

Mexico's CPI, first half of November 2024

Next inflation report for **November**: December 9th

1. Summary

Mexico's headline inflation stood at a biweekly rate of 0.37% in the first half of November, surprising the market which expected 0.45%. This rate represents the lowest inflation for the same fortnight since 2020. This was mainly due to the decrease in inflationary pressures from the core component. The lower pressures should be taken with caution, as they reflect an environment of economic slowdown, particularly in consumption.

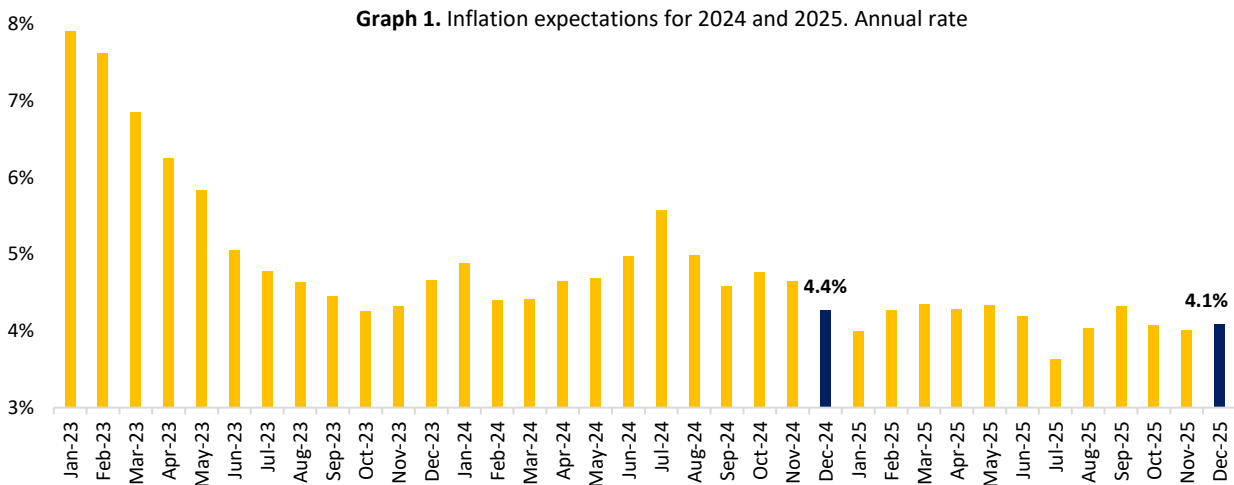
This led Mexico's inflation to reach an annual rate of 4.56%, decelerating after two consecutive fortnights of acceleration and reaching its lowest rate since the second fortnight of September (4.50%). The core component registered an annual inflation rate of 3.58%, the lowest since the second fortnight of May 2020 and the fifth consecutive fortnight of deceleration. Meanwhile, the non-core component showed an annual inflation of 7.64%, decelerating after two fortnights of acceleration, although remaining at very high levels.

In summary, inflation in Mexico continues to show signs of deceleration, especially in its core component. However, there are still important risks that could put upward pressure on prices in the medium and long term. Among these, the following stand out:

1. The **depreciation of the Mexican peso**, which could make imported goods more expensive and generate greater pressures, especially for merchandise. It is important to note that upside risks to the exchange rate have increased since November due to the following factors: 1) Donald Trump won the U.S. presidency and the Republican Party gained an absolute majority in the Senate and the House of Representatives, 2) the dollar could continue to strengthen against its main crosses, as the policies that Trump could implement in his administration of imposing general tariffs on all imports and massive deportations, are inflationary, and 3) high probability of cuts in Mexico's credit rating.
2. The **high budget deficit**, derived from high levels of public spending.
3. **Public insecurity**. It should be recalled that the agricultural products subcomponent was particularly affected by public insecurity in previous months, increasing costs for producers.
4. **Possibility of disruptions in supply chains**, derived from geopolitical conflicts, which would generate increases in production costs.
5. The **possibility of imposing tariffs between Mexico and the United States**, derived from trade tensions between both countries. It should be noted that the Secretary of Economy, Marcelo Ebrard, recently responded to Donald Trump's statements regarding the possibility of imposing tariffs of 25% on Mexican products. Should this measure materialize, the Secretary indicated that President Claudia Sheinbaum could respond with similar measures, which would increase import costs from the United States and, therefore, the prices of certain goods and products in the Mexican market.
6. **Reluctance of the services sector**. Although this subcomponent has slowed down, there is a risk that the pace of deceleration will slow down.

