

August 8, 2024

July inflation – Progress continued at the core component, down to 4.05% y/y

- **Headline inflation (July): 1.05% m/m; Banorte: 1.13%; consensus: 1.02% (range: 0.90% to 1.13%); previous: 0.38%**
- **Core inflation (July): 0.32% m/m; Banorte: 0.28%; consensus: 0.29% (range: 0.26% to 0.31%); previous: 0.22%**
- **Several trends seen in the 1st fortnight continued, although with some differences in specific items both in the core and non-core. Within the former, goods moderated again (0.1%), with services higher (0.6%). Pressures continued in housing (0.4%), with 'others' (0.8%) impacted by the negative seasonality in tourism-related items. In the non-core (3.29%), the 8.9% rise in fruits and vegetables was the main driver, albeit with meat and egg also accelerating to 1.4%. Meanwhile, energy (2.3%) also showed a more meaningful upside**
- **With this, annual inflation rose for a fifth consecutive month, now at 5.57% from 4.98% in June. The core extended its downward trend, reaching 4.05% (previous: 4.13%)**
- **Attention on Banxico's decision later today. We continue to anticipate a 25bps cut to 10.75% despite recent market jitters that have added further risks to the decision**

Inflation of 1.05% m/m in July. Some of the trends seen in the [1st half of the month](#) continued. Those that reversed were mainly related to seasonal patterns. Thus, the core advanced 0.32%, highlighting a rather contained uptick in goods (0.1%). 'Other goods' (0.0%) were helped by lower auto prices (-0.4%), while processed foods (0.2%) were marginally skewed upwards. In services (0.6%), pressures continued in housing (0.4%), with 'others' (0.8%) affected by the negative seasonality in tourism-related items. In this sense, fares and tourism packages increased 10.2% and 5.8%, respectively –albeit with some reversals to the downside in the 2nd half of the period. For the rest of the categories, we saw a more mixed performance. Turning to the non-core (3.29%), fruits and vegetables remained the driver for the increase at 8.9% –now highlighting pressures in tomatoes, oranges and onions–, adding four months higher. Livestock also increased at 1.4%, boosted by eggs. In energy (2.3%), expansions were widespread, led by LP gas (6.7%) and low-grade gasoline (1.1%), acknowledging higher prices in international benchmarks at the beginning of the month. Finally, government tariffs climbed 0.5%, somewhat high for a second consecutive month.

July inflation: Goods and services with the largest contributions

% m/m; monthly incidence in basis points

| Goods and services with the largest positive contribution | | |
|---|------|-------|
| Tomatoes | 21.7 | 33.3 |
| LP gas | 10.3 | 6.7 |
| Oranges | 5.9 | 18.6 |
| Onions | 5.8 | 25.1 |
| Low-grade fuel | 5.7 | 1.1 |
| Goods and services with the largest negative contribution | | |
| Serrano chilies | -2.6 | -18.4 |
| Grapes | -1.2 | -19.0 |
| Sugar | -1.1 | -2.4 |
| Autos | -0.8 | -0.4 |
| Husk tomatoes | -0.8 | -4.7 |

Source: INEGI



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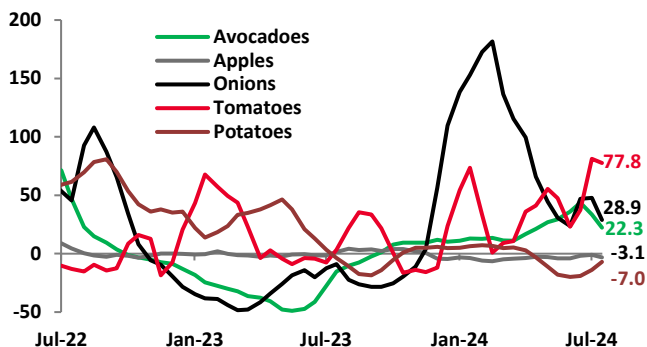
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Headline inflation keeps climbing in annual terms, but the core extended its move lower.

With this result, headline inflation rose to 5.57% y/y from 4.98% in May, adding five months of gains and at its highest since May 2023. The impact from an adverse base effect at the non-core has likely reached a top, helping to explain some part of the adjustment of this component towards 10.36% (previous: 7.67%). This is one reason to expect this metric to decline in coming months. Nevertheless, the recent performance of fruits and vegetables makes it increasingly difficult to say with high conviction. Specifically, the latter item reached 23.6% y/y, a level not seen since mid-2017. Inside, there of the five items with the highest weight –which represent about 40% of the category’s total weight– maintained double-digit expansion rates (see chart below, left). As we have mentioned in previous publications, the causes are relatively clear, mainly attributable to climatological factors. Energy would be benefit from its base effect in coming months, currently standing at 9.2%. Although the lagged effect from fiscal shock absorbers would imply additional upward adjustments in immediate fortnights, the recent respite in international benchmarks could help limit them. On the other hand, core inflation kept falling, now at 4.05% (previous: 4.13%) and its 18th month of improvement. Progress remains concentrated in goods, mainly ‘others’, which broke the 2% barrier at 1.9%. Given this, further reductions could be more difficult to achieve despite some room left for a better performance in processed foods, which have already reached 4.0%. In services, we remain somewhat concerned about housing and education (see chart below, right), with the next fortnights key to define the behavior of the latter given the ‘back to school’ period. However, ‘other services’ improved further and is likely to remain positive for this category.

Inflation of the top five goods within fruits and vegetables

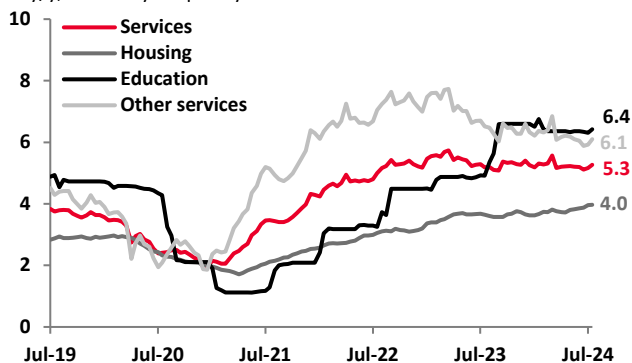
% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

Core inflation: Services

% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

We continue to expect a 25bps cut from Banxico later today. We believe that the improvement in core inflation (as already elaborated) and [lower economic dynamism](#) will be enough sufficient reasons for the dovish wing of the Board to support a 25bps rate cut to 10.75% today. However, we recognize that recent dynamics in international markets –which have impacted local assets– have inserted additional risks to the decision, along with remaining challenges for headline inflation given the unfavorable performance of the non-core. This would support the arguments of the more hawkish members to proceed with greater caution. Considering this, we believe the tone of the statement could show greater caution around upcoming decisions despite the announcement of a rate cut.

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|------|---|
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