

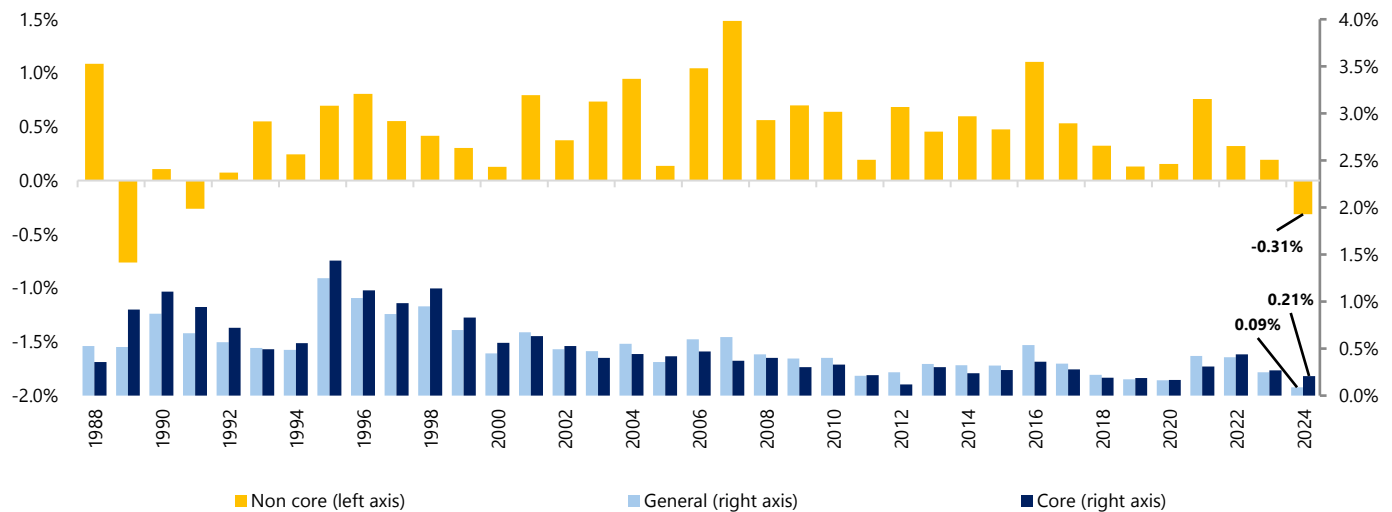
Mexico's National Consumer Price Index (INPC), first half of September 2024

Next inflation report for September: October 9th

Summary

Mexico's inflation stood at 0.09% biweekly in the first half of September, being the lowest biweekly inflation (for an equal fortnight) on record (Graph 1). This was entirely explained by the non-core component, which registered a biweekly inflation of -0.31%, the first negative inflation (for an equal fortnight) since 1991 (Graph 1). On the other hand, the core component showed a biweekly inflation of 0.21% which, despite having had a positive impact on general inflation, is the lowest inflation (for an equal fortnight) since 2020 (Graph 1).

Graph 1. General, core and non-core biweekly inflation in the first fortnight of September in different years



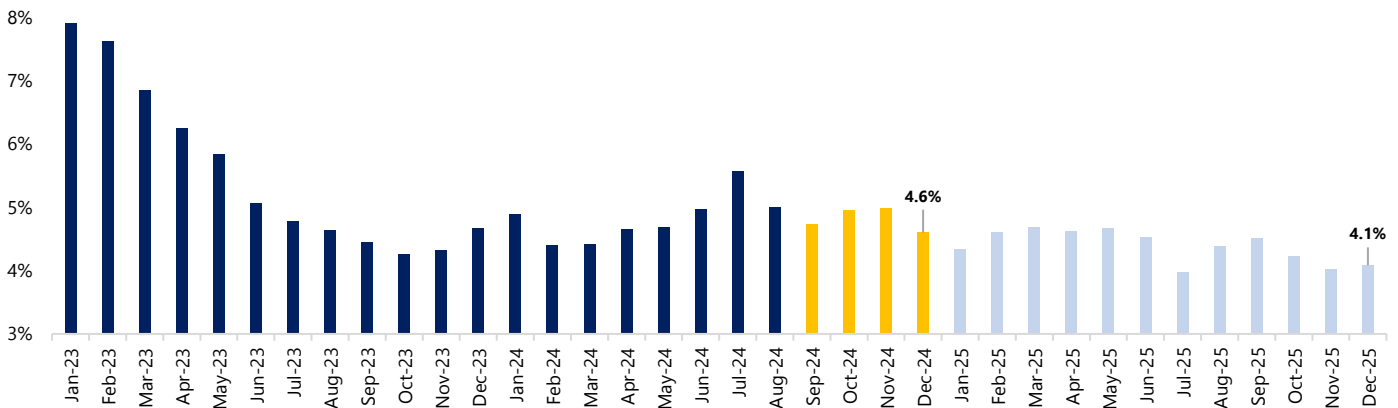
Source: Grupo Financiero BASE with information from INEGI.

