October 24, 2023

Inflation 1H-October – Downside surprise on the back of non-core prices

- **Headline inflation (1H-Oct): 0.24% 2w/2w; Banorte: 0.32%; consensus: 0.33% (range: 0.26% to 0.54%); previous: 0.13%**
- **Core inflation (1H-Oct): 0.24% 2w/2w; Banorte: 0.19%; consensus: 0.19% (range: 0.16% to 0.24%); previous: 0.11%**
- **As usual for the period, figures were dominated by the end of the summer discounts on electricity tariffs, expanding 19.2%. However, the dynamics in the remainder of the non-core were more positive, with declines in other energy items –highlighting low grade fuel (-0.2%)– and in agricultural goods (-1.7%). At the core, goods (0.2%) accelerated at the margin, driven by processed foods (0.3%). Services (0.3%) were driven by the rebound in ‘professional services’ (3.6%), along with tourism items**
- **In bi-weekly terms, annual inflation dropped to 4.27% from 4.47%. We believe this will be the lowest point in the year. Core inflation fell to 5.54% from 5.74%, still helped by a positive base effect**
- **Considering a more challenging outlook across several fronts, we maintain our forecast of an upward trajectory in the remainder of the year, closing at 5.0%. Given this, we expect the central bank to remain cautious, maintaining high rates for longer**

Prices up 0.24% 2w/2w in the 1st half of October. This period is mainly impacted by the end of summer discounts on electricity tariffs –in its first tranche–, driving electricity up 19.2%. However, other energy items had a more favorable performance, noting a 0.2% drop in low-grade gasoline –reflecting decreases in international references– and with LP gas more stable (0.0%). Agricultural items (-1.7%) showed relevant declines, with fruits and vegetables down 2.3% –highlighting tomatoes, onions, and oranges– and meat and egg contracting 1.2% –with chicken and eggs dragging down the category. In this sense, both items fell for a second consecutive fortnight. At the core (0.24%), goods rose 0.2%, in turn driven by processed foods at 0.3% –highlighting pressures in sugar and beer. ‘Other goods’ were more contained at 0.1%. The seasonality in services (0.3%) is unfavorable in ‘others’ (0.4%), with a 3.6% rebound in ‘professional services’ after discounts in the previous month. On top of this, there were advances in airfares (11.0%) and tourism services (5.8%). ‘Dining away from home’ increased 0.2%. Finally, housing climbed 0.2%, with a slight acceleration relative to the previous fortnight.

1H-October 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	27.1	19.2
Sugar	2.6	5.6
Air fares	2.4	11.0
Tourism services	1.8	5.8
Housing	1.6	0.2
Goods and services with the largest negative contribution		
Tomatoes	-6.9	-9.7
Chicken	-5.6	-3.3
Onions	-2.1	-7.3
Eggs	-1.5	-1.7
Oranges	-1.5	-6.8

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

Winners of the 2023 award for best Mexico economic forecasters, granted by *Focus Economics*

The annual rate moderated again, although we believe it has already reached its lowest point of the year. Headline inflation fell to 4.27% from 4.47% in the 2nd half of September –which had already been above the figure seen in the first half of that month. Goring forward, more challenging outlook in terms of both base effects and other circumstantial conditions awaits us. Regarding the latter, we believe that risks are concentrated at the non-core –which moderated in the period to 0.48% from 0.71%. While agricultural goods have shown some respite in recent prints, we believe that the outlook remains highly complex. According to the *National Water Commission*, some form of drought or abnormally dry conditions affect 81.5% of the country's municipalities through October 15, improving at the margin vs. the second half of September which stood at 88.9%. However, according to the US National Oceanic and Atmospheric Agency (NOAA) Climate Prediction Center models, the chance of a 'historically strong' *El Niño* event stands at 30% –which we believe is a significant increase considering this scenario was not included in their previous report. In energy, although the price of oil has moderated relative to the previous month, we believe the possibility of additional shocks in a more complex geopolitical context –highlighting the conflict in the Gaza Strip– is higher. In the core –which kept moderating in the fortnight, standing at 5.54% from 5.74%–, we believe that services are still under greater risk –a position we share with the central bank. This category is only 40bps below its peak in this cycle (of 5.73% in the 2H-March 2023), unlike goods, where declines have been more substantial. However, there are still risks for processed foods and other goods, with further declines possibly hindered by increases in some input prices and the slight depreciation of the MXN. Given this, we maintain our call of an upward trajectory for headline inflation in the remainder of the year –closing at 5.0% y/y–, and a limited moderation at the non-core component to 5.1%.

Considering risks for inflation, we believe Banxico will maintain a cautious stance in coming months. The minutes of the last meeting maintained a hawkish tone, with relevant comments on the balance of risks for inflation that in our view suggest heightened concerns. This, on top of other adverse factors that we have identified for prices in 2024, including that higher fiscal spending may have on demand side pressures. Given this scenario, we reiterate our estimate that the rate will remain unchanged for the rest of the year at 11.25%, with the first 25bps cut materializing until the May 9th meeting, standing at 9.25% by the end of 2024.

Analyst Certification.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Paula Lozoya Valadez, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cuautencos Mora and Andrea Muñoz Sánchez, 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.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	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.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

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) 1103 - 4000

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

Market Strategy

Manuel Jiménez Zaldívar
Director of Market Strategy
manuel.jimenez@banorte.com
(55) 5268 - 1671

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

José Itzamna Espitia Hernández
Senior Strategist, Equity
jose.espitia@banorte.com
(55) 1670 - 2249

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

Hugo Armando Gómez Solís
Senior Analyst, Corporate Debt
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

Isaías Rodríguez Sobrino
Analyst, Fixed Income, FX and Commodities
isaias.rodriguez.sobrino@banorte.com
(55) 1670 - 2144

Gerardo Daniel Valle Trujillo
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

Paula Lozoya Valadez
Analyst, Equity
paula.lozoya.valadez@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

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

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) 1103 - 4000

Andrea Muñoz Sánchez
Analyst, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1103 - 4000

BANORTE