

Mexico's National Consumer Price Index (CPI), September 2024

Next release on inflation as of the first half of October: October 24

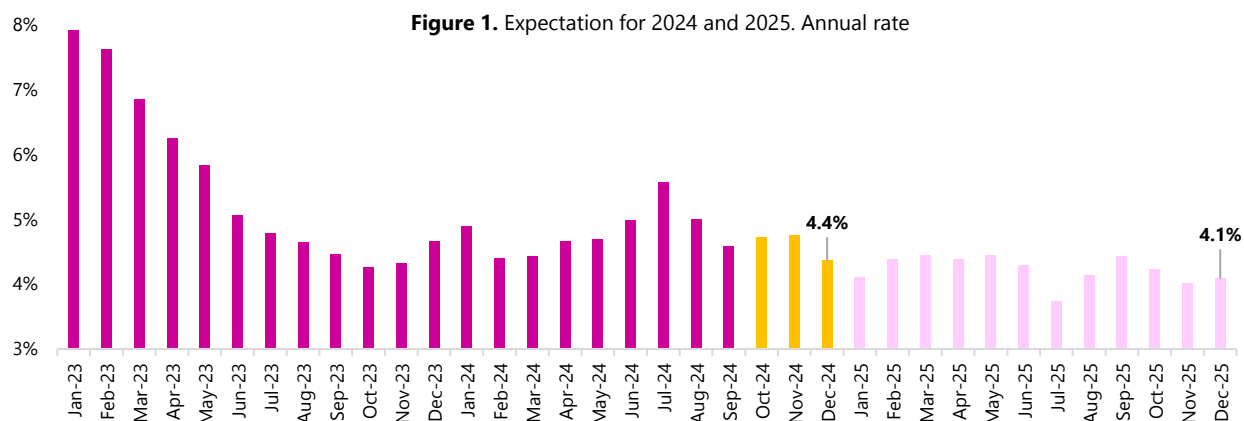
1. Summary

In Mexico, inflationary pressures continued to ease. In September, consumer inflation registered an annual rate of 4.58%, the lowest since March of this year. Non-core inflation decelerated for the second consecutive month, showing an annual inflation rate of 6.50%, the lowest since May of this year. Meanwhile, core inflation stood at 3.91% annual rate, the lowest since February 2021, linking twenty consecutive months with deceleration.

It should be noted that, in September, annual inflation of most subcomponents showed a deceleration (Table 1). However, the subcomponents of housing, other services and government-authorized tariffs accelerated (Table 1). It is important to remember that, in particular, housing services and authorized fees have been facing additional inflationary pressures in the last fortnights and months, in some cases reaching levels not seen since 2008, the year of the Financial Crisis.

Finally, given the recent behavior of headline and core inflation, and the deceleration observed in most subcomponents, **Grupo Financiero BASE revises downward its year-end inflation projection from 4.6% to 4.4%** (Figure 1), and for 2025, from 4.2% to 4.1% (Figure 1). However, the non-core component is expected to face upward pressures in the next two months (October and November), due to the programmed adjustment in electricity tariffs, within the energy subcomponent.

In addition, with lower inflation, it is expected that the Bank of Mexico will continue to cut its interest rate to close 2024 at 10% and in 2025 at 8.5%.



2. September annual inflation

In Mexico, inflationary pressures continued to ease. In September, consumer inflation registered an annual rate of 4.58%, below market expectations (4.61%), after reaching 4.99% in August. This brings Mexico's inflation rate to two consecutive months of deceleration and its lowest annual rate since March of this year (Figure 2 and Table 1).

In September, **non-core inflation** decelerated for the second consecutive month, showing annual inflation of 6.50%, the lowest since May (Figure 2). It should be recalled that this component includes products with the most volatile prices and government-authorized tariffs. On the other hand, **core inflation**, which determines the trajectory of general inflation in the medium and long term, stood at 3.91% annualized, linking twenty consecutive months of deceleration (Figure 2). Core inflation was also below market expectations (3.94%) and was at its lowest level since February 2021.

