Inflation in the First Half of October: Core Inflation Surprises to the Upside

MX Inflation

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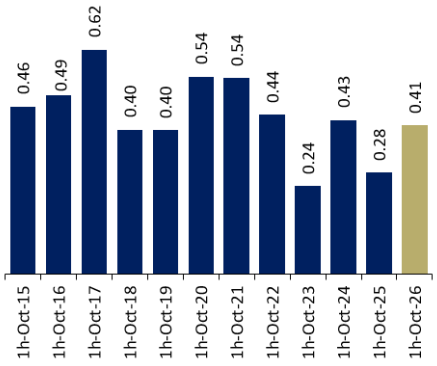
In the first half of October, inflation stood at 0.41% bw, driven by the withdrawal of summer electricity subsidies and higher airfares. As a result, annual headline inflation reached 3.62%.

The figure was in line with our estimate of 0.42% bw and above the consensus forecast of 0.38% bw. By component, we observed higher-than-expected pressures in core inflation, which were offset by lower-than-expected pressures in non-core inflation.

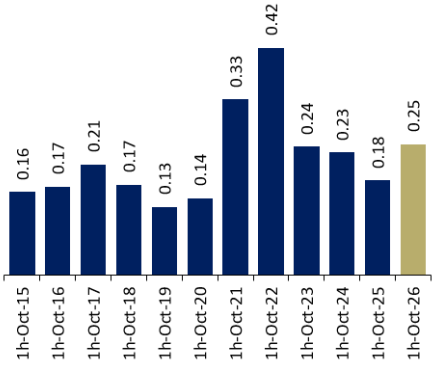
Core inflation increased 0.25% bw (vs. our estimate of 0.17% bw). Within this component, non-food goods surprised to the upside, increasing 0.22% bw compared to our estimate of 0.11% bw. Likewise, services rose 0.31% bw (vs. our estimate of 0.23% bw), driven mainly by higher airfares (+14.77% bw), amid rising fuel costs stemming from the conflict in the Middle East.

Meanwhile, non-core inflation increased 0.98% bw, below our estimate of 1.29% bw, marking six consecutive fortnights of increases. For us, the surprise was concentrated in farm products, particularly agricultural products, whose prices remained virtually unchanged (-0.03% bw vs. our estimate of 1.24% bw), while livestock products declined -0.16% bw (vs. our estimate of -0.10% bw). In particular, onion and tomato prices came in below the levels indicated by our price monitoring. Government tariffs and energy increased 1.85% bw (vs. our estimate of 1.93% bw), driven by the seasonal withdrawal of summer electricity subsidies in some cities across the country (contributing 21 basis points to fortnightly headline inflation). Nevertheless, other factors, such as higher LP gas prices (+1.38% bw), also exerted upward pressure.

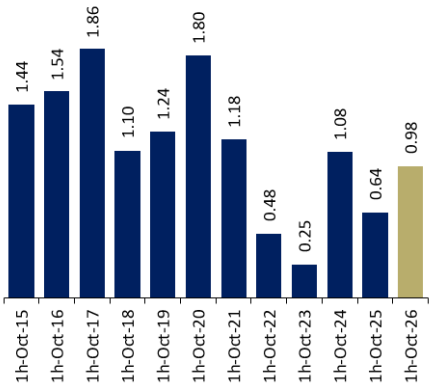
Headline Inflation
(% biweekly); 1h – Oct



Core Inflation
(% biweekly); 1h – Oct



Non-core Inflation
(% biweekly); 1h – Oct

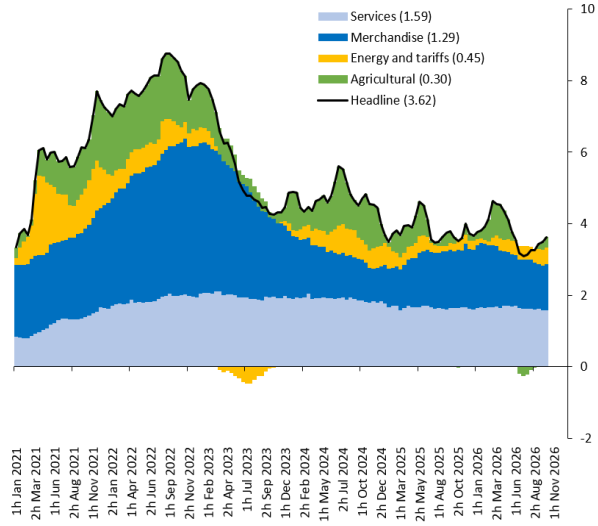


Source: Actinver with data from INEGI and own estimates.

With this information, annual headline inflation in the first half of October increased from 3.49% to 3.62%, while core inflation ended a streak of five consecutive fortnights of deceleration, reaching 3.78%. Meanwhile, non-core inflation accelerated to 3.08% from the previous 2.72%.

Looking ahead, we expect annual headline inflation to continue increasing gradually and close the year near 3.9%. In this context, we believe that the recent rebound in inflation reduces the Bank of Mexico's room for an additional rate cut at its November meeting. Therefore, we maintain our expectation that the reference rate will remain unchanged at 6.50% for the rest of the year.

Inflation
(%YoY; Contributions); 1h – Oct



Source: Actinver with data from INEGI and own estimates.

Inflation
(%); 1h – Oct

	1st half	Annual
Headline	**0.41**	**3.62**
Core	**0.25**	**3.79**
Goods	0.17	3.28
Food goods	0.12	4.57
Non-food goods	0.22	2.17
Services	0.31	4.26
Housing services	0.14	3.53
Education	0.00	5.84
Other services	0.52	4.73
Non core	**0.98**	**3.08**
Farm products	-0.11	1.90
Agricultural products	-0.03	11.05
Livestock products	-0.16	-4.01
Government tariffs and energy	1.85	4.02
Energy	3.08	2.09
Government tariffs	-0.13	7.38

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