At an annual rate, inflation slowed down for the fourth consecutive fortnight to stand at 4.66%, the lowest since the second half of May of this year. Within, non-core inflation stood at 6.73% annually, the lowest since the second half of May of this year, and core inflation at 3.95% annually, the lowest since the second half of February 2021.

Because headline inflation in Mexico is taking the expected trajectory, Grupo Financiero BASE maintains its year-end inflation projection at 4.6% (Graph 2). The slowdown in inflation, together with the Fed's rate cut, increase the likelihood that the Bank of Mexico will cut its interest rate by at least 25 basis points (bps) this Thursday. It should be recalled that, so far this year, Bank of Mexico has cut its interest rate on two occasions: in March (with a cut of 25 bps to place the rate at 11.00%) and in August (with a cut also of 25 bps to place the rate at 10.75%).

It should be noted that inflation has been helped by Mexico's economic slowdown and the restrictive monetary policy of the Bank of Mexico. On the contrary, the high budget deficit and the exchange rate volatility put upward pressure on inflation.

Graph 2. Expectation for 2024 and 2025. Annual rate



Source: GF BASE with information from INEGI.

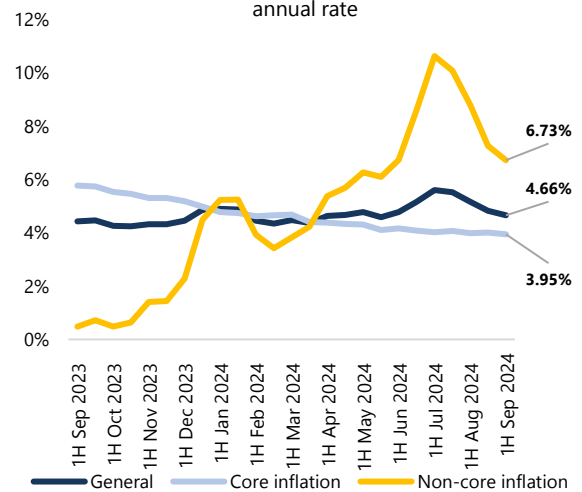
Mexico's inflation in the 1st half of September, annual variation

At an annual rate, inflation slowed down for the fourth consecutive fortnight to stand at 4.66% (Graph 3), the lowest since the second half of May of this year (4.59%). The slowdown in headline inflation was mainly due to the non-core component that showed an annual inflation of 6.73% (Graph 3), slowing down for four consecutive fortnights and reaching its lowest level since the second half of May of this year (6.10%). Meanwhile, the core component registered an annual inflation of 3.95% with a slowdown from 4.01% in the previous fortnight (Graph 3), standing at its lowest annual rate since the second half of February 2021 (3.89%).

Within the **annual inflation of the non-core component**, it should be noted that (Table 1):

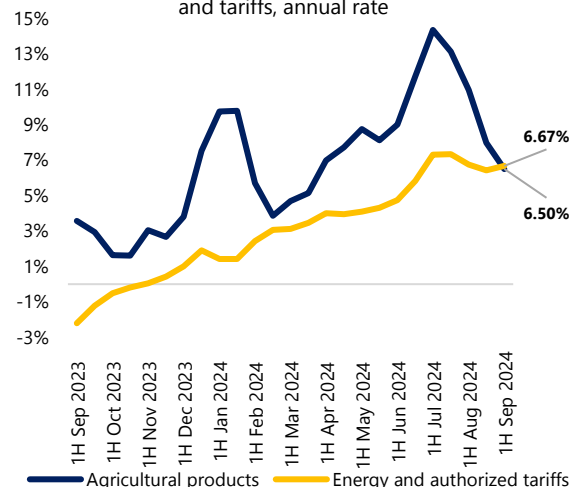
- Agricultural products** inflation (6.50%) slowed down from 7.97% in the previous fortnight, now accumulating four consecutive fortnights of decline and registering the lowest annual inflation since the second half of March of this year (Graph 4).
 - Fruits and vegetables** (7.15%) also slowed down for the fourth consecutive fortnight, to reach their lowest rate since the second half of November 2023 (Graph 5). However, this subcomponent continues to show high inflation. It should be remembered that from April to July this subcomponent presented strong inflationary pressures, reaching rates above 25% per year.
 - Livestock products** (5.08%) slowed down for the second consecutive fortnight and stood at their lowest annual rate since the first half of July of this year (Graph 5).

