

October 9, 2024

September inflation – The core returns to Banxico's target range

- **Headline inflation (September): 0.05% m/m; Banorte: 0.06%; consensus: 0.08% (range: 0.04% to 0.15%); previous: 0.01%**
- **Core inflation (September): 0.28% m/m; Banorte: 0.31%; consensus: 0.31% (range: 0.29% to 0.33%); previous: 0.22%**
- **The period is impacted by different seasonal effects, which are more evident in the core. Within the latter, in services (0.4%) education advanced 2.8%, with 'others' quite limited (0.1%), but with housing still high (0.3%). In goods (0.2%), the most relevant move comes from the acceleration in 'others' (0.3%), also usual for the month. At the non-core (-0.72%) declines were widespread, with agricultural items at -1.6% –driven again by fruits and vegetables (3.4%)–, and with energy also down (0.2%). However, government tariffs remained pressured at 0.4%**
- **With these results, annual inflation moderated to 4.58% from 4.99% in August. The core appears to be consolidating within the central bank's target range, reaching 3.91% (previous: 4.00%)**
- **Attention on Banxico's minutes tomorrow, with special attention on the drivers of upcoming moves –and their magnitude– along with the reasons behind Jonathan Heath's dissent**

Inflation of 0.05% m/m in September. Figures for the month are impacted by different seasonal effects, the most relevant being the return to classes, but also others associated with different events. Thus, distortions were more evident at the core (0.28%), particularly in services (0.4%). Inside, education stands out at 2.8% –moderating relative to the increases observed in the previous year–, while housing remained somewhat high at 0.3%. In 'other services' (0.1%) there were relevant adjustments in professional (14.8%) –due to discounts in wills and testaments–, although with a mixed performance in tourism items. Within goods (0.2%), the most notorious uptick happened in 'others' (0.3%), in line with its usual behavior, while processed foods were quite low at 0.1%. Turning to the non-core (-0.72%), declines were widespread. In agricultural items (-1.6%), the reduction was driven again by fruits and vegetables (-3.4%) –with contractions in tomatoes, oranges and bananas–, although with meat and egg also negative (-0.3%) –dragged by chicken. Energy fell 0.2%, with reductions in low-grade gasoline (-0.3%) and electricity (-0.8%) supported by improvements in international benchmarks. Nevertheless, LP gas grew 0.9%. Finally, government tariffs remained elevated at +0.4%.

September inflation: Goods and services with the largest changes

Monthly incidence in basis points; % m/m

Goods and services with the largest positive contribution	Incidence	% m/m
Housing	3.9	0.3
Dinning away from home	2.6	0.5
Lemons	2.6	22.2
Elementary school	2.5	5.7
Other fruits	1.6	6.4
Goods and services with the largest negative contribution		
Tomatoes	-12.2	-17.5
Professional services	-3.6	-14.8
Oranges	-3.6	-20.9
Bananas	-2.8	-11.0
Chicken	-2.7	-1.5

Source: INEGI



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



www.banorte.com/analisiseconomico
@analisis_fundam

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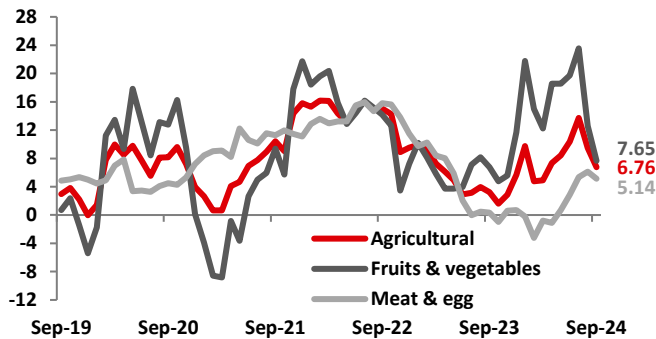
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Headline inflation declines further, while the core consolidating within the target range.

With these results, headline inflation fell to 4.58% y/y from 4.99% in August, adding two months to the downside. Again, much of the adjustment was explained by the non-core, which moderated by 153bps to 6.50%. While the base effect in energy still helps, we note that the most recent improvements have also been due to the reversal of upward shocks in fruits and vegetables –with the latter at a single-digit pace of 7.6% for the first time since November (see graph below, left). However, as noted in our last [View from the Top](#), some risks remain on this front, with new distortions potentially materializing relatively quickly if the outlook worsens. In energy, benchmark prices have adjusted higher given: (1) Rising geopolitical tensions in the Middle East; and (2) economic stimulus measures in China. We will keep monitoring their performance locally in coming fortnights, albeit there is room in terms of gasoline subsidies to accommodate these moves. The core has already entered Banxico's target range at 3.91% (previous: 4.00%), which had not happened since February 2021. Inside, goods continue improving, standing at 2.9%. Services also fell, adjusting to 5.1% (see graph below, right). Thus, we believe that a downward trend in the latter is needed to corroborate additional gains for the core. In our view, this will still take some time, especially given that the margin for additional declines in goods may be running out. In this context, we maintain our estimate for the headline by year-end at 4.7% –recognizing some downside risks–, with the core at 3.9% –with greater conviction on this number.

