The path in goods remains favorable (chart below, right) and has driven much of the improvement in this component. Nevertheless, the speed of the decline moderated at the margin. In services, the annual metric accelerated once again, now at 5.2%. Housing remains relatively high, with ‘other services’ stabilizing after falling in previous fortnights, a situation that we believe is relatively positive considering its performance in previous months. In this context, we reiterate [our call that headline inflation will close the year at 4.4%](#), with core inflation at 4.0%.

#### Drought monitor

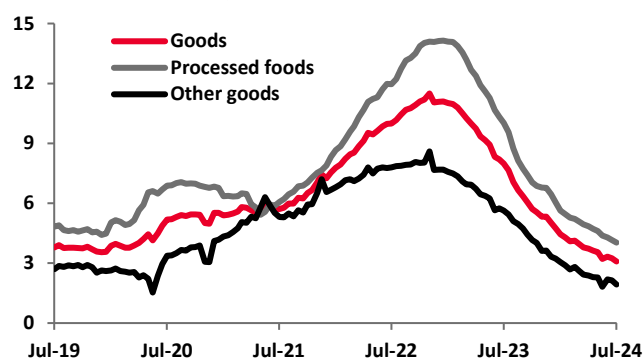
% of the country's territory affected



Source: Banorte with figures from CONAGUA

#### Core inflation: Goods

% y/y, bi-weekly frequency



Source: Banorte with figures from INEGI

**Improvements in core inflation will support a cut from Banxico at the next monetary policy decision.** Considering our assessment of the members' bias in the [latest minutes](#), we believe that the dovish wing—in our view comprised of Governor Victoria Rodríguez, Galia Borja, and Omar Mejía—will be encouraged by the fact that core inflation keeps approaching the 4% threshold. Despite of the latter, we recognize that recent inflation prints have complicated the price outlook at the margin, especially as it is not possible to rule out some passthrough of pressures at the non-core to the core component. On the other hand, bets that the Federal Reserve could cut even sooner than anticipated just a couple of months ago would also help to make the case. Meanwhile, local financial assets have had better dynamics despite the Mexican peso's depreciation seen in the last few days (likely related to some unwind of carry trades funded in JPY). All in all, we reiterate our call of a 25bps cut on August 8<sup>th</sup>, taking the reference rate to 10.75%.

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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, 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, Jazmín 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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