

August inflation – Setback in agricultural items will help Banxico with their next cut

- **Headline inflation (August): 0.01% m/m; Banorte: 0.09%; consensus: 0.07% (range: 0.02% to 0.20%); previous: 1.05%**
- **Core inflation (August): 0.22% m/m; Banorte: 0.23%; consensus: 0.23% (range: 0.19% to 0.26%); previous: 0.32%**
- **The month is characterized by important seasonal patterns, especially within the core. As such, services (0.3%) reflect upward adjustments in education (1.4%) due to the return to classes, although with improvements in tourism items within 'others' (0.1%). In goods, this same seasonality –along with the end of summer sales– drove 'others' (0.1%), although processed foods also accelerated (0.3%). Moving to the non-core (-0.70%), agricultural items fell 2.1%, with fruits and vegetables (-5.2%) explaining the move. Finally, energy kept climbing (0.5%), albeit with a mixed performance inside**
- **With this, annual inflation moderated to 4.99% from 5.57% in July. Core inflation had a more limited movement, although also positive, reaching 4.00% (previous: 4.05%)**
- **We believe that today's results support our call of a 25bps cut in the September 26th decision**

Inflation of 0.01% m/m in August. The period is characterized by significant seasonal effects, most of them happening since the [1st half of the month](#). These are more evident within the core (0.22%), especially in services (0.3%). It should be noted that the shocks are in opposite directions, triggered by the return to classes after the summer vacations. Thus, education climbed 1.4%, while tourism items such as airfares (-14.8%) and packages (-4.7%) decline. Considering the latter, 'other services' were relatively restrained at 0.1%. Meanwhile, housing moderated at the margin to 0.3%. In goods (0.2%), 'others' are impacted by the end of summer discounts, advancing 0.1%. Processed foods accelerated slightly to 0.3%. Moving to the non-core (-0.70%), agricultural items dropped 2.1%, with the adjustment explained by fruits and vegetables (-5.2%) –highlighting declines in squashes, green beans, and serrano chilies. Meanwhile, meat and egg had a more limited movement at 0.5% –albeit with a relevant uptick in eggs. Energy rose 0.5%, with a mixed performance inside. Increases were concentrated in low-grade gasoline (0.6%) and electricity (1.9%), with LP gas down (-1.2%). Finally, government tariffs were somewhat high once again at +0.4%.

August inflation: Goods and services with the largest changes

% m/m; monthly incidence in basis points

Goods and services with the largest positive change		% m/m
Lemons		18.2
Pineapples		14.2
Grapes		9.5
Peaches		5.1
Potatoes		4.7
Goods and services with the largest negative change		
Squash		-61.1
Green beans		-20.8
Serrano chilies		-17.4
Husk tomatoes		-16.8
Poblano chilies		-15.3

*In this occasion INEGI did not publish the contributions of the items due to the change in the basket and its weights.
Source: INEGI



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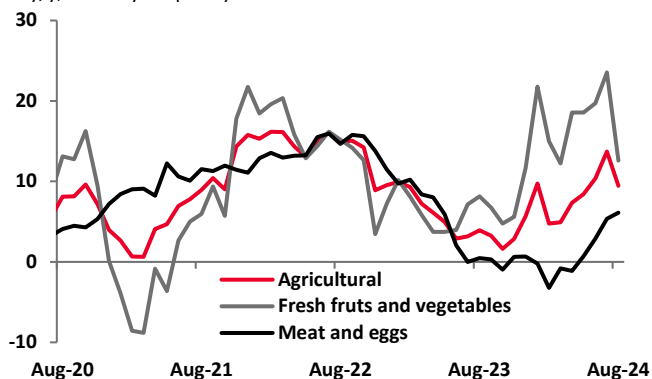
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Headline inflation starts to moderate, with the core around the 4% threshold. With these results, headline inflation moderated to 4.99% y/y from 5.57% in July, its first decline after five months of increases. Much of the adjustment is explained by the non-core, which came in at 8.03% (previous: 10.36%). In turn, the latter component was mainly driven by two factors: (1) The dissipation of an adverse base effect in LP gas, which decreased by 878bps to 16.8%; and (2) the partial reversal of recent increases in fruits and vegetables, which went from 23.6% to 12.6%, as shown in the chart below on the left. Although this behavior is positive, we will be closely watching the dynamics of energy prices in light of the recent [OPEC+ announcement about the deferral of the reinstatement of voluntary cuts to the market](#). Regarding agricultural items, we will watch the first effects of the rainy season on some crops, although we will be cautious about the possible arrival of *La Niña* during the month. On the other hand, the core continued to decline, although more slowly, reaching 4.00% (previous: 4.05%). Inside, goods were more stable at 3.0% –with a further reduction in ‘others’, but with processed food accelerating marginally. Services remained at 5.2%, with mixed moves inside (see chart below, right). On education, tuitions will adjust in the next fortnight, which is the highest of the year and usually defines the path of the whole component for the next 12 months. In ‘others’, focus will be on the possible pass-through of previous increases in non-core, items especially the impact on ‘dining away from home’ and restaurants. In this regard, [we recently revised up our year-end expectation to 4.7% for the headline](#), with the core also slightly higher at 3.9%.

Non-core inflation: Agricultural

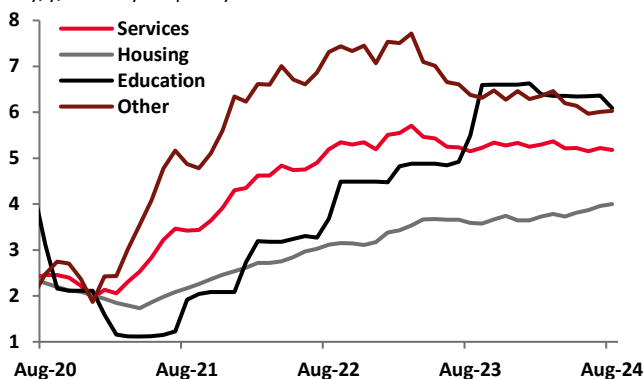
% y/y, monthly frequency



Source: Banorte with data from INEGI

Core inflation: Services

% y/y, monthly frequency



Source: Banorte with data from INEGI

We keep expecting a 25bps cut to the reference rate by the end of the month. Today's results are consistent with an improvement in the inflation outlook. This is key for an extension of the central bank's easing cycle. In this sense, headline inflation averages 5.3% so far in 3Q24, above slightly above the institution's 5.2% forecast, albeit with the latter likely met if the moderation continues. On the other hand, core inflation accumulates an average of 4.0%, already in line with the institution's view. In addition, the economic outlook for the remainder of the year remains challenging, which also seems to be an important incentive for some Board members. It is our take that this will be enough support for rate cuts to continue. However, we will be watching closely some potential risks that could prevent this from materializing, including further price shocks and the performance of some local financial assets.

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