In this context, Grupo Financiero BASE maintains its year-end inflation projection at 4.4% and for 2025 inflation is expected to decelerate to close at 4.1% (Graph 1). With this, the Bank of Mexico is expected to make a 25 basis

point cut in its December announcement to close 2024 with a target rate of 10%. For 2025, cuts totaling 150 basis points are still expected, to close the year at 8.5%.

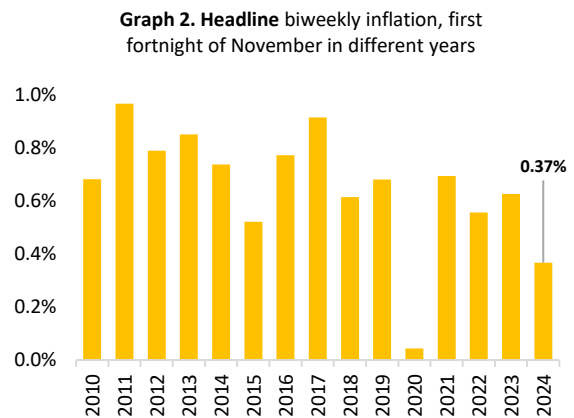


Source: Gurpo Financiero Base with information from INEGI.

2. Mexico's inflation in the first half of November, biweekly variation

In the first fortnight of November, **Mexico's inflation** stood at 0.37% biweekly, surprising the market, which had anticipated 0.45% (Graph 2 and Table 1), the lowest inflation for the same fortnight since 2020 (0.04%).

This was mainly due to the decrease in inflationary pressures of the **core component**, which registered a biweekly inflation of 0.04% (Graph 3 and Table 1), also the lowest for the same fortnight since 2020 (-0.11%). Within the core component, the main factors that favored the low inflation were: 1) a decrease in goods prices, which showed an inflation of -0.14%, led by non-food goods with -0.37% inflation, and 2) lower pressures in services, which registered a biweekly inflation of 0.22%, the lowest for the same fortnight since 2020 (-0.69%).



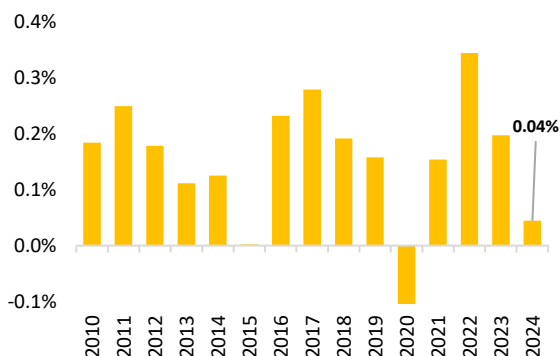
Source: Gurpo Financiero Base with information from INEGI.

This should be taken with caution, because although lower core inflation is usually positive, it still reflects an environment of lower consumption and moderate economic growth. It should be recalled that private consumption in Mexico (the largest component of aggregate demand) accumulated an annual growth in the first 8 months of the year of 3.34%, lower than that of 2023 (5.05%) and 2022 (5.41%), according to the latest available information.

