

National Consumer Price Index (INPC), August 2024

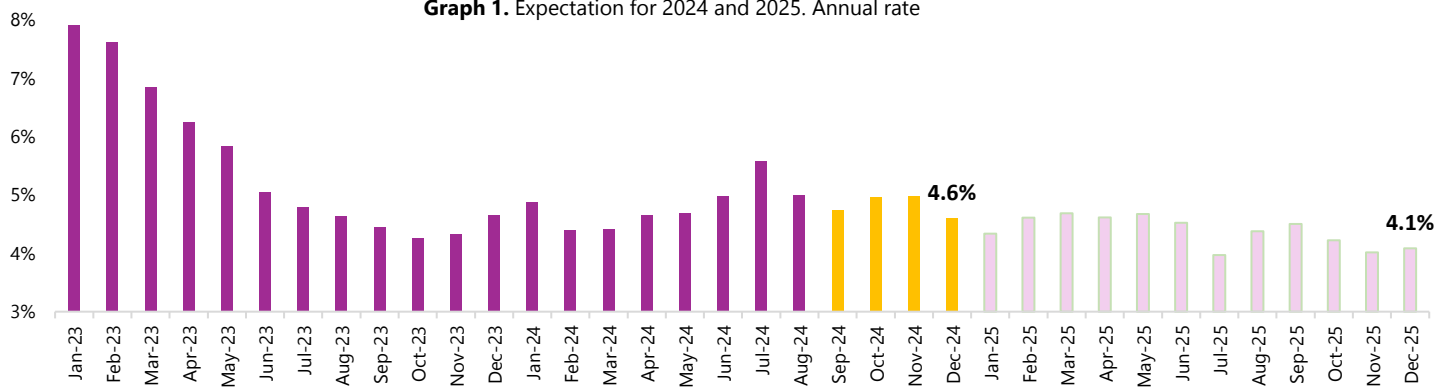
Next inflation report for the first half of September: September 24

Summary

In Mexico, inflationary pressures appear to be easing. In August, consumer inflation stood at an annual rate of 4.99%, slowing down from July's inflation of 5.57%, and marking the lowest rate since June of this year (4.98%). On a monthly basis, inflation was 0.01%, the lowest for August since 2019. The main downward pressures were observed in the non-core component, which decelerated for the first time after five months, while core inflation continued its 19th consecutive month of deceleration. Although most subcomponents showed signs of slowing down, not everything was positive. The acceleration of food prices raised concerns, as food products broke a 19-month streak of deceleration, driven by the depreciation of the peso.

Given that most subcomponents of both core and non-core inflation decelerated in August, Grupo Financiero BASE has revised its year-end inflation projection from 4.75% to 4.6% (Graph 1). It's not excluded that the food merchandise subcomponent will continue to show upward inflationary pressures because of the depreciation of the Mexican peso, which in previous days reached levels above 20 pesos per dollar.

Graph 1. Expectation for 2024 and 2025. Annual rate



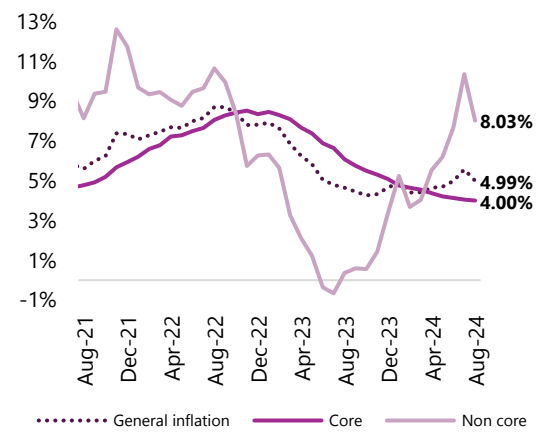
Source: GF BASE with information from INEGI.

1. August Annual Inflation

In August, consumer inflation in Mexico stood at an annual rate of 4.99% (Graph 2 and Table 1), slowing down from July's inflation of 5.57%, and marking the lowest rate since June of this year (4.98%). The main downward pressures were observed in the non-core component, which decelerated for the first time after five months.

