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**Economic releases in US.** In this publication we are covering major U.S. reports issued during the first half of July, and comment on: personal income and its disposition as well as the trade balance for May and the employment, CPI inflation, and industrial production for June.

**The U.S. international trade deficit for May** rose to US\$75.1 billion, the highest since October 2022, due to a significant decline in exports relative to imports. On the other hand, Mexico continues as the leading exporter to the United States winning a 15.9% share while Canada remained in second position with a 13.0%.

**The May consumer income and spending report** showed positive results in terms of income, expenditure, savings rate and inflation as measured by the PCE. Both personal disposable income and personal expenditures increased in monthly and annual figures in May showing resilience. Another good feature of the report was that households' savings rate improved and reached its highest level since January.

Both the **Personal Consumption Expenditures (PCE)** for May and the **Consumer Price Index (CPI)** for June show that inflationary pressures are easing. Overall PCE fell 0.01% m/m in May, slowing to 2.56% in the annual figure from 2.68% the previous month. PCE core inflation, for its part, increased by 0.08% monthly but dipped to 2.57% y/y from 2.78%. Meanwhile, the CPI headline for June declined for the first time since May 2020, falling -0.06% m/m, sending the annual CPI below 3.0% for the first time since March 2021, to 2.98%. Core inflation grew 0.06% m/m (vs. +0.16% in May) and 3.28% y/y, following a 3.41% y/y increase.

Given the PCE and CPI data, we believe there is room for the Federal Reserve to lower interest rates earlier than previously expected by the market, with the first cut in the third quarter of 2024 rather than the fourth quarter. The next monetary policy decision is later this month, in the July 30-31 meeting. While we do not expect a reduction in rates, the committee may deliver fresh signals about future rate movements.

**The non-farm payrolls report for June** showed some signs of a cooling in the labor market. According to the Establishment Survey, the US labor market added 206k jobs, in line with the consensus market's forecast of 200k jobs. However, in the previous two months, the overall number of jobs generated was revised downwards by 111,000. Moreover, the unemployment rate rose from 4.0% to 4.1%, hitting its highest level since 2020.



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**Industrial production for June** had a 0.6% monthly increase. The majority of significant market groups observed gains in June, which was a good growth rate for the second quarter. Manufacturing production increased by 0.4% month-over-month. Meanwhile, on a quarter-basis, Industrial production rose 4.3% annually.

**Economic releases in Canada.** In June, inflation figures were also published in Canada. The annual headline CPI inflation rate decreased to 2.7%, which is consistent with consensus expectations and lower than the 2.9% print from the previous month. The core inflation rate decreased from 3.21% in May to 3.15%, reaching its lowest level since May 2022. On a monthly basis, the seasonally adjusted CPI increased 0.06% (vs. +0.25% in May) and core CPI grew 0.20% (vs. +0.33% in May). The probability of successive rate reductions has increased in light of the inflation report from June, and the Bank of Canada is scheduled to announce its rate on July 24. It is important to note that the central bank made its first reduction in the current tightening cycle, which began in March 2022, by reducing the rate by 25 basis points in the June decision. The current target rate in Canada is 4.75%.

## Upcoming Figures

<i><b>Economic reports</b></i>	<i><b>Publication date</b></i>
<b>USA</b>	
GDP for the 2Q24 (Advance Estimate)	July 25, 2024
Personal income and spending for June	July 26, 2024
Fed monetary policy announcement	July 31, 2024
<b>Canada</b>	
GDP for the 2Q24	July 31, 2024

Source: HR Ratings with information from the BEA, FRED, Fed, statcan and the BoC.



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## U.S. international trade deficit for May

The seasonally adjusted goods and services deficit in the United States was \$75.1 billion, up \$0.6 billion over the previous month. May's deficit (-US\$75.3 billion) is the highest since June 2022 (-US\$81.2 billion) due to a significant decline in exports relative to imports. The April deficit figure was changed from US\$74.6 billion to US\$74.5 billion.

According to the May data, there was a significant decrease in goods exports (-1.7%) compared to a decrease in goods imports (-0.3%), resulting in an increase in the goods balance of 0.9% m/m. Consequently, the goods deficit increased to US\$100.2 billion, the highest level in the previous two years. Nominally speaking, May's goods exports dropped US\$2.9bn, Automotive vehicles, parts, and engines saw a reduction of US\$0.5 billion, while other industries saw a decline of US\$0.3 billion. Goods imports decreased by US\$2.0 billion to US\$269.7 billion. This was caused by a \$2 billion fall in consumer products and a \$1.5 billion increase in automotive vehicles components while other industries had a gain of US\$1.4 billion.