Within non-core inflation (Figure 3 and 4):

Agricultural products showed annual inflation of 6.76% (Figure 3), the lowest since March of this year. This was explained by an annual inflation in **fruits and vegetables** of 7.65% and in **livestock** products of 5.14% (Figure 3), the lowest since November 2023 and June 2024, respectively. The deceleration of fruits and vegetables has become relevant because, from January to July of this year, inflation of this component averaged 18.46% annually.

On the other hand, **energy and government-authorized tariffs** showed an annual inflation of 6.01% (Figure 4), with annual inflation in **energy** of 6.92%, the lowest since June of this year, and in **authorized tariffs** of 3.93% (Figure 4), the highest inflation since January of this year. It should be recalled that the energy sector had experienced 12 months of acceleration from August of last year to July of this year, and with September's result, they now account for two consecutive months of deceleration, helping to ease pressures in the non-core component. On the other hand, authorized rates have accelerated for four consecutive months.

Figure 2. General, core and non-core inflation, annual rate

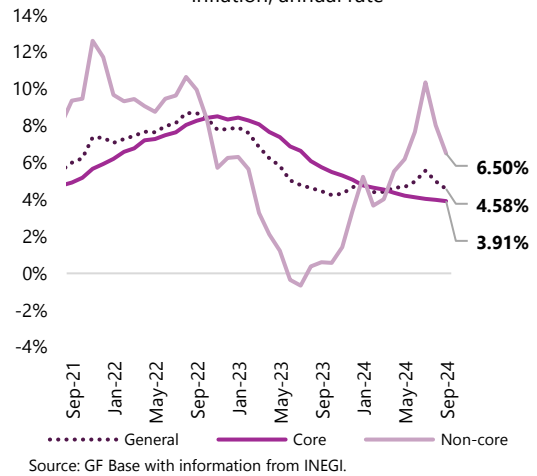


Figure 3. Inflation of agricultural, fruit and vegetable, and livestock products, annual rate

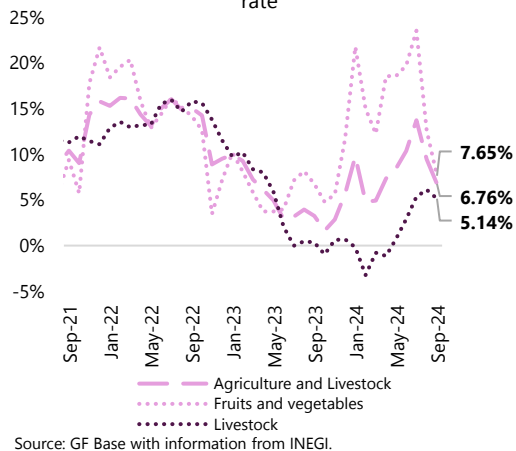
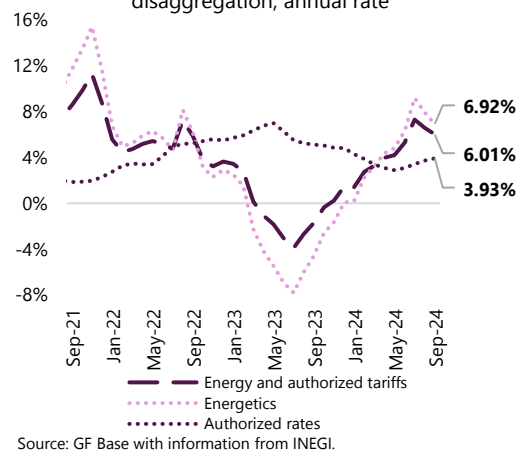


Figure 4. Inflation of energy and government-authorized tariffs and disaggregation, annual rate