The **non-core component**, characterized by its high volatility, registered a biweekly inflation rate of 1.44%, its lowest rate for the same fortnight since 2022 (1.19%) (Graph 4 and Table 1). Nevertheless, this was the highest

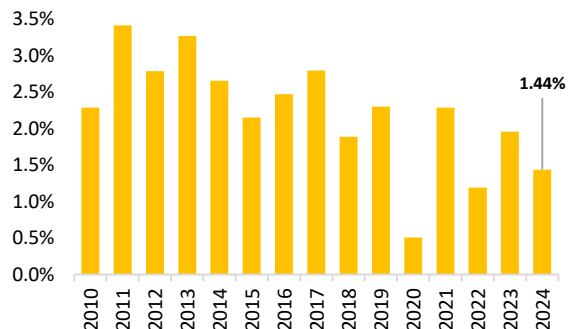
biweekly rate since the first fortnight of July (2.32%). In comparison, in the previous 7 fortnights this component averaged a biweekly inflation of 0.08%, so the result of the first fortnight of November is considerably high. However, it is important to mention that these data are not seasonally adjusted, so the monthly variation may be uninformative of medium-term inflationary trends.

Graph 3. Core biweekly inflation, first fortnight of November in different years



Source: Gurpo Financiero Base with information from INEGI.

Graph 4. Non-core biweekly inflation, first fortnight of November in different years



Source: Gurpo Financiero Base with information from INEGI.

Comparing equal fortnights, but from different years, it is worth noting that all inflation components and subcomponents recorded their lowest rates in at least the last two years or more (Table 1):

- **Headline** inflation (0.37%) registered the lowest biweekly rate since 2020 (0.04%), and prior to this year, since 2001 (0.28%).
- **Core** inflation, **goods** inflation, **food goods** inflation and **non-food goods** inflation (0.04%, -0.14%, 0.14% and -0.37%, respectively) were at their lowest rates since 2020 (-0.11%, -0.30%, 0.06% and -0.69%).
- **Services** inflation (0.22%) and **other services** inflation (0.31%) were at their lowest biweekly rates since 2020 (0.10% and 0.17%, respectively).
- Meanwhile, **housing services** inflation (0.15%) registered the lowest biweekly rate since 2022 (0.08%).
- It is important to note that **educational services** showed no variation in this fortnight, consistent with their historical behavior, since, on average, they have shown no variation in the last 10 years.
- **Non-core** inflation (1.44%) registered its lowest rate since the first fortnight of November 2022 (1.19%).
- **Agricultural, fruit and vegetable, livestock** and **energy** inflation (0.25%, -0.02%, 0.47% and 3.74%, respectively) were at their lowest rates since 2022 (-0.37%, -0.72%, -0.09% and 3.51%, respectively).
- **Energy and government-authorized tariffs** (2.41%), recorded the lowest biweekly rate since 2021 (2.38%).
- And finally, **government-authorized tariffs** (0.024%) registered the lowest rate since 2009 (0.018%).

Table 1. Biweekly and annual inflation.

1st half of November 2024	Biweekly inflation	Lowest for an equal fortnight since	Annual inflation	Lowest since
Headline inflation	0.37%	2020	4.56%	2H Sep 2024
Core inflation	0.04%	2020	3.58%	2H May 2020
Goods	-0.14%	2020	2.46%	2H Aug 2015
Food goods	0.14%	2020	3.65%	2H Apr 2016
Non-food goods	-0.37%	2020	1.17%	2H Oct 2003
Services	0.22%	2020	4.85%	1H Jul 2022
Housing	0.15%	2022	3.96%	1H Jul 2024
Education	0.00%	2023	5.79%	2H Oct 2024
Other services	0.31%	2020	5.63%	1H Nov 2021
Non-core inflation	1.44%	2022	7.64%	1H Oct 2024
Agricultural products	0.25%	2022	11.33%	1H Oct 2024
Fruits and vegetables	-0.02%	2022	18.17%	1H Oct 2024
Livestock	0.47%	2022	5.19%	2H Sep 2024
Energy and authorized tariffs	2.41%	2021	4.18%	1H May 2024
Energy	3.74%	2022	4.74%	1H May 2024
Authorized tariffs	0.02%	2009	3.76%	2H Aug 2024

Source: Grupo Financiero BASE with information from INEGI.