Non-core inflation registered an annual rate of 8.03% (Graph 2), the lowest since June of this year (7.67%). It's important to remember that this component includes products with the most volatile prices and government-authorized rates. Within non-core inflation, agricultural products showed an annual inflation of 9.45% (Graph 3), driven by an annual inflation of 12.61% in fruits and vegetables and 6.12% in livestock products (Graph 4). Meanwhile, energy and government-authorized rates showed an annual inflation of 6.58% (Graph 3), with energy registering an annual inflation of 7.91% and

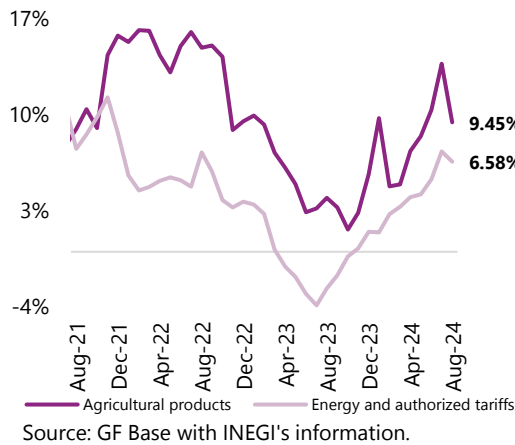
Graph 2. General, core and non-core inflation, annual rate



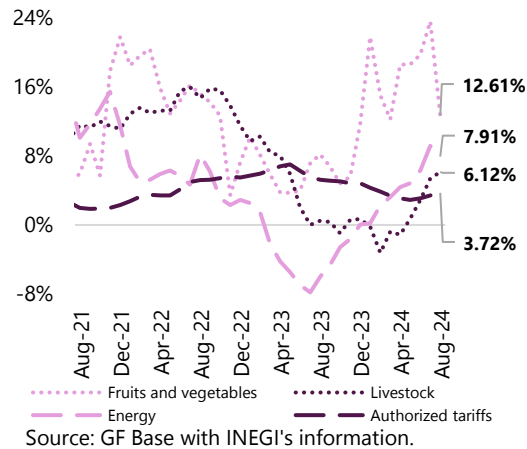
Source: GF BASE with information from INEGI.

government-authorized rates at 3.72% (Graph 4). Notably, the energy subcomponent broke a 12-month streak of consecutive acceleration.

Graph 3. Non-core inflation, agricultural products, and energy and tariffs, annual rate



Graph 4. Non-core inflation, agriculture and energy disaggregate, and energy disaggregate, annual rate

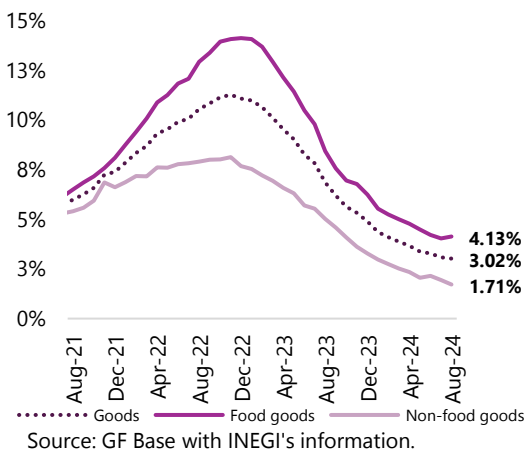


On the other hand, core inflation, which determines the medium and long-term trajectory of general inflation, slowed from July's rate of 4.05% to 4.00% in August (Graph 2), marking the lowest rate since February 2021 (3.87%). With this, the core component has accumulated 19 consecutive months of deceleration.