Graph 3. General, core and non-core inflation, annual rate



Source: GF BASE with information from INEGI.

Graph 4. Agricultural products, and energy and tariffs, annual rate

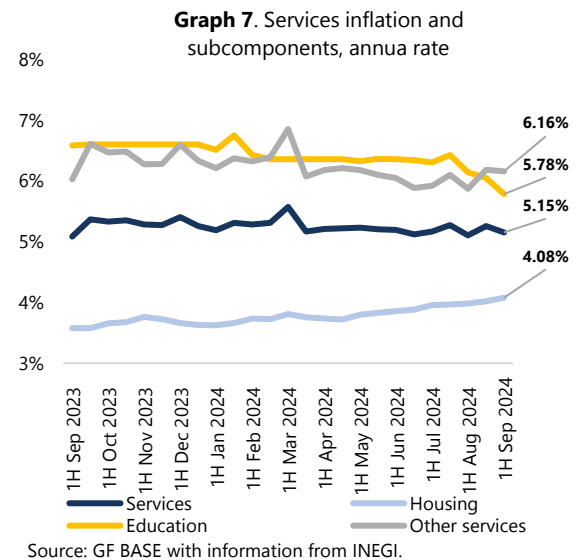
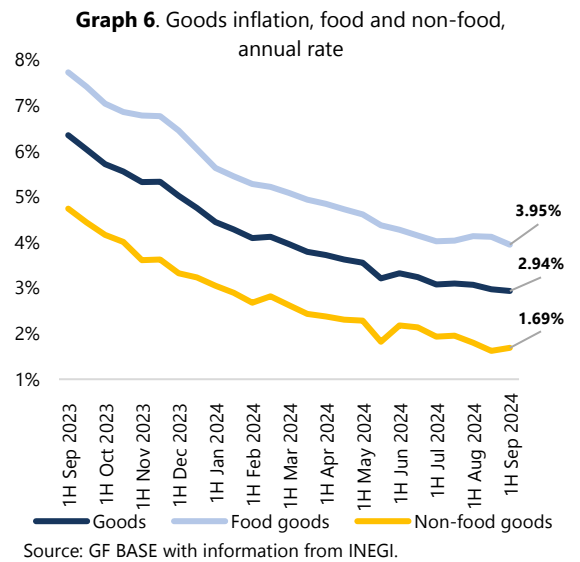
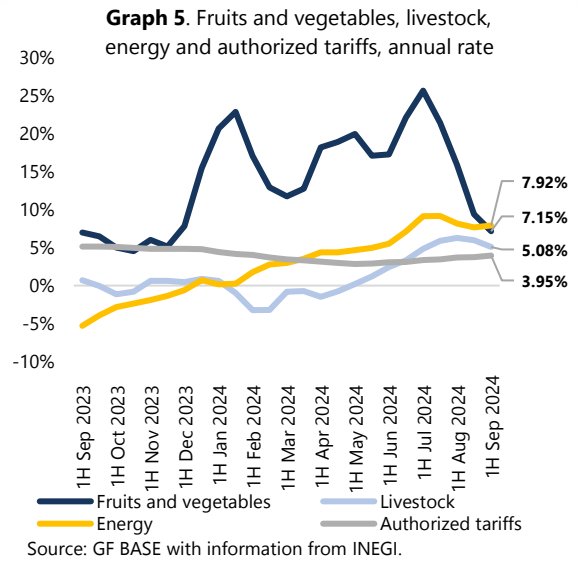


Source: GF BASE with information from INEGI.