3. Generics of Mexico's inflation, biweekly variation

Finally, within core inflation, the generics¹ with the greatest increases and decreases (biweekly) in the first half of November were (Table 2):

- Goods:
 - Biggest increase: 1) quilts and blankets (+0.75%), 2) plants and flowers (+0.37%) and 3) energy drinks (+0.13%).
 - Biggest drop: 1) audio and video players and their accessories (-2.68%), 2) consoles, discs, and video game downloads (-2.09%) and pet food (-0.58%).
- Services:
 - Biggest increase: 1) professional services (+8.13%), 2) air transportation (+7.21%) and 3) package tour services (+1.57%).
 - Biggest drop: 1) cinema (-7.29%), 2) hotels (-4.01%) and 3) museums and cultural sites (-0.66%).

Within non-core inflation, the generics with the greatest price increases and decreases (biweekly) in the first half of November were (Table 3):

- Fruits and vegetables:
 - Biggest increase: 1) papaya (+15.83%), 2) onion (+14.88%) and 3) poblano chili (+10.12%).
 - Biggest drop: 1) zucchini (-14.17%), 2) lemon (-11.48%) and 3) avocado (-5.14%).
- Livestock:
 - Biggest increase: 1) eggs (+0.63%), 2) chicken (+0.59%) and 3) beef offal (+0.50%).
 - Biggest drop: shrimp (-0.36%).
- Energy:
 - Biggest increase: 1) electricity (+22.27%) and 2) LP domestic gas (+0.84%).
 - Biggest drop: 1) premium gasoline (-0.07%) and 2) regular gasoline (-0.05%).
- Government-authorized tariffs:
 - Largest increase: 1) urban bus (+0.33%), 2) water supply fees (+0.08%) and 3) subway or electric transportation (+0.05%).
 - Biggest drop: 1) car permits (-0.97%), 2) issuance of public sector documents (-0.30%) and 3) taxi (-0.05%).

¹ Due to the lack of detailed data on generic goods for the first half of October from INEGI, it was only possible to accurately identify 10 generic goods out of a total of 189 generic goods.

Table 3. Generics with the highest and lowest biweekly variation, core component.

1H of Nov, 2024	Goods	Biweekly (%)	Services	Biweekly (%)
10 generics with the highest increase	Quilts and blankets	0.75%	Professional services	8.13%
	Plants and flowers	0.37%	Air transportation	7.21%
	Energy drinks	0.13%	Package tour services	1.57%
			Other housing-related services	0.78%
			Pet services	0.52%
			Car repair	0.50%
			Clinical tests	0.43%
			Party packages	0.43%
			Dental consultation and prosthetics	0.39%
			Diners, snack bars, and taco stands	0.34%
10 generics with the biggest decrease	Audio and video players and their accessories	-2.68%	Cinema	-7.29%
	Consoles, discs, and video game downloads	-2.09%	Hotels	-4.01%
	Pet food	-0.58%	Museums and cultural sites	-0.66%
	Fashion accessories	-0.45%	Car insurance	-0.40%
	Sandals and huaraches	-0.39%	General hospitalization	-0.03%
	Musical instruments, and audio and video downloads	-0.33%	Haircuts	-0.02%
	Towels, curtains, and other linens	-0.06%	Movie and music streaming	-0.01%

Note*: Due to the lack of detailed data on generic goods for the first half of October from INEGI, it was only possible to accurately identify 10 generic goods out of a total of 189 generic goods.

Source: Grupo Financiero BASE with information from INEGI.

Table 2. Generics with the highest and lowest biweekly variation, non-core component.

