

December inflation – Strong pressures in fruits and vegetables, but with the core more modest

- **Headline inflation (December): 0.71% m/m; Banorte: 0.61%; consensus: 0.62% (range: 0.40% to 0.69%); previous: 0.64%**
- **Core inflation (December): 0.44% m/m; Banorte: 0.51%; consensus: 0.49% (range: 0.47% to 0.59%); previous: 0.26%**
- **We highlight the strong increase in fruits and vegetables (7.1%) after declining in the two previous months. On the contrary, both meat and egg (0.0%) and energy (0.0%) were unchanged –although with mixed dynamics inside the latter. At the core, ‘other goods’ (0.2%) were impacted by the reversal of November discounts. Services grew 0.6%, with a seasonal uptick in tourism-related categories along usual pressures in other items**
- **With this, inflation in full year 2023 stood at 4.66%, accelerating from 4.32% in November. The core moderated, ending the year at 5.09% (previous: 5.30%)**
- **We believe short-term dynamics will remain challenging, with hurdles for some goods within the non-core. As such, we believe Banxico will wait until March to begin cutting rates**

Inflation at 0.71% m/m in December. The result was pressured higher by a relevant increase in fruits and vegetables –which prevailed throughout the month–, up 7.1% after a 3.2% accumulated decline in the two previous months. The largest contributors were tomatoes, onions, and nopales, just to name a few. Sticking with the non-core, meat and egg were unchanged (0.0%), helped by the latter. Energy items were also contained (0.0%), noting the decline in low-grade gasoline (-0.3%), albeit with LP gas (0.2%), and electricity (0.7%) stronger. At the margin, government tariffs rose 0.2% after two months of modest changes. Turning to the core (0.44%), the print was better-than-expected. Seasonality is relatively adverse, with ‘other goods’ up 0.2% due to the reversal of several discount campaigns held in November, although more modest than what we expected. ‘Other services’ (1.0%) are skewed to the upside on the back of categories such as airfares (15.8%) and tourism packages (6.1%) –even after adjusting lower in the 2nd fortnight. Within the latter, pressures persist in items such as ‘dining away from home’ (0.8%). On a more positive note, processed foods moderated at the margin to 0.4% –despite Femsa’s announcement of upward adjustments in its product offering during the month– after accelerating in October and November. Lastly, in the remainder of services, housing was relatively low at 0.2%.

December 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
Tomatoes	17.8	29.6
Onions	13.7	55.3
Air fares	4.3	15.8
Dining away from home	4.2	0.8
Nopales (cactus)	3.2	33.8
Goods and services with the largest negative contribution		
Serrano chilies	-1.9	-16.5
Carrots	-1.8	-15.1
Low-grade gasoline	-1.5	-0.3
Eggs	-1.0	-1.0
Lemons	-0.9	-6.6

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*



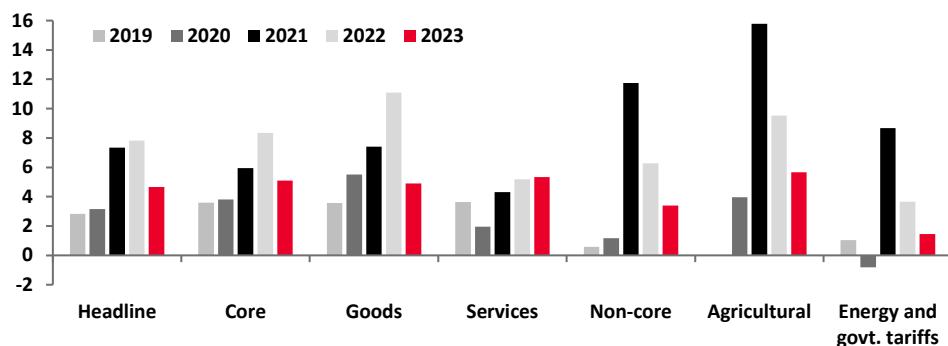
#1 OVERALL FORECASTER - MEXICO

Document for distribution among the general public

Annual inflation ends 2023 at 4.66%... This represents an acceleration relative to the 4.32% seen in the previous month. However, this is the best result for a year-end since 2020, leaving behind some major shocks such as the pandemic and supply chain disruptions, the strong rebound in food prices, and the war in Ukraine, to name a few. The core remains high at 5.09% (previous: 5.30%), still pressured by services –especially ‘others’– despite a relevant moderation in goods throughout the year.

Annual inflation by components

% y/y, year-end print



Source: Banorte with data from INEGI

...with relevant challenges in the short-term. One of the most important drivers in the last couple of fortnights has been the strong increase in fruits and vegetables. This is not entirely surprising, considering its high volatility and harsh droughts throughout the second half of 2023. Nevertheless, costs of these goods were contained in October and November, helping headline CPI significantly. However, considering the prevailing climatological conditions at the moment, characterized by a relatively difficult winter –coupled with an adverse seasonality for some goods with an important weight, such as avocados–, pressures could continue. We must add other factors that could skew results upwards in upcoming fortnights, such as: (1) The usual adjustments that materialize at the beginning of the year, including government tariffs and taxes (e.g. excise taxes on fuel, soft drinks); (2) potential pressures stemming from [the 20% increase to the minimum wage](#), starting on January 1st; and (3) the possible pass-through of higher agricultural products’ prices to items such as ‘dining away from home’ and ‘processed foods’. We are also cautious on the recent increase in freight costs due to geopolitical issues, which may affect disinflation in goods. Overall, it is our take that the first fortnights of the year will be key to assess the underlying path of some important items, especially those within ‘other services’ due to its sensitivity to domestic demand conditions.

Banxico will wait until March to start cutting rates. The central bank’s latest communications suggest that the time to discuss the first interest rate cut has arrived. However, we believe that conditions still warrant caution, which would translate into: (1) A first rate cut materializing in the second meeting of the year –on March 21st– by 25bps; and (2) a gradual pace in the reduction of monetary tightening, at least at the start of the easing cycle. In this sense, we expect adjustments to accelerate, both in pace and magnitude, until well into the second half of the year, taking the rate to 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 Thalia 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 Cautencos 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.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.



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



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



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



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



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



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



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



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) 1103 - 4000



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



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



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



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



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



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



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 Internacional
luis.lopez.salinas@banorte.com
(55) 1103 - 4000 x 2707



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



Hugo Armando Gómez Solís
Senior Analyst, Corporate Debt
hugoa.gomez@banorte.com
(55) 1670 - 2247



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



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



Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1103 - 4000