Non-core inflation: Agricultural items

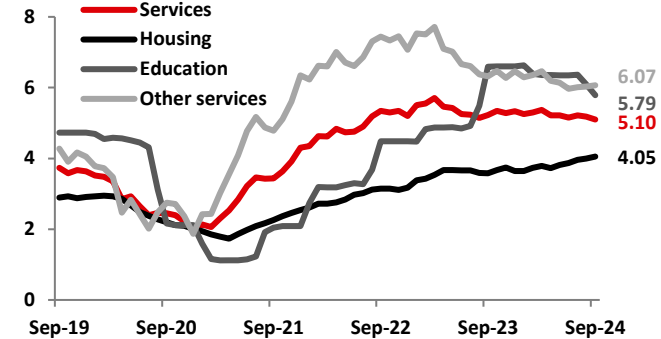
% y/y, monthly frequency



Source: Banorte with data from INEGI

Core inflation: Services

% y/y, monthly frequency



Source: Banorte with data from INEGI

Attention to the forward guidance in Banxico's minutes. On Thursday, the central bank will release the minutes of its September 26th meeting, where –in line with our call–, they cut the reference rate by 25bps to 10.50%. The tone was more dovish, also in line with our view, highlighting adjustments to the forward guidance that seem to point to back-to-back moves, leaving pauses behind. However, voting details were more surprising. Particularly, that Irene Espinosa supported the cut, but Jonathan Heath was against. Thus, we believe that the most relevant issues –besides the conditions that will dictate the next moves, including their most likely magnitude– will include the reasons behind the decisions made by both Deputy Governors. Specifically, Heath we still appreciated a hawkish tone by Heath in our podcast [Norte Económico](#) (available only in Spanish), highlighting his concerns about services inflation as he noted that “...I think you have to keep the monetary stance [tight] for longer, until we see that the persistence of services prices is broken...”.

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Raquel Vázquez Godínez
Assistant
raquel.vazquez@banorte.com
(55) 1670 - 2967



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



Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com
(55) 5268 - 1694

Market Strategy



Santiago Leal Singer
Director of Market Strategy
santiago.leal@banorte.com
(55) 1670 - 1751



Carlos Hernández García
Senior Strategist, Equity
carlos.hernandez.garcia@banorte.com
(55) 1670 - 2250



Marcos Saúl García Hernandez
Analyst, Fixed Income, FX and Commodities
marcos.garcia.hernandez@banorte.com
(55) 1670 - 2296



Ana Gabriela Martínez Mosqueda
Strategist, Equity
ana.martinez.mosqueda@banorte.com
(55) 5261 - 4882

Quantitative Analysis



Alejandro Cervantes Llamas
Executive Director of Quantitative Analysis
alejandro.cervantes@banorte.com
(55) 1670 - 2972



José De Jesús Ramírez Martínez
Senior Analyst, Quantitative Analysis
jose.ramirez.martinez@banorte.com
(55) 1103 - 4000



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



Alejandro Padilla Santana
Chief Economist and Head of
Research
alejandro.padilla@banorte.com
(55) 1103 - 4043



Itzel Martínez Rojas
Analyst
itzel.martinez.rojas@banorte.com
(55) 1670 - 2251



Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com
(55) 1670 - 2957



Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com
(55) 1105 - 1438



Marissa Garza Ostos
Director of Equity Strategy
marissa.garza@banorte.com
(55) 1670 - 1719



Hugo Armando Gómez Solís
Senior Strategist, Equity
hugo.gomez@banorte.com
(55) 1670 - 2247



Gerardo Daniel Valle Trujillo
Senior Analyst, Corporate Debt
gerardo.valle.trujillo@banorte.com
(55) 1670 - 2248



Paula Lozoya Valadez
Analyst, Equity
paula.lozoya.valadez@banorte.com
(55) 1103 - 4000 x 2060



José Luis García Casales
Director of Quantitative Analysis
jose.garcia.casales@banorte.com
(55) 8510 - 4608



Daniel Sebastián Sosa Aguilar
Senior Analyst, Quantitative Analysis
daniel.sosa@banorte.com
(55) 1103 - 4000 x 2124



Lourdes Calvo Fernández
Analyst (Edition)
lourdes.calvo@banorte.com
(55) 1103 - 4000 x 2611



Katia Celina Goya Ostos
Director of Economic Research,
Global
katia.goya@banorte.com
(55) 1670 - 1821



Luis Leopoldo López Salinas
Economist, Global
luis.lopez.salinas@banorte.com
(55) 1103 - 4000 x 2707



Víctor Hugo Cortes Castro
Senior Strategist, Technical
victorh.cortes@banorte.com
(55) 1670 - 1800



Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com
(55) 5268 - 1698



Juan Carlos Mercado Garduño
Strategist, Equity
juan.mercado.garduno@banorte.com
(55) 1103 - 4000 x 1746



Miguel Alejandro Calvo Domínguez
Senior Analyst, Quantitative Analysis
miguel.calvo@banorte.com
(55) 1670 - 2220



Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1670 - 2904