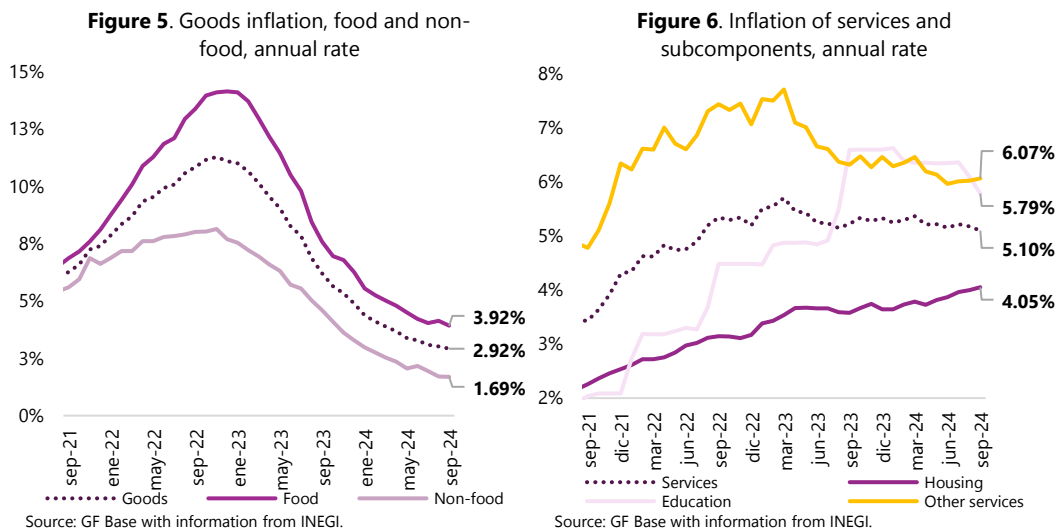


Within core inflation (Figures 5 and 6):

Goods registered an annual inflation of 2.92% (Figure 5), the lowest rate since January 2016, thus linking 22 consecutive months decelerating. This was due to decelerations in both types of goods. On the one hand, **food**

goods showed an annual inflation of 3.92%, after August's 4.13%, which places it at its lowest level since August 2016 (Figure 5). On the other hand, **non-food goods** registered an annual inflation of 1.69%, following 1.71% in August, being the lowest inflation since January 2015 (Figure 5).

Annual inflation of the services subcomponent also decelerated. In September, services registered annual inflation of 5.10% (Figure 6), the lowest since July 2022. Within services, only education services decelerated to 5.79%, the lowest annual rate since August 2023 (Figure 6). Meanwhile, housing and other services accelerated to 4.05% and 6.07% annually, the highest rates since December 2008 and May of this year, respectively.



3. September monthly inflation

At a monthly rate, Mexico's inflation stood at 0.05% (Figure 7 and Table 1), being the lowest inflation on record, considering an equal month (Figure 8). Downward pressures continue to be observed mainly in the non-core component. Internally, non-core inflation was -0.72% (Figure 7), the largest drop on record for a month on a like month since 1989 (-0.87%), while, core inflation was 0.28% (Figure 7), the lowest inflation on record for a month on a like month since 2012 (0.18%).

Within monthly non-core inflation (which led the slowdown in headline inflation in September), the following was observed:

1. Agricultural products (-1.65%), showed the largest drop on record for the same month since 1989.
 - a. Fruits and vegetables (-3.43%), the largest drop on record for the same month since 1991.
 - b. Livestock (-0.26%), the largest drop on record for an equal month since 2019.
2. Government-authorized energy and tariffs (0.03%), the lowest monthly rate for the same month since the drop recorded in 2022.
 - a. Energy (-0.19%), the largest drop for the same month since 2022.
 - b. Rates (0.42%), the highest monthly rate for the same month since 2008.

On the other hand, within core inflation, it was observed:

1. Merchandise (0.21%), which registered the lowest monthly rate for the same month since 2003.
 - a. Food (0.06%), the lowest inflation for the same month since 1988.
 - b. Non-food (0.33%), the lowest rate for an equal month since 2012.
2. Services (0.35%), the lowest inflation for a single month since 2022.
 - a. Housing (0.28%), the highest rate for the same month since 2003.
 - b. Education (2.85%), the lowest inflation for the same month since 2022.
 - c. Other services (0.08%), the highest rate since 2022 considering an equal month.