### Evolution of the U.S. trade balance

	Figures in billions of dollars				Monthly change			
	Feb-24	Mar-24	Apr-24	May-24	Feb-24	Mar-24	Apr-24	May-24
<b>Total</b>	<b>-69.0</b>	<b>-68.6</b>	<b>-74.5</b>	<b>-75.1</b>	<b>3.1%</b>	<b>-0.6%</b>	<b>8.6%</b>	<b>0.8%</b>
<b>Goods</b>	<b>-93.2</b>	<b>-93.3</b>	<b>-99.3</b>	<b>-100.2</b>	<b>2.2%</b>	<b>0.2%</b>	<b>6.4%</b>	<b>0.9%</b>
Oil goods	4.9	5.2	3.4	1.6	38%	7%	-35%	-53.0%
Non-oil goods	-96.6	-97.4	-101.6	-101.0	3.6%	0.8%	4.3%	-0.6%
<b>Net adjustments</b>	<b>-1.4</b>	<b>-1.1</b>	<b>-1.1</b>	<b>-0.8</b>	<b>-2.6%</b>	<b>-21.5%</b>	<b>-2.5%</b>	<b>-27.2%</b>
<b>Services</b>	<b>24.2</b>	<b>24.8</b>	<b>24.8</b>	<b>25.1</b>	<b>-0.4%</b>	<b>2.4%</b>	<b>0.2%</b>	<b>1.1%</b>

Source: HR Ratings based on US Census Bureau and FRED data. Seasonally adjusted nominal figures. Due to seasonal adjustments and rounding, the sum of the accounts may vary from the totals.

The table below shows the evolution of the US's primary trading partners in terms of imports, on a non-adjusted basis. In May, Mexico continues as the leading exporter to the United States winning a 15.9% share. For its part, Canada remained in second position with a 13.0% participation, while China reached 12.7%. In annual change, Mexico's export share increased 29bp while China lost 84bp and Canada 96bp.



## Participation of major trading partners in U.S. imports

	May-22	May-23	May-24	Annual change*	Participation					Change in bp.*
					May-20	May-21	May-22	May-23	May-24	
Mexico	39,507	41,377	43,881	6.1%	9.1%	13.6%	13.8%	15.7%	15.9%	29
Canada	40,431	36,813	35,669	-3.1%	9.7%	12.6%	14.2%	13.9%	13.0%	-96
China	43,864	35,891	35,037	-2.4%	22.3%	16.8%	15.4%	13.6%	12.7%	-84
Germany	12,357	13,542	13,835	2.2%	4.5%	4.8%	4.3%	5.1%	5.0%	-10
Japan	12,604	11,285	12,277	8.8%	4.5%	5.0%	4.4%	4.3%	4.5%	19
South Korea	10,357	9,718	12,272	26.3%	3.3%	3.4%	3.6%	3.7%	4.5%	78
Others	126,220	115,723	122,208	5.6%	46.6%	43.8%	44.2%	43.8%	44.4%	63
<b>Total USA</b>	<b>285,340</b>	<b>264,349</b>	<b>275,179</b>	<b>4.10%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>n.a.</b>

Fuente: HR Ratings con base en información del US Census Bureau. Datos no ajustados por estacionalidad, millones de USD.

\*Annual change in basic points.

## Personal income and spending for May

The May consumer income and spending report showed positive results in terms of income, expenditure, savings rate and consumer inflation. Following the 0.1% drop in the previous month, the May consumer spending data showed an increase in household monthly real expenditure of 0.3%, which reflected an increase of 0.6% in spending on goods and a 0.1% increase in spending on services. The year-over-year growth rate was 2.4%, which is higher than the previous month's gain of 2.3%. Given the information obtained for April and May, we anticipate that the second quarter reading for consumer expenditure in GDP statistics will be slightly higher than the 2.0% annualized increase reported in 1Q24, contributing positively to overall growth.