- Unlike the agricultural component, **inflation for energy and tariffs authorized by the government** (6.67%) accelerated after two consecutive fortnights of slowdown. With this, the annual inflation of this subcomponent was the highest since the first half of August of this year (Graph 4).
 - Like the previous component, **energy** (7.92%) accelerated after two consecutive fortnights of deceleration, reaching its highest annual rate since the first fortnight of August of this year (Graph 5).
 - Finally, **the tariffs authorized by the government** (3.95%) accelerated for the eighth consecutive fortnight and registered the highest annual rate since the first half of February of this year (Graph 5). It should be noted that this subcomponent didn't accelerate for so many consecutive fortnights since the period between the first half of October 2021 and the second half of March 2022, when it accumulated 12 consecutive fortnights of acceleration.

On the other hand, within the **annual inflation of the core component**, it stands out that (Table 1):

- **Goods** inflation (2.94%) slowed down for the third consecutive fortnight and stood at its lowest annual rate since the second half of January 2016 (Graph 6).
 - **Food goods** (3.95%) slowed down for the second consecutive fortnight and registered their lowest annual rate since the second half of August 2016 (Graph 6). It is worth mentioning that this subcomponent was below 4% for the first time after 192 consecutive fortnights of oscillating between 4.03% and 14.14%.
 - **Non-food goods** (1.69%) accelerated after two consecutive fortnights of deceleration (Graph 6), possibly as a result of the depreciation of the Mexican peso.
- **Services** inflation (5.15%) slowed down, registering the lowest annual rate since the first half of August this year (Graph 7).
 - **Housing services** (4.08%) accelerated and now account for nine consecutive fortnights, with this subcomponent registering the highest annual inflation since the second fortnight of December 2008, the year of the U.S. financial crisis (Graph 7). It is worth noting that this subcomponent hadn't accelerated for so many consecutive fortnights since the period between the second fortnight of April 2021 and the second fortnight of February 2022, when it accumulated 21 consecutive fortnights of acceleration.



- **Education services** (5.78%) slowed down for the third consecutive fortnight and registered their lowest annual rate since the second half of August 2023 (Graph 7).
- And finally, **the other services** (6.16%) slowed down and showed the lowest annual rate since the first half of August of this year (Graph 7).

Mexico's inflation in the 1st half of September, biweekly variation

At a fortnightly rate, it highlights that, comparing equal fortnights, but of different years:

- **General inflation** was the lowest biweekly inflation on record (Graph 1).
- **Core inflation** (Graph 1) and **goods** inflation were at their lowest rates since 2020. Meanwhile, **food goods** inflation registered its first negative biweekly inflation since 1993.
- **Services** inflation stood at its lowest biweekly rate since 2021. Meanwhile, inflation of **other services** registered its first negative biweekly inflation since 2019. On the other hand, inflation of **housing services** registered the highest biweekly rate since 2002.
- **Non-core inflation** recorded its first negative biweekly inflation since 1991, and it was the largest drop for an equal fortnight since 1989 (Graph 1).
- Negative **agricultural** inflation and negative **fruit and vegetable** inflation were the biggest declines since 2000. While negative inflation of **livestock products** was the largest drop since 2021.
- Finally, **energy** prices fell at a biweekly rate (-0.01%) but the fall wasn't as deep as those recorded in the same fortnight, but in 2022 and 2023 of -0.25% and -0.23%, respectively. **Tariffs authorized by the government** were at their highest biweekly rate since 2015.

On the other hand, **within the non-core inflation, the generics with the largest increase and decrease in prices (biweekly)** in the first half of September were (Table 2):

- Fruits and vegetables:
 - Largest increase: 1) lemon (+12.76%), 2) mellon (+8.73%), 3) serrano chili (+8.61%).
 - Largest decrease: 1) orange (-13.63%), 2) tomato (-9.49%), and 3) chayote (-8.16%).
- Livestock:
 - Largest increase: 1) fish (+0.31%), 2) shrimp (+0.08%), and 3) beef (+0.01%).
 - Largest decrease: 1) pork (-0.54%), 2) chicken (-0.49%), and 3) beef offal (-0.45%).
- Energy
 - Largest increase: LP domestic gas (+1.16%), while domestic natural gas showed no change.
 - Largest decrease: 1) electricity (-0.77%), 2) premium gasoline (-0.21%), and 3) regular gasoline(-0.15%).