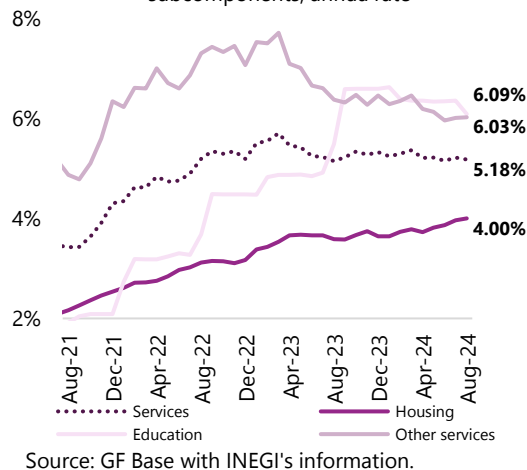
The downward pressures on this component are explained by the merchandise subcomponent, which has been decelerating for 21 consecutive months. In August, this subcomponent registered an annual inflation rate of 3.02% (Graph 5), the lowest since January 2016 (2.86%). This was mainly due to non-food merchandise, which posted an annual inflation of 1.71% (Graph 5), the lowest since January 2015 (1.66%) and marking its second consecutive month of deceleration. On the other hand, there is concern that food merchandise broke a 19-month streak of consecutive deceleration, reaching an annual inflation rate of 4.13% in August (Graph 5), because of the Mexican peso's depreciation.

Also, within core inflation, the annual inflation of the services subcomponent decelerated. In August, services registered an annual inflation rate of 5.18% (Graph 6), the lowest since June of this year (5.15%). Within this category, most subcomponents accelerated, except for educational services. The inflation rates for other services, education, and housing services were 6.03%, 6.09%, and 4.00%, respectively (Graph 6). Notably, the annual inflation for housing services was the highest since December 2008 (4.22%).

Graph 5. Goods inflation, food and non-food, annual rate



Graph 6. Services inflation and subcomponents, annual rate



2. August Monthly Inflation

On a monthly basis, inflation in Mexico stood at 0.01% (Graph 7 and Table 1), marking the lowest inflation since May of this year, considering any month, and the lowest for August since 2019, considering an equal month.

The monthly inflation for the non-core component was -0.70% (Graph 7). Within this, the agricultural products subcomponent posted a monthly inflation of -2.08%, with fruits and vegetables registering inflation of -5.21% and livestock products at 0.54%. Meanwhile, the subcomponent of energy and government-authorized tariffs recorded a monthly inflation of 0.48% in August, with energy inflation at 0.50% and tariffs at 0.42%.

Considering the same month across different years (August), most components of non-core inflation recorded the lowest monthly rates in several years (except for livestock and government-authorized tariffs):

- Non-core inflation: Lowest since 2019.
- Agricultural products: Lowest on record.
- Fruits and vegetables: Lowest on record.
- Livestock: Highest since 2014.
- Energy and government-authorized tariffs: Lowest since 2022.
- Energy: Lowest since 2022.
- Government-authorized tariffs: Highest since 2020.

On a monthly basis, the fruits and vegetables with the highest price increases were: 1) lime (+18.16%), 2) pineapple (+14.20%), and 3) grapes (+9.50%). It's worth noting that during August, 15 lime producers in Michoacán, the country's main lime-producing state, partially halted lime sales due to low prices and regional insecurity, which likely contributed to inflationary pressures on the citrus fruit. On the other hand, the livestock products with the highest price increases in August were: 1) eggs (+3.95%), 2) pork (+2.75%), and 3) beef offal (+1.07%). As for energy products, most of the generics showed price increases during August, except for LP domestic gas, which decreased by 1.19%. The largest increases were: 1) natural domestic gas (+2.67%), 2) electricity (+1.90%), and 3) low-octane gasoline (+0.64%). Finally, the government-authorized tariffs with the largest price increases were: 1) taxi (+0.68%), 2) urban bus (+0.62%), and 3) collective transport (+0.33%).

Considering the same month across different years (August), most components of non-core inflation recorded the highest monthly rates in many years (Table 1):

- Non-core inflation, the highest since 1988.
- Agricultural products, the highest since 1988.
- Fruits and vegetables, the highest since 1985.
- Livestock, the highest since 2012.
- Energy products and government-authorized tariffs, the highest since 2020.
- Energy products, the highest since 2020.
- Government-authorized tariffs, the highest since 2022.

