

Inflation 1H-April – Core surprises higher, but Banxico will stay the course

- **Headline inflation (1H-April): 0.12% 2w/2w; Banorte: 0.04%; consensus: 0.03% (range: -0.11% to 0.10%); previous: 0.21%**
- **Core inflation (1H-April): 0.34% 2w/2w; Banorte: 0.25%; consensus: 0.24% (range: 0.17% to 0.32%); previous: 0.18%**
- **The period has a positive seasonal bias with the start of summer discounts on electricity tariffs (-12.2%). The rest of energy items were mixed, with low-grade gasoline down (-0.2%), but LP gas higher (0.2%). Agricultural items advanced 0.6%, driven by fruits and vegetables (1.5%), albeit with meat and egg more stable (0.0%). Turning to the core, goods accelerated to 0.5%, highlighting a relevant uptick in 'others' (0.6%). In services (0.2%), the push continued in 'others' (0.3%) due to the holidays, while housing came in at 0.2%**
- **With bi-weekly figures, annual inflation increased to 3.96% from 3.93% in the 2nd half of March. The core accelerated to 3.90% (previous: 3.72%), with the change in the timing of Easter skewing the result**
- **Inflationary conditions, along with a challenging outlook for growth, will continue to drive Banxico's cuts. We expect -50bps in May 15th and a year-end level of 7.75%**

Inflation of 0.12% 2w/2w in the 1st half of April. Each year, the result is strongly skewed by the start of the first tranche of summer discounts in electricity tariffs (-12.2%). On the rest of energy items, results were more mixed, with low-grade gasoline down again (-0.2%), but with LP gas higher by 0.2% after greater stability in recent months. Agricultural items rose 0.6%, with the push concentrated in fruits and vegetables at 1.5% –highlighting advances in tomatoes and avocados. Meat and egg came in at 0.0% –with beef up again, but with eggs and pork to the downside. The core expanded by 0.34%, higher at the margin. Goods accelerated to 0.5%, with 'others' (0.6%) facing a more adverse seasonality, but also with increases in items such as body lotion and autos. Processed foods were relatively contained at 0.3%. In services (0.2%), 'others' advanced 0.3%, biased by tourism items due to the Easter holiday (e.g. air fares at 4.3%; packages at 4.9%). In addition, certain pressures remained in items such as 'dining away from home' (0.3%). Finally, housing expanded 0.2%.

1H-April 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
Tomatoes	5.2	12.1
Housing	2.2	0.2
Body lotion	2.0	6.2
Beef	2.0	1.1
Dining away from home	1.7	0.3
Goods and services with the largest negative contribution		
Electricity	-20.0	-12.2
Cinema	-1.4	-9.9
Eggs	-1.2	-1.2
Onions	-1.1	-6.3
Pork	-1.1	-1.2

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



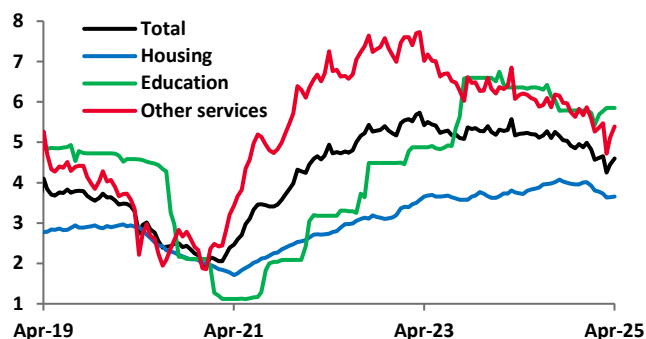
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Slight acceleration in the annual comparison, with the core even higher at the margin. The former came in at 3.96% from 3.93% y/y in the 2nd half of March. The core accelerated to 3.90% (previous: 3.72%). This is partly due to base effect distortions due to the Easter holiday, occurring in mid-April this year vs. late March in 2024. Thus, the increase is most noticeable in services (by 4.6%), with tourism items within ‘others’ driving much of the adjustment (see chart below, right). In addition, we keep watching closely the adjustments in dining away from home, which continues advancing at an elevated pace. Goods also increased, reaching 3.3%. While processed foods have adjusted at a faster rate, ‘others’ have been more stable, with some products likely impacted by increased economic slack. On the other hand, the non-core moderated to 3.95% (previous: 4.44%). Inside, agricultural products were lower at 4.4%, with the challenging base effect in fruits and vegetables fading away, albeit with meat and egg still higher given pressures in beef, in addition to distortions in the prices of other goods. At the margin, weather conditions were mixed, with deteriorating drought levels –especially in the northwestern part of the country (see chart below, right)–, but improving with the end of the *La Niña* phenomenon. Energy was stable at 2.6%. As in previous fortnights, we highlight the move lower in LP gas and low-grade gasoline, where government actions will probably be helped by the decline in international benchmark prices on expectations of lower global growth and higher OPEC+ supply. In this sense, we maintain our call for year-end inflation at 3.8%, with the core also at that level.

Core inflation: Service

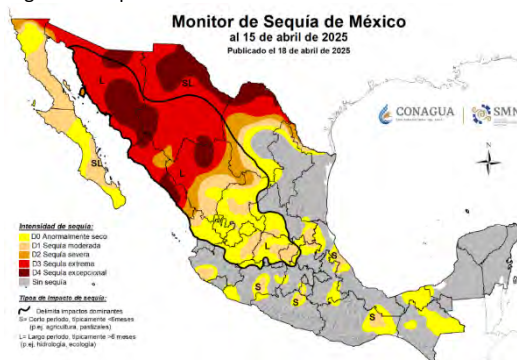
% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

Drought monitor*

Figures for April 15th



*Available only in Spanish. Source: CONAGUA

Banxico will keep cutting in the near term. Despite the pressures at the margin on inflation seen in today's report, price dynamics going forward, along with greater slack in the Mexican economy, will allow Banxico to continue with the rate cutting cycle. Considering that concerns on this last front dominated much of the discussion in the [latest minutes](#), we believe the scenario for a 50bps cut in the May 15th decision is clear, with additional cuts in the remainder of the year to bring the rate by the end of 2024 to 7.75%.

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



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

Quantitative Analysis



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



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



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



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



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



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



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



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



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



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