1H of Nov, 2024	Fruits and vegetables	Biweekly (%)	Livestock	Biweekly (%)	Energy	Biweekly (%)	Government authorized tariffs	Biweekly (%)
10 generics with the highest increase	Papaya	15.83%	Eggs	0.63%	Electricity	22.27%	Urban bus	0.33%
	Onion	14.88%	Chicken	0.59%	LP domestic gas	0.84%	Water supply fees	0.08%
	Poblano chili	10.12%	Beef offal	0.50%			Subway or electric transportation	0.05%
	Other fresh chillies	7.95%	Pork	0.43%				
	Peach	7.74%	Beef	0.37%				
	Nopales	5.58%	Pork lard	0.30%				
	Grapes	4.65%	Fish	0.16%				
	Pineapple	3.90%						
	Green tomato	3.64%						
	Watermelon	3.10%						
10 generics with the biggest decrease	Zucchini	-14.17%	Shrimp	-0.36%	Premium gasoline	-0.07%	Car permits	-0.97%
	Lemon	-11.48%			Regular gasoline	-0.05%	Issuance of public sector documents	-0.30%
	Avocado	-5.14%					Taxi	-0.05%
	Carrot	-4.88%						
	Green beans	-4.54%						
	Chayote	-4.37%						
	Cucumber	-4.13%						
	Tomato	-3.65%						
	Potatoes and other tubers	-3.49%						
	Other vegetables and legumes	-1.96%						

Source: Grupo Financiero BASE with information from INEGI.

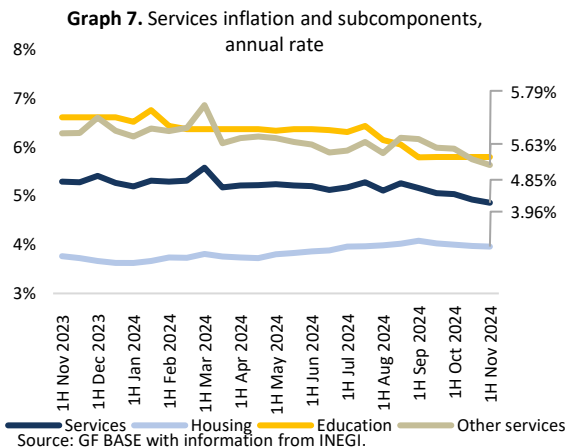
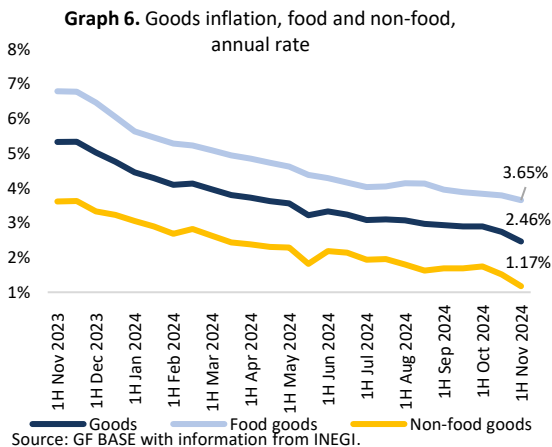
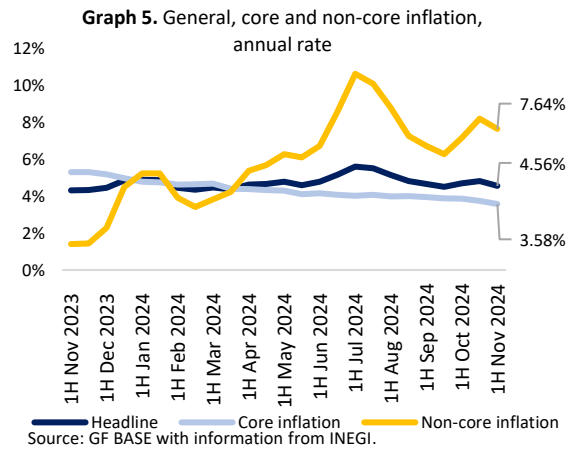
4. Mexico's inflation in the first half of November, annual variation

Mexico's inflation stood at an annual rate of 4.56% (Graph 5), decelerating after two consecutive fortnights of acceleration and reaching its lowest rate since the second fortnight of September (4.50%). It is important to point out that all inflation components and subcomponents decelerated (except for education services, which didn't register any variation with respect to the previous fortnight).

The **core component** registered annual inflation of 3.58% (Graph 5), the lowest since the second fortnight of May 2020, being the fifth consecutive fortnight of deceleration. The **non-core component** showed an annual inflation of 7.64% (Graph 5), decelerating after two fortnights of acceleration, although remaining at very high levels.