Core inflation stood at 0.22% (Graph 7). Within this, the goods subcomponent registered a monthly inflation rate of 0.18%, with food goods and non-food goods posting inflation rates of 0.27% and 0.08%, respectively. On the other hand, the services subcomponent registered a monthly inflation rate of 0.27% in August, with housing, education, and other services registering inflation rates of 0.26%, 1.41%, and 0.13%, respectively.

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



Source: GF BASE with information from INEGI.

In August, the goods that registered the highest monthly increases were: 1) men's suits (+3.61%), 2) women's dresses and skirts (+1.96%), and 3) men's socks (+1.79%). Meanwhile, the services with the highest monthly increases during August were: 1) high school (+2.46%), 2) school transportation (+1.86%), and 3) university (+1.81%). It's important to note that in August and September, most educational institutions usually begin their activities, so education-related costs tend to see additional adjustments during these months.

Finally, comparing the same month across different years, it's noteworthy that most components recorded the lowest monthly inflations in several years (except for food goods, housing services, and other services):

- Core inflation, the lowest since 2019.
- Goods, the lowest since 2011.
- Food goods, the highest since 2023.
- Non-food goods, the lowest on record.
- Services, the lowest since 2021.
- Housing services, the highest since 2023.
- Education services, the lowest since 2022.
- Other services, the highest since 2023.

Table 1. August inflation, core and non-core components.

| August | Monthly inflation | Lowest for an equal month since | Annual inflation | Lowest since |
|--------------------------------------|-------------------|---------------------------------|------------------|----------------------|
| General inflation | 0.01% | 2019 | 4.99% | June 2024 |
| Core inflation | 0.22% | 2019 | 4.00% | February 2021 |
| Goods | 0.18% | 2011 | 3.02% | January 2016 |
| Food goods | 0.27% | 2023 | 4.13% | July 2024 |
| Non-food goods | 0.08% | - | 1.71% | January 2016 |
| Services | 0.27% | 2021 | 5.18% | June 2024 |
| Housing | 0.26% | 2023 | 4.00% | July 2024 |
| Education | 1.41% | 2022 | 6.09% | August 2023 |
| Other services | 0.13% | 2023 | 6.03% | July 2024 |
| Non-core inflation | -0.70% | 2019 | 8.03% | June 2024 |
| Agricultural products | -2.08% | - | 9.45% | May 2024 |
| Fruits and vegetables | -5.21% | - | 12.61% | March 2024 |
| Livestock | 0.54% | 2023 | 6.12% | July 2024 |
| Energy and authorized tariffs | 0.48% | 2022 | 6.58% | June 2024 |
| Energy | 0.50% | 2022 | 7.91% | June 2024 |
| Authorized tariffs | 0.42% | 2023 | 3.72% | July 2024 |

Source: Grupo Financiero BASE with information from INEGI.

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

| August 2024 | Fruits and vegetables | MoM % change | Livestock | MoM % change | Energy | MoM % change | Government-authorized rates | MoM % change |
|---|---------------------------|--------------|---------------|--------------|----------------------|--------------|-------------------------------------|--------------|
| 10 generics with the highest increment | Lemmon | 18.16% | Egg | 3.95% | Natural domestic gas | 2.67% | Taxi | 0.68% |
| | Pineapple | 14.20% | Pork meat | 2.75% | Electricity | 1.90% | Urban bus | 0.62% |
| | Grape | 9.50% | Beef entrails | 1.07% | Low octane gasoline | 0.64% | Collectives | 0.33% |
| | Peach | 5.13% | Lard | 0.61% | High octane gasoline | 0.37% | Highway fees | 0.31% |
| | Potatoes and other tubers | 4.65% | Beef | 0.58% | | | Parking lots | 0.21% |
| | Other fruits | 4.52% | | | | | Fees for water supply | 0.18% |
| | Melon | 3.96% | | | | | Subway or electric transportation | 0.07% |
| | Papaya | 1.49% | | | | | Issuance of public sector documents | 0.02% |
| | Carrot | 1.38% | | | | | | |
| | Bean | 0.70% | | | | | | |
| 10 generics with the highest decrement | Chayote | -61.07% | Chicken | -2.03% | LP domestic gas | -1.19% | Car permits | -0.09% |
| | Beans | -20.78% | Shrimp | -0.60% | | | | |
| | Serrano pepper | -17.44% | Fish | -0.35% | | | | |
| | Green tomato | -16.82% | | | | | | |
| | Poblano pepper | -15.33% | | | | | | |
| | Guava | -13.53% | | | | | | |
| | Other fresh peppers | -11.20% | | | | | | |
| | Tomato | -10.07% | | | | | | |
| Lettuce and cabbage | -9.56% | | | | | | | |
| Watermelon | -7.54% | | | | | | | |

Source: Grupo Financiero BASE with information from INEGI.

