Inflation 1H-November – Both components improved despite mixed seasonal patterns

- **Headline inflation (1H-November): 0.37% 2w/2w; Banorte: 0.42%; consensus: 0.45% (range: 0.35% to 0.70%); previous: 0.26%**

- **Core inflation (1H-November): 0.04% 2w/2w; Banorte: 0.16%; consensus: 0.17% (range: 0.09% to 0.23%); previous: 0.05%**

- **The period was characterized by the end of the second tranche of summer discounts on electricity (+22.3%). Meanwhile, the increase in LP gas (0.8%) stood out in the rest of the energy items, albeit with low-grade gasoline slightly lower (-0.1%). Agricultural goods were more limited at 0.3%, highlighting a moderation in fruits and vegetables (0.0%). At the core, goods came in at -0.1% –with some of the *El Buen Fin*-related campaigns impacting the category, mainly 'others' (-0.4%). In services (0.2%), housing lost some momentum (0.2%) but 'others' (0.3%) accelerated given increases in certain key items**

- **In bi-weekly terms, annual inflation moderated to 4.56% from 4.83% in the second half of October. However, the core kept consolidating its downward path, now at 3.58% (previous: 3.74%)**

- **Considering Banxico's recent rhetoric and this report, improvements in inflationary conditions will be key to continue driving further cuts in upcoming meetings, expecting the rate at 10.00% in December and at 8.00% by year-end 2025**

Inflation at 0.37% 2w/2w in the 1st half of November. The period was characterized by the end of the second tranche of the summer electricity discounts, resulting in an increase of 22.3%. The rest of the energy items were mixed, with LP gas to the upside (0.8%) but low-grade gasoline lower (-0.1%). In agriculture (0.3%), fruits and vegetables moderated at 0.0% –highlighting setbacks in tomatoes, squashes, and potatoes. Meanwhile, meat and egg had an uptick (0.5%) given increases in chicken. Finally, government tariffs came in at 0.0%. Thus, non-core inflation rose 1.44%. Turning to the core (0.04%), campaigns related to *El Buen Fin* –which this year took place from November 15th to the 18th– had a positive effect on goods (-0.1%), particularly 'others' (-0.4%) –with relevant moves in tennis shoes and televisions–, although with processed foods also limited (0.1%). In services (0.2%), housing had a more modest adjustment at 0.2% –with the worst pressures apparently left behind–, and with 'others' somewhat mixed at 0.3%. Within the latter, changes in tourism (*e.g.* airfares at +7.2%, but with lodging at -4.0%), as well as the 0.3% increase in dining away from home stood out.

1H-November 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
Electricity	29.7	22.3
Onions	4.0	14.9
Papaya	2.2	15.8
Housing	1.9	0.1
Air fares	1.9	7.2
Goods and services with the largest negative contribution		
Tomatoes	-2.7	-3.7
Squashes	-2.1	-14.2
Tennis shoes	-1.4	-2.0
Potatoes	-1.2	-3.5
Lemons	-1.1	-11.5

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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Headline inflation reverts down, with the core extending its trend lower. The former came in at 4.56% from 4.83% y/y in the 2ⁿᵈ half of October. As has been the case recently, moves have been dictated by the non-core, which came in at 7.64% (previous: 8.20%). Volatility has been concentrated on fruits and vegetables (see chart below, left), now with a downward reversal at 18.2% after standing at 19.0% in the previous fortnight. Weather conditions have continued to be key in explaining performance, a situation that will continue in the coming months and with evidence that a more extreme winter could have a negative impact on crops. Meanwhile, energy has continued to moderate, now at 3.7%, although volatility cannot be ruled out given the persistence of geopolitical risks and higher demand if very low temperatures are recorded by the end of the year and in early 2025. On the other hand, further improvements in services were seen at the core (at 3.58% from 3.74%), apparently consolidating below the 5% threshold at 4.9%. It is worth noting that this is explained by several fronts, highlighting: (1) A reduction in pressures in housing; and (2) a moderation in 'others', reaching 5.6% (see chart below, right), although still on the look to possible distortions from *El Buen Fin* and related campaigns. On the latter, goods came in at 2.5%, their lowest level since mid-2015, with reductions in both processed foods (3.6%) and 'others' (1.2%). In this sense, the risks to our year-end estimate of 4.7% appear to be skewing to the downside.
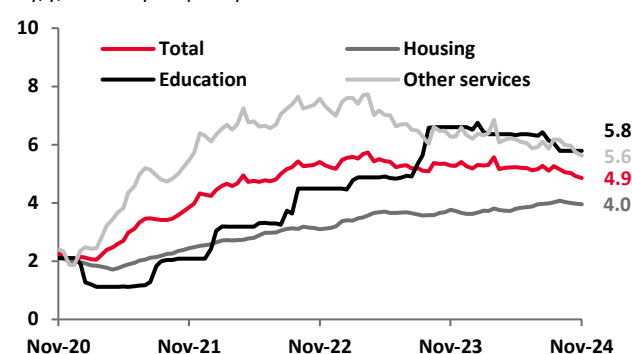
Volatility in fruits and vegetables in CPI
% y/y, bi-weekly frequency
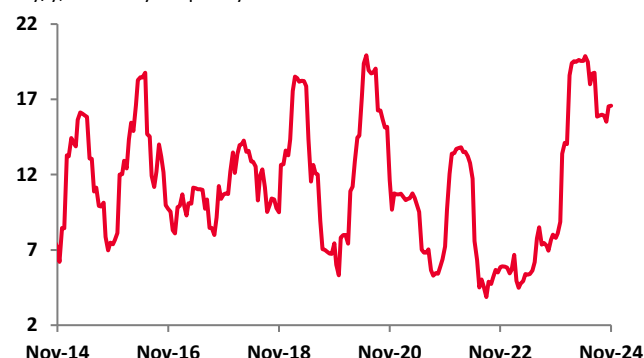
Source: Banorte with data from INEGI

Core inflation: Services
% y/y, bi-weekly frequency

Source: Banorte with data from INEGI

Banxico will continue with cuts in coming meetings. Following last week's decision, it is clear to us that the monetary authority will extend the easing cycle in the following meetings. Further improvements in core inflation will remain key to support the rhetoric –averaging 3.7% so far this quarter, in line with Banxico's estimate–, adding to other factors that have been pointed out by Board members. In this sense, Governor Victoria Rodriguez recently mentioned that *"...we can continue with cuts in the reference rate and in the following meetings we will be assessing the inflationary outlook and making corresponding decisions..."*, even adding that *"...there could even be larger cuts..."*. Echoing this, Omar Mejía stated that *"...we have room to recalibrate our monetary stance..."*. In this sense, we continue to expect -25bps at the December meeting, taking the rate to 10.00% by year-end. After this, we expect an accumulated reduction of 200bps in 2025, with the rate finishing said year at 8.00%.

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Analyst Certification.

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, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Ana Laura Zaragoza Félix, Luis Leopoldo López Salinas, Marcos Saúl García Hernandez, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Jazmin 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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	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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Directory

Research and Strategy

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

Raquel Vázquez Godinez
Assistant
raquel.vazquez@banorte.com
(55) 1670 – 2967

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

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

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

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

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

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

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

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

Market Strategy

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

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

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

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

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

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

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

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

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

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

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

Ana Laura Zaragoza Félix
Strategist, Corporate Debt
ana.zaragoza.felix@banorte.com
(55) 1103 - 4000

Quantitative Analysis

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

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

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

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

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

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

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