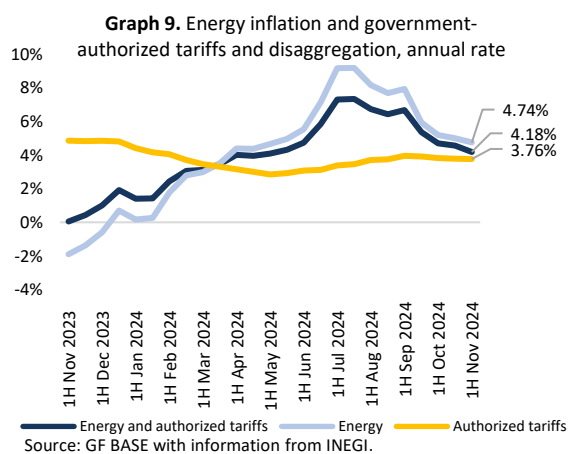
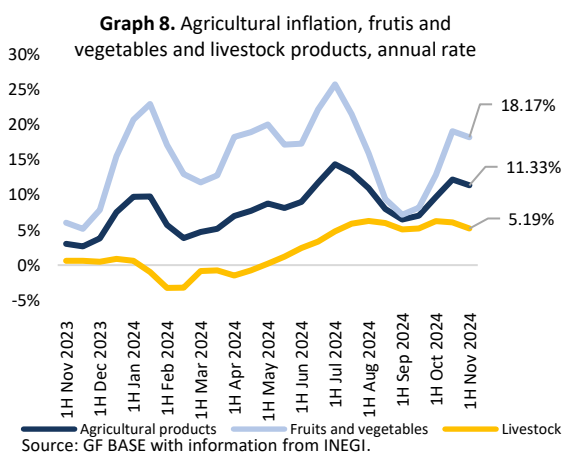
Within the annual inflation of the core component, it should be noted that (Graphs 6 and 7):

- **Core** inflation (3.58%) recorded its fifth consecutive fortnight of deceleration and reached its lowest annual rate since the second fortnight of May 2020 (3.52%).
- **Goods** inflation (2.46%) decelerated for the seventh consecutive fortnight (with the 1q November being the largest deceleration of the 7) and stood at its lowest annual rate since the second fortnight of August 2015.
- **Food goods** (3.65%) slowed for the sixth consecutive fortnight, registering their lowest annual rate since the second fortnight of April 2016 (3.41%).
- **Non-food goods** (1.17%) decelerated for the second consecutive fortnight, registering the lowest annual rate since the second fortnight of October 2003 (1.08%).
- **Services** inflation (4.85%) decelerated for the fifth consecutive fortnight and registered the lowest annual rate since the first fortnight of July 2022 (4.81%).
- **Housing services** (3.96%) slowed for the fourth consecutive fortnight, to its lowest annual rate since the first fortnight of July (3.96%).
- **Education services** (5.79%) showed no change from the previous fortnight.
- **Other services** (5.63%) slowed for five consecutive fortnights and showed the lowest annual rate since the first fortnight of November 2021 (5.48%).



Within the annual inflation of the non-core component, it should be noted that (Figures 8 and 9):

- **Non-core** inflation (7.64%), decelerating after two consecutive fortnights of acceleration and reaching its lowest annual rate since the first fortnight of October (7.17%).
- Annual inflation of **agricultural products** (11.33%) and **fruits and vegetables** (18.17%) slowed down after two consecutive fortnights of acceleration, both at their lowest rates since the first fortnight of October (9.66% and 12.81%, respectively). Nevertheless, they are still at very high levels.
- **Livestock products** (5.194%) decelerated for the second consecutive fortnight and reached their lowest annual rate since the second fortnight of August (5.193%).
- Inflations of **energy and government-authorized tariffs** (4.18%), **energy** (4.74%) and **tariffs** (3.76%), decelerated for the fourth consecutive fortnight. With this, the lowest inflation rates were registered since the first fortnight of May for the first two (4.08% and 4.66%, respectively) and since the second fortnight of August for tariffs (3.74%).



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