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

| August 2024 | Merchandises | MoM % change | Services | MoM % change |
|---|---|--------------|---------------------------|--------------|
| 10 generics with the highest increment | Suits for men | 3.61% | High school | 2.46% |
| | Dresses and skirts for women | 1.96% | School transport | 1.86% |
| | Socks for men | 1.79% | University | 1.81% |
| | Chorizo | 1.78% | Dry cleaning service | 1.60% |
| | Ice cream and popsicles | 1.76% | Short race | 0.94% |
| | Under ware for men | 1.72% | Additional education | 0.73% |
| | Stoves | 1.70% | Foreign bus | 0.73% |
| | Meets | 1.53% | Automotive maintenance | 0.67% |
| | Electric irons | 1.47% | Beauty and massage parlor | 0.66% |
| | Dried, processed meats and other sausages | 1.38% | Small food services | 0.65% |
| 10 generics with the highest decrement | Computers | -4.14% | Air transport | -14.76% |
| | Sugar | -3.42% | Tourism services | -4.72% |
| | Plants and flowers | -2.40% | Cinema | -0.76% |
| | Other women's clothing | -1.34% | Automobile insurance | -0.45% |
| | Tequila | -1.14% | Hotels | -0.05% |
| | Air conditioners | -1.14% | TV pay services | -0.03% |
| | Diapers | -0.99% | Clinic analysis | -0.02% |
| | Razors and razor blades | -0.86% | | |
| | Women's pants | -0.86% | | |
| | School materials | -0.80% | | |

Source: Grupo Financiero BASE with information from INEGI.

Impact of changes in INPC weights on Mexico's inflation

On August 22, in addition to announcing inflation figures for the first half of August, INEGI also published a new National Consumer Price Index (INPC), where the weights were updated, and a new basket was created with 292 groups of goods and services, known as *generics*.

The main modifications to the 2024 INPC Basket, compared to the 2018 one, stem from the reclassification of expenses according to the 2022 Seasonal National Household Income and Expenditure Survey (ENIGH), as well as the update of the relevance (weight) of certain generics within total household spending. Some of the most important changes include:

- **Comparable generics:** There are 259 generics in the 2018 INPC Basket that are comparable one-to-one with those in the 2024 INPC Basket. Of these 259, only three products had their names modified to make their description clearer and more specific.
- **Disaggregated and merged generics:** 21 products were disaggregated, while 20 from the previous basket were merged to form nine new generics. It's worth mentioning that the goods and services now considered individual generics are those whose weight in total spending exceeded 0.01%.
- In this update, no generics were removed or added to the basket.

The change in weights had a slight impact on the August inflation (Table 2):

With the previous weightings, corresponding to July 2018, annual **general inflation** for the month of August would have been 5.03%, while monthly inflation would have stood at 0.04%. With the current weightings for July 2024, annual headline inflation was 4.99%, and monthly inflation was 0.01%.

As for **core inflation**, an annual rate of 4.00% was observed with the new weights, while with the 2018 weights, this rate would have been slightly higher at 4.02% annually. Monthly, the difference is also noticeable: with the new weights, core inflation was 0.22%, while the old weights would have shown a monthly inflation rate of 0.24%.

Finally, non-core inflation showed a greater difference. With the new 2024 weights, the annual inflation stood at 8.03%, lower than the 8.17% that would have been recorded with the 2018 base. Monthly, inflation was -0.70% with the new weights, compared to -0.57% that would have been observed with the previous ones.