Finally, **within core inflation, specifically in the services¹ component, the generics with the largest increase and decrease in prices (biweekly)** in the first half of September were (Table 3):

- Largest increase: 1) preschool (+5.94%), 2) secondary school (+5.51%), 3) primary school (+5.48%), 4) daycare and childcare centers (+4.31%), and 5) air transportation (+3.12%).
- Largest decrease: 1) professional services (-14.79%), 2) cinema (-0.65%), 3) movie and music streaming (-0.30%), 4) hotels (-0.22%), and 5) museums and cultural sites (-0.15%).

¹ Due to the lack of detailed data on Goods generics for the first half of September, it wasn't possible to accurately identify the products with the largest increase and decrease in prices for this component.

Table 1. Biweekly and annual inflation.

1st half of September 2024	Biweekly inflation	Lowest for an equal fortnight since	Annual inflation	Lowest since
General inflation	0.09%	-	4.66%	2H May 2024
Core inflation	0.21%	2020	3.95%	2H Feb 2021
Goods	0.18%	2020	2.94%	2H Jan 2016
Food goods	-0.01%	1993	3.95%	2H Aug 2016
Non-food goods	0.33%	2023	1.69%	2H Aug 2024
Services	0.24%	2021	5.15%	1H Aug 2024
Housing	0.16%	2023	4.08%	2H Aug 2024
Education	2.65%	2022	5.78%	2H Aug 2023
Other services	-0.01%	2019	6.16%	1H Aug 2024
Non-core inflation	-0.31%	1989	6.73%	2H May 2024
Agricultural products	-0.83%	2000	6.50%	2H Mar 2024
Fruits and vegetables	-1.54%	2000	7.15%	2H Nov 2023
Livestock	-0.29%	2021	5.08%	1H Jul 2024
Energy and authorized tariffs	0.11%	2023	6.67%	2H Aug 2024
Energy	-0.01%	2023	7.92%	2H Aug 2024
Authorized tariffs	0.31%	2023	3.95%	2H Aug 2024

Source: Grupo Financiero BASE with information from INEGI.

Table 2. Generics with the largest and smallest biweekly variation, non-core component

1H Sep 2024	Fruits and vegetables	Biweekly variation	Livestock	Biweekly variation	Energy	Biweekly variation	Tariffs authorized by the government	Biweekly variation
10 generics with the highest increase	Lemon	12.76%	Fish	0.31%	LP domestic gas	1.16%	Taxi	1.10%
	Mellon	8.73%	Shrimp	0.08%	Natural domestic gas	0.00%	Highway tolls	1.03%
	Serrano chili	8.61%	Beef	0.01%			Water supply fees	0.17%
	Papaya	7.50%					Parking lots	0.11%
	Grapes	6.33%					Car permits	0.08%
	Cucumber	5.44%					Shared taxis	0.08%
	Carrot	5.08%					Subway or electric transportation	0.04%
	Other fruits	3.82%					Issuance of public sector documents	0.02%
10 generics with the highest decrease	Green beans	3.50%					Urban bus	0.00%
	Poblano chili	2.55%						
	Orange	-13.63%	Pork	-0.54%	Electricity	-0.77%		
	Tomato	-9.49%	Chicken	-0.49%	Premium gasoline	-0.21%		
	Chayote	-8.16%	Beef offal	-0.45%	Regular gasoline	-0.15%		
	Zucchini	-7.97%	Eggs	-0.42%				
	Avocado	-5.98%	Pork lard	-0.19%				
	Bananas	-5.20%						
Pineapple	-4.79%							
Lettuce and cabbage	-3.69%							
Coriander, epazote, and parsley	-3.57%							
Pear	-1.85%							

Source: Grupo Financiero BASE with information from INEGI.

Table 3. Generics with the largest and smallest biweekly variation, core component (Services)*

Services, 1H Sep 2024			
10 generics with the highest increase		10 generics with the highest decrease	
Preschool	5.94%	Professional services	-14.79%
Secondary school	5.51%	Cinema	-0.65%
Primary school	5.48%	Movie and music streaming	-0.30%
Daycare and childcare centers	4.31%	Hotels	-0.22%
Air transportation	3.12%	Museums and cultural sites	-0.15%
Additional education	1.95%	Pay television service	-0.11%
High school	1.68%	Beauty salons and massage services	-0.10%
Technical education	1.62%	Internet service	-0.06%
School transport	1.42%	Car repair	-0.06%
Package tour services	1.39%		

Note*: Due to the lack of detailed data on Goods generics for the first half of September, it wasn't possible to accurately identify the products with the largest increase and decrease in prices for this component.

Source: Grupo Financiero BASE with information from INEGI.

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