Figure 7. General, core and non-core inflation, monthly rate

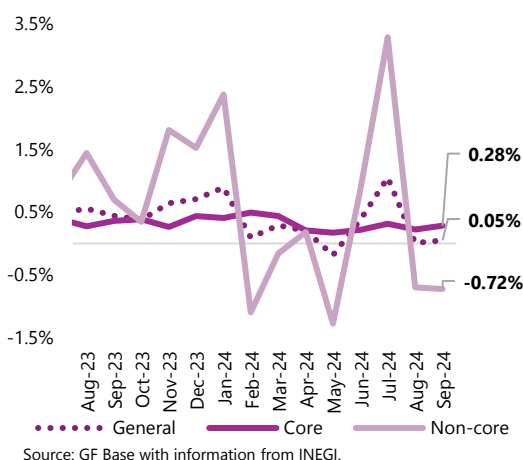


Figure 8. General inflation, September of each year, monthly rate



Table 1. September inflation, core and non-core component.

September 2024	Monthly inflation	Minor for one month equal since:	Annual inflation	Minor since:	Consecutive months of deceleration (annual)
General inflation	0.05%	-	4.58%	March 2024	2
Core inflation	0.28%	2012	3.91%	February 2021	20
Goods	0.21%	2003	2.92%	January 2016	22
Food goods	0.06%	1988	3.92%	August 2016	1
Non-food goods	0.33%	2012	1.69%	January 2015	3
Services	0.35%	2022	5.10%	July 2022	2
Housing	0.28%	2023	4.05%	August 2024	0
Education	2.85%	2022	5.79%	August 2023	2
Other services	0.08%	2023	6.07%	August 2024	0
Non-core inflation	-0.72%	1989	6.50%	May 2024	2
Agricultural	-1.65%	1989	6.76%	March 2024	2
Fruits and vegetables	-3.43%	1991	7.65%	November 2023	2
Livestock	-0.26%	2019	5.14%	June 2024	1
Energy and authorized tariffs	0.03%	2022	6.01%	June 2024	2
Energy	-0.19%	2022	6.92%	June 2024	2
Authorized tariffs	0.42%	2023	3.93%	August 2024	0

Source: Grupo Financiero BASE with information from INEGI.

Generics, monthly rate

Fruits and vegetables with the largest price increases during September were (Table 2): 1) lemon (+22.23%), 2) melon (+15.61%) and 3) grapes (+15.46%). As of September, lemon accumulates two consecutive months as the generic of the non-core component with the highest monthly increase in prices. In August, there was a partial suspension of lemon commercialization in Michoacan, the country's main producing state, in which 15 lemon

factories in the region stopped their operations due to low prices and insecurity. In September, upward pressures on lemons continued and may extend into October.

The livestock products with the highest price increases were: 1) eggs (+1.32%) and 2) beef (+0.30%). As for energy products (Table 2), most of the generics fell, except for domestic LP gas, which increased 0.94% monthly. It is worth noting that all government-authorized tariffs showed price increases during September, with the largest increases (Table 2) being: 1) taxi (+1.42%), 2) highway tolls (+1.12%) and 3) water supply fees (+0.24%).

The goods with the highest price increases during September were (Table 3): 1) blenders (+2.32%), electric irons (+2.04%) and 3) women's trousers (+1.99%). While the services with the largest price increases were (Table 3): 1) preschool (+6.09%), 2) secondary school (+5.69%) and 3) primary school (+5.66%).

Table 2. Generics with the highest and lowest monthly variation in September, non-core component.

Sept 2024	Fruits and vegetables	Monthly (%)	Livestock	Monthly (%)	Energy	Monthly (%)	Government authorized tariffs	Monthly (%)
10 generics with the highest increase	Lemon	22.23%	Eggs	1.32%	LP domestic gas	0.94%	Taxi	1.42%
	Melon	15.61%	Beef	0.30%			Highway tolls	1.12%
	Grapes	15.46%					Water supply fees	0.24%
	Papaya	15.28%					Shared taxis	0.15%
	Carrot	8.00%					Parking lots	0.12%
	Serrano chili	7.67%					Car permits	0.08%
	Cucumber	7.44%					Subway or electric transportation	0.05%
	Other fruits	6.40%					Issuance of public sector documents	0.02%
	Watermelon	5.55%					Urban bus	0.02%
	Peach	4.35%						
10 generics with the largest decrease	Orange	-20.90%	Chicken	-1.53%	Natural domestic gas	-0.99%		
	Chayote	-20.90%	Pork	-0.81%	Electricity	-0.77%		
	Tomato	-17.54%	Pork lard	-0.20%	Premium gasoline	-0.39%		
	Zucchini	-16.06%	Beef offal	-0.16%	Regular gasoline	-0.34%		
	Bananas	-10.95%	Shrimp	-0.07%				
	Coriander, epazote, and parsley	-9.39%	Fish	-0.02%				
	Avocado	-7.73%						
	Guava	-6.80%						
	Poblano chili	-6.04%						
	Lettuce and cabbage	-5.83%						

Source: Grupo Financiero BASE with information from INEGI.