Table 4. August 2024 inflation, comparison of July 2024 vs. July 2018 weights.

| August 2024 | 2024 weights | | 2018 weights | |
|--------------------------------------|-------------------|------------------|-------------------|------------------|
| | Monthly inflation | Annual inflation | Monthly inflation | Annual inflation |
| General inflation | 0.01% | 4.99% | 0.04% | 5.03% |
| Core inflation | 0.22% | 4.00% | 0.24% | 4.02% |
| <i>Goods</i> | 0.18% | 3.02% | 0.18% | 3.03% |
| Food goods | 0.27% | 4.13% | 0.27% | 4.13% |
| Non-food goods | 0.08% | 1.71% | 0.08% | 1.71% |
| <i>Services</i> | 0.27% | 5.18% | 0.31% | 5.22% |
| Housing | 0.26% | 4.00% | 0.26% | 4.00% |
| Education | 1.41% | 6.09% | 1.41% | 6.09% |
| Other services | 0.13% | 6.03% | 0.13% | 6.03% |
| Non-core inflation | -0.70% | 8.03% | -0.57% | 8.17% |
| <i>Agricultural products</i> | -2.08% | 9.45% | -2.03% | 9.50% |
| Fruits and vegetables | -5.21% | 12.61% | -5.21% | 12.61% |
| Livestock | 0.54% | 6.12% | 0.54% | 6.12% |
| <i>Energy and authorized tariffs</i> | 0.48% | 6.58% | 0.47% | 6.57% |
| Energy | 0.50% | 7.91% | 0.50% | 7.91% |
| Authorized tariffs | 0.42% | 3.72% | 0.42% | 3.72% |

Source: Grupo Financiero BASE with information from INEGI.

The change in weights should not be seen as an attempt to show lower inflation but as part of INEGI's regular review process. Strictly speaking, the change in the INPC calculation methodology does not allow for inflation comparison over time. However, comparison is a fundamental part of economic analysis, so despite its limitations, comparisons will continue to be made with previous fortnights, months, and years.

Difference Between Basic Basket Inflation and National Consumer Price Index Inflation

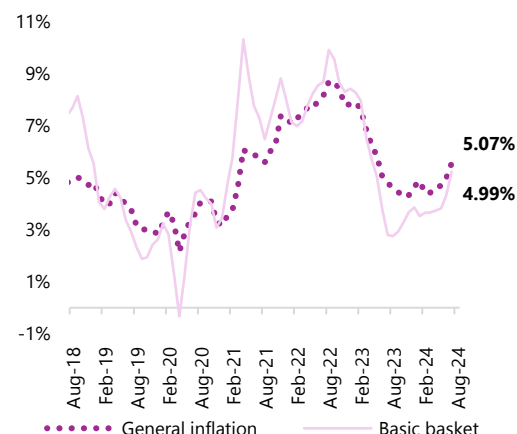
The National Consumer Price Index (INPC) basket is a set of a wide variety of goods and services consumed by Mexican households, both urban and rural. As previously mentioned, starting on August 22, 2024, a new basket was built for the INPC with 292 groups of goods and services, known as generics. The INPC 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 in response to the emergence of new products and the obsolescence of others.

On the other hand, **the basic basket** in Mexico is a subset of the INPC basket. It refers to a set of goods and services considered essential for the subsistence of an average family and is composed mainly of food, personal hygiene, household products, and other necessities.

It's important to note that the **inflation of the INPC basket** should not be confused with the **inflation of the basic basket**. While the INPC basket reflects price variation for 292 generics, the basic basket considers the variation of 84 generics from the INPC. In August 2024, the annual inflation of the INPC stood at 4.99%, slowing from 5.57% in July (Graph 8). Meanwhile, the annual inflation of the basic basket was 5.07%, also decelerating from 5.23% in July (Graph 8).

Graph 8 also shows how, in periods of high or low inflation, the prices of basic basket products tend to rise or fall more sharply than those of the general INPC, respectively, reflecting greater price sensitivity in essential goods and services.

Graph 8. Annual inflation of the basic food basket and Mexico's general inflation



Source: Grupo Financiero BASE with INEGI's information.

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