December 7, 2023

November inflation – Marked seasonal effects along with some positive signs

- **Headline inflation (November): 0.64% m/m; Banorte: 0.66%; consensus: 0.69% (range: 0.66% to 0.80%); previous: 0.38%**
- **Core inflation (November): 0.26% m/m; Banorte: 0.30%; consensus: 0.29% (range: 0.26% to 0.32%); previous: 0.39%**
- **The period is characterized by strong seasonal patterns, differentiated across the month's fortnights. In the 1st half, we highlight the end of summer discounts on electricity (+22.3%); in the 2nd one, discounts related to *El Buen Fin* and other initiatives that kicked in, mostly seen in 'other goods' (-0.3%). Also important, agricultural items were more volatile, albeit with the contribution ultimately being to the upside as they increased 0.8%**
- **With this, annual inflation accelerated to 4.32% from 4.26%. The core kept moderating, coming in at 5.30% (previous: 5.50%)**
- **Considering recent dynamics, we adjust our year-end forecast for the headline to 4.4% (previous: 5.0%), albeit with the core slightly higher at 5.2% (previous: 5.1%)**
- **This will help Banxico to start easing in 1Q24, albeit risks on the horizon will force a gradual start to the cycle**

Inflation of 0.64% m/m in November. Monthly dynamics are strongly skewed by seasonal patterns, both to the upside and downside. Within the former, the most notorious is in the first fortnight and corresponds to the end of the second tranche of summer discounts on electricity, up 22.3%. Regarding the rest of energy goods, performance was more favorable, with declines both in LP gas (-1.2%) as well as in low-grade gasoline (-0.1%). Closing with the non-core, agricultural items were more volatile, with important increases at the beginning of month, but with a moderation by the end. Ultimately, the category posted an 0.8% increase, with meat and egg stronger (1.5%), but with fruits and vegetables slightly negative (-0.1%). Turning to the core (0.26%), the seasonal effect comes from discounts related to *El Buen Fin* and other initiatives in the month, impacting several categories. The most notorious is in 'other goods', which fell 0.3% –noting declines in items such as TVs and computers. Within 'other services' (-0.6%), some tourism categories were also benefited, noting tourism packages (-1.2%), although with airfares higher (8.1%). Nevertheless, pressures persisted in 'dining away from home' (0.6%). Meanwhile, processed foods remained relatively high at 0.5%, driven by higher sugar and soda prices. Closing with services, housing was relatively stable at 0.3%.

November inflation: Goods and services with the largest contributions
% m/m; monthly incidence in basis points

Goods and services with the largest positive contribution	Incidence	% m/m
Electricity	37.3	22.3
Egg	8.8	9.7
Husk tomatoes	3.4	24.9
Dining away from home	3.2	0.6
Housing	2.9	0.3
Goods and services with the largest negative contribution		
Lemons	-5.2	-27.0
LP gas	-1.9	-1.2
Avocadoes	-1.5	-6.4
Onions	-1.4	-5.4
Tomatoes	-1.3	-2.1

Source: INEGI


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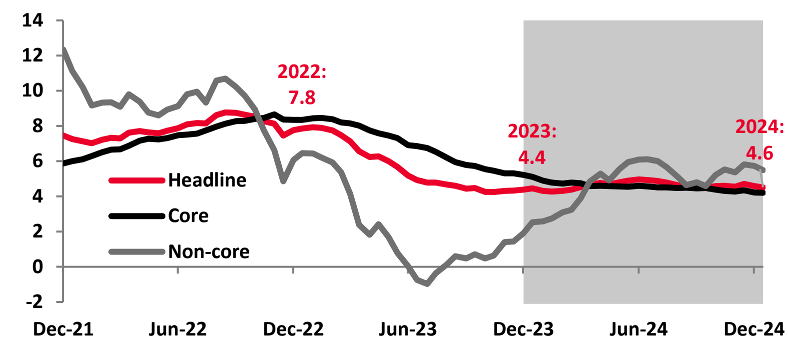
The annual comparison ticks up on a more challenging base effect. With these results, headline inflation increased to 4.32% y/y from 4.26% in the previous month, with the base effect, particularly at the non-core, explaining this adjustment. Specifically, the latter stood at 1.43% from 0.56% despite its sequential moderation. On the other hand, the core extended its decline, reaching 5.30% (previous: 5.50%).

Recognizing recent dynamics, we revise our year-end forecasts. We now anticipate a level of 4.4% for the headline in December 2023 (previous: 5.0%), with better-than-expected dynamics in agricultural and energy items since we made the estimate. In the former, surprises began in the second half of September. We expected greater pressures given that drought conditions began to show a significant deterioration since June. However, many of the adverse effects of this have likely been mitigated by a combination of factors, including: (1) A significant drop in fertilizer prices –which impacted costs in 2022; and (2) higher imports of several of these products, coupled with a strong Mexican peso. In energy, we also anticipated higher prices due to: (1) A more severe winter on the back of the *El Niño* phenomenon; (2) a greater impact of OPEC+ actions; and (3) additional distortions given heightened geopolitical tensions. However, a more challenging outlook for global activity, fueled by less encouraging data in several regions such as the Eurozone and Asia, along with signs of moderation in the US amid some upside surprises in crude oil inventories, have offset for said factors. In contrast, we revise the core marginally higher to 5.2% (previous: 5.1%), mainly explained by the persistence of services at relatively high levels (above 5% since mid-2022). However, we also highlight a slight acceleration in sequential increases in processed foods since early October. Despite these adjustments, we maintain our inflation forecast at the end of 2024 at 4.6% for headline and 4.1% for the core. As elaborated in other publications, some of the points that we believe will drive prices higher include: (1) Demand-side pressures –with a significantly positive output gap; (2) an increase in labor costs, driven in part by the minimum wage hike; and (3) a more volatile behavior of the Mexican peso.

Inflation forecasts
% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

Positive implications for Banxico given lower inflation, although not enough for a rapid easing cycle. We believe that the recent moderation in prices has been one of the key points for the central bank to become less restrictive, signaling the possible start of the easing cycle as early as 1Q24. Given this, we expect a first cut of 25bps in March. However, considering that risks persist in the outlook, we believe a pause will materialize in May, with easing resuming in June and extending for the rest of the year, taking the rate to 9.25% by YE24.

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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.

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