Table 3. Generics with the highest and lowest monthly variation in September, core component.

Sept 2024	Goods	Monthly (%)	Services	Monthly (%)
10 generics with the highest increase	Blenders	2.32%	Preschool	6.09%
	Electric irons	2.04%	Secondary school	5.69%
	Women's trousers	1.99%	Primary school	5.66%
	Dining room sets	1.82%	Daycare and childcare centers	4.52%
	Fabric softeners and cleaners	1.60%	School transport	2.98%
	Evaporated and condensed milk	1.41%	Additional education	2.06%
	Yellow cheese	1.38%	High school	2.00%
	Consoles, discs, and video game downloads	1.35%	Technical education	1.76%
	Sausages	1.35%	Air transportation	1.57%
	Men's trousers	1.26%	University	1.23%
10 generics with the largest decrease	Sugar	-3.93%	Professional services	-14.84%
	Plants and flowers	-3.23%	Cinema	-1.42%
	Rum	-2.84%	Package tour services	-0.78%
	Crockery, glassware, and cutlery	-2.29%	Pay television service	-0.51%
	Sheets	-2.23%	Hotels	-0.51%
	Stoves	-1.60%	Sports club	-0.27%
	Other toiletries	-1.51%	Movie and music streaming	-0.13%
	Toilet soap	-1.44%	Internet, phone, and pay TV packages	-0.10%
	Powdered milk	-1.43%	Internet service	-0.06%
	Televisions	-1.35%	Car insurance	-0.04%

Source: Grupo Financiero BASE with information from INEGI.

4. Inflation as of the second half of September

Mexico's inflation stood at -0.02% biweekly in the second half of September, the largest biweekly drop (for the same fortnight) since 2020 (Figure 9). This was entirely explained by the non-core component, which registered a biweekly inflation of -0.23%, the largest biweekly drop (for the same fortnight) also since 2020. The core component showed a biweekly inflation of 0.05% which, despite having a slight positive impact on headline inflation, is the lowest inflation (for the same fortnight) since 2017.

At annual rate, inflation decelerated for the fifth consecutive fortnight to 4.50% (Figure 10), the lowest since the second fortnight of March of this year (4.37%). Internally, non-core inflation was 6.28% annual rate (Figure 10), the lowest since the second fortnight of May of this year, and core inflation was 3.88% annual rate (Figure 10), the lowest since the first fortnight of February 2021.

5. Basic food basket

The **National Consumer Price Index (NCPI) basket** is the set of a wide variety of goods and services consumed by Mexican households, both urban and rural. As of August 22, 2024, a new basket was constructed for the CPI with 292 groups of goods and services, which are called **generic** goods and services. The CPI basket and its weights need to be updated as frequently as possible because over time, they become less representative of household consumption due to changes in consumer preferences due to the emergence of new products and the obsolescence of others. The **basic basket in Mexico** is a subset of the CPI basket. This refers to the set of goods and services considered essential for the subsistence of an average family and is mainly composed of food, personal and household hygiene products, and other basic necessities. It is important

to mention that the inflation of the CPI basket should not be confused with the inflation of the basic basket. While the CPI basket reflects the variation in prices of 292 items, the basic basket considers the variation of 84 CPI items.

In September 2024, annual CPI inflation stood at 4.58%, decelerating from 4.99% in August (Figure 11). On the other hand, annual inflation of the basic food basket stood at 4.53%, also decelerating from the 5.07% recorded in August (Figure 11). It is worth noting that in periods of high or low inflation, prices of basic food basket products tend to increase or decrease more sharply than those of the overall CPI, respectively, reflecting greater price sensitivity in basic goods and services (Figure 11).

