

October inflation – Divergences between core and non-core items prevailed

- **Headline inflation (October): 0.55% m/m; Banorte: 0.55%; consensus: 0.53% (range: 0.47% to 0.72%); previous: 0.05%**
- **Core inflation (October): 0.28% m/m; Banorte: 0.33%; consensus: 0.33% (range: 0.30% to 0.35%); previous: 0.28%**
- **Broadly speaking, results were mixed. Dynamics are marked by different seasonal effects, with the most evident associated with the end of summer discounts on electricity (18.1%). In the rest of energy, adjustments were to the downside, with LP gas (-2.5%) standing out. In agricultural (1.7%), fruits and vegetables rebounded strongly (4.3%) after two months of declines. Moving to the core, seasonal patterns are most evident in services (0.3%), specifically in 'others' (0.4%). In addition, some pressures remained in housing (0.2%). Goods advanced 0.2% –with processed foods leading at 0.4%**
- **With these figures, annual inflation accelerated to 4.76% from 4.58% in September. On the contrary, the core declined further, now at 3.80% (previous: 3.91%), adding 21 months of improvements**
- **We believe that Banxico will continue with its easing cycle despite the rebound in headline inflation and higher volatility in local assets after Trump's victory. We anticipate a 25bps cut in next week's decision**

Inflation of 0.55% m/m in October. Monthly figures are impacted by different seasonal effects, with the most evident associated with the first tranche of summer discounts for electricity. The latter component picked up 18.1%. The rest of energy items were down, including LP gas (-2.5%) and low-grade gasoline (-0.2%). Agricultural items advanced 1.7%, driven by fruits and vegetables (4.3%) –with relevant adjustments in tomatoes, husk tomatoes and papayas. Meat and egg were more limited at -0.2% –with chicken and pork down. Government tariffs were unchanged (0.0%), highlighting declines in taxis and highway tolls. With this, the non-core rose 1.46%. Turning to the core (0.28%), seasonal effects are more noticeable in services (0.3%), specifically in 'others', up 0.4%. Inside, we saw an upward reversion in 'professional' services, also with certain pressures in some tourism categories. On the other hand, housing remained somewhat pressured at 0.2%, although improving at the margin vs. previous months. Goods advanced 0.2%, with processed foods leading at 0.4%. Meanwhile, 'others' were more modest at 0.1% (and in fact, decreasing in the second fortnight).

October 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
Electricity	20.5	18.1
Tomatoes	8.9	15.6
Housing	3.2	0.2
Husk tomatoes	3.0	23.1
Papaya	2.7	26.9
Goods and services with the largest negative contribution		
LP gas	-3.6	-2.5
Lemons	-3.1	-22.1
Bananas	-2.8	-12.2
Oranges	-2.0	-14.6
Chicken	-1.8	-1.0

Source: INEGI



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Rebound in the annual rate for headline inflation, while the core keeps declining. With these results, headline inflation accelerated to 4.76% y/y from 4.58% in September, breaking with two months to the downside. Much of the variation remains dictated by the non-core, which rebounded to 7.68% (previous: 6.50%). The push came from agriculture, mainly fruits and vegetables, again with a double-digit expansion at 15.9% –with September as the only month so far this year with a single-digit advance. As mentioned in our [previous report](#), much of the shock corresponds to crop losses due to various hurricanes this season –with Milton’s impact on Florida’s tomato crops as a particular highlight. With the expectation of even more storms in the remainder of the year, along with the arrival of winter –which will probably be accompanied by *La Niña*–, the outlook remains challenging. In energy –which moderated to 5.1%–, [OPEC+ delayed again the reinstatement of 2.2 million barrels per day until at least the end of November](#), although the term is likely to be extended again. We believe this may provide a floor to hydrocarbon prices, although factors such as the economic slowdown and geopolitical tensions will continue to influence prices. On the other hand, the core moderated to 3.80% (previous: 3.91%), its lowest level since the end 2020. Services added a third month down, standing at 5.0% –with the print for the second fortnight breaking the 5% barrier at 4.9%. In our view, this is very important as some Board members from Banxico have focused on the dynamics in this component as its main concern about the price outlook. It is also that housing seems to have peaked the previous month, moderating this time to 4.0%. Nevertheless, we need more data to corroborate a possible change in trend. Meanwhile, ‘others’ came in below 6% –at 5.9%– for the first time since November 2021. This suggests that pressures in this front are finally easing, although additional progress is necessary to convince the more hawkish members of Banxico’s Board, such as Jonathan Heath. In goods (2.8%), our concern remains whether a pass-through effect stems from exchange rate depreciation to imported goods.

Banxico will continue easing next week. We believe that core inflation will continue to drive the dovish wing of the central bank’s Board, likely sidelining the rebound in the headline print as they argue that it is due to transitory factors. In addition, the expectation of a 25bps cut from the Fed later today will also be an important driver. Nevertheless, we recognize certain risks, mainly from: (1) An uncertain external environment, with Donald Trump’s win leading to higher volatility for local financial assets; and (2) better-than-expected [3Q24 GDP](#) results, pointing to a more resilient economy. Thus, we reaffirm our view of a 25bps cut to the reference rate next week, taking it to 10.25%, with further cuts in subsequent meetings.

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