Monthly inflation for the basic food basket was 0.11% (Figure 12), the lowest inflation for the same month since 2020 (0.08%), and prior to this year, since 1988 (-0.38%). This could reflect a slowdown in the demand for basic

Figure 9. General inflation, second half of September of each year, bi-weekly rate

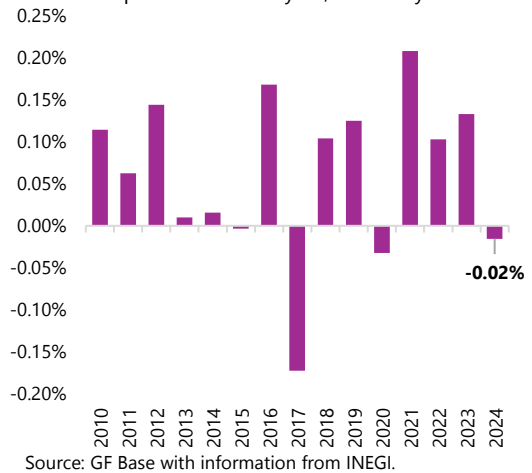
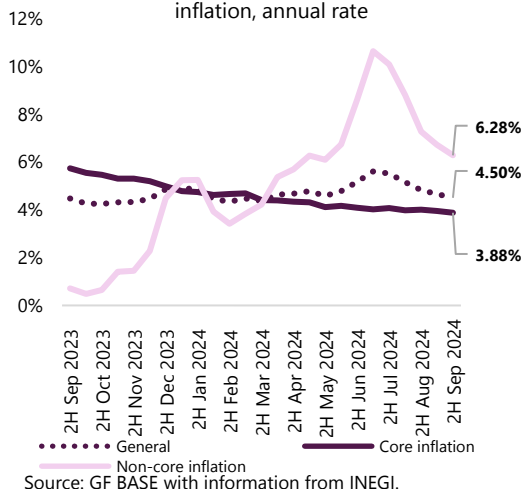


Figure 10. General, core and non-core inflation, annual rate



necessities or a greater availability of these goods in the market. Going forward, it is important to consider that the slowdown observed in September provides some relief to lower-income families. However, the economic outlook for Mexico has deteriorated, with lower economic growth, low job creation and high levels of informality now expected. As such, any spike in the prices of basic necessities would severely affect lower-income households.

Figure 11. General inflation in Mexico and Basic Food Basket inflation, annual rate

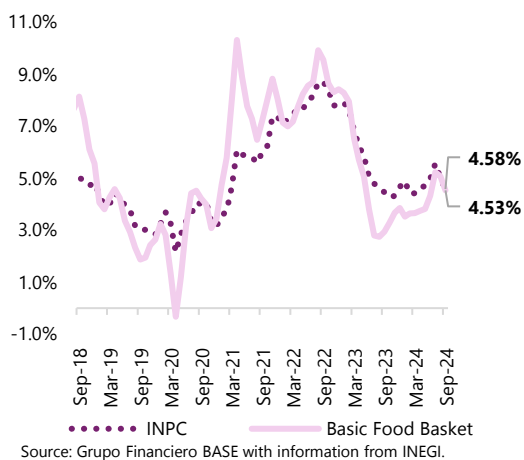
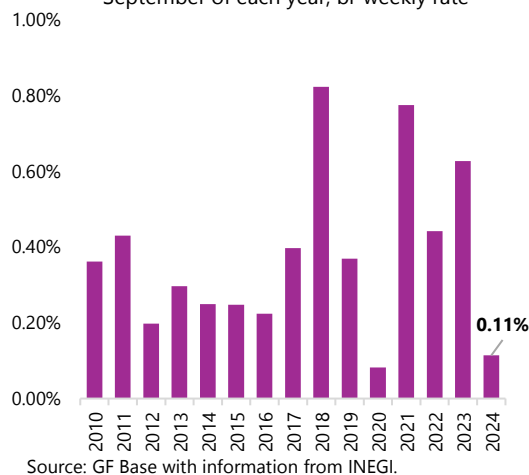


Figure 9. General inflation, second half of September of each year, bi-weekly rate



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