## Evolution of U.S. personal income and its disposition in billions of real 2017 USD

Monthly data	Billions of USD (2017)				Change vs.*	
	Feb-24	Mar-24	Apr-24	May-24	May-23	Apr-24
Labor Compensation	11,972	11,997	11,994	12,071	2.38%	0.65%
Income by business activity	1,546	1,543	1,539	1,539	1.41%	-0.01%
Rental Income	837	847	845	846	5.69%	0.11%
Interest	1,482	1,472	1,472	1,477	1.01%	0.31%
Dividends	1,520	1,521	1,524	1,533	-0.86%	0.54%
Income from Financial Assets	3,002	2,992	2,997	3,009	0.05%	0.43%
<b>Income before transfers and taxes</b>	<b>17,357</b>	<b>17,379</b>	<b>17,374</b>	<b>17,466</b>	<b>2.04%</b>	<b>0.53%</b>
Plus Gov't Personal Transf.	3,474	3,487	3,492	3,504	1.91%	0.36%
Less social security contributions	1,523	1,526	1,525	1,535	2.70%	0.62%
<b>Personal Income</b>	<b>19,308</b>	<b>19,341</b>	<b>19,341</b>	<b>19,435</b>	<b>1.96%</b>	<b>0.49%</b>
Less tax payments	2,411	2,416	2,419	2,436	8.62%	0.69%
<b>Disposable Personal Income (DPI)</b>	<b>16,897</b>	<b>16,924</b>	<b>16,922</b>	<b>17,000</b>	<b>1.08%</b>	<b>0.46%</b>
Less Personal Savings	625	600	624	655	-25.85%	4.90%
Less interest payments	428	429	429	430	8.70%	0.20%
Less Transfer Payments	206	205	199	205	1.39%	3.11%
Personal Non-Expense Outflows	634	635	628	635	6.22%	1.12%
<b>Personal Consumption Expenditure (PCE)</b>	<b>15,638</b>	<b>15,689</b>	<b>15,670</b>	<b>15,710</b>	<b>2.43%</b>	<b>0.26%</b>
<b>Personal Savings Rate**</b>	<b>3.70%</b>	<b>3.55%</b>	<b>3.69%</b>	<b>3.85%</b>	<b>-1.40</b>	<b>0.16</b>
Net taxes ***	460	455	452	466	56.2%	3.01%
Total annual PCE inflation	<b>2.50%</b>	<b>2.72%</b>	<b>2.68%</b>	<b>2.56%</b>	<b>-1.40</b>	<b>-0.12</b>
Annual Core PCE Inflation	<b>2.83%</b>	<b>2.83%</b>	<b>2.78%</b>	<b>2.57%</b>	<b>-2.12</b>	<b>-0.21</b>

Source: HR Ratings with seasonally adjusted data from US BEA (in billion USD of 2017).

\*Changes are with respect to the last reported month vs. the indicated month; \*\*Personal savings rate changes are presented in percentage points.

\*\*\*Social security (SS) contributions and income taxes less transfers.



Meanwhile, real personal disposable income (PDI) increased 0.5% m/m from a flat reading in April. The table above demonstrates that increases in labor compensation (+0.65% m/m), personal income receipts from assets (+0.43% m/m), and government social benefits (+0.36% m/m) all contributed to the increase in PDI. The PDI increased 1.1% over the same month a year ago (vs. +0.9% in April). In addition to the favorable improvements in income and spending, households' savings rate increased to 3.85% from 3.65%, reaching its highest level since January. However, on an annual basis and given lower savings rates in previous months, savings fell nearly 26% permitting consumer spending to rise a healthy 2.43% vs. the 1.1% advance in PDI.

Finally, inflation, as measured by Personal Consumer Expenditure (PCE), decreased 0.01% on a monthly basis and slowed to 2.56% in the annual reading from 2.68% previously. Core inflation, for its part, rose by 0.08% m/m and fell to 2.57% y/y from 2.78%. And, as we highlight in greater detail in the inflation comment, both PCE and CPI inflation are moderating, potentially leading to an earlier than expected Fed rate cut.

## U.S. June CPI Inflation

The Consumer Price Index (CPI) using seasonally adjusted data contracted for the first time since May 2020, falling -0.06% in June compared to May, bringing the annual CPI below 3.0% for the first time since March 2021, at 2.98%. Core inflation also moderated in both the monthly and annual numbers. Core inflation increased 0.06% monthly (compared to +0.16% in May) and 3.28% annually, following a 3.41% gain.

The monthly slowdown in goods prices resulted in a reduction in core inflation, particularly for durable and non-durable items, as shown in the table below. However, costs for some services have risen less than in recent months. Shelter rent, for example, increased by 0.20% m/m (vs. +0.39% m/m in May), the lowest monthly reading since February 2021. However, while the monthly price drop is beneficial, the annual numbers may still be too high for the Fed's liking. Thus, consensus seems to suggest that the still high services inflation makes a July cut relatively unlikely while the prospects for a cut in September are positive assuming that the declining trend continues. Core inflation, while steadily lowering from its peak in 2022, remains higher than the Fed's inflation target of 2.0% (+/- 1.0%), with some services still surpassing 5.0%.

Non-core components, like energy and food, had differentiated results. Monthly and annual food prices increased slightly, while energy costs decreased on a monthly basis and slowed down in the annual readings mainly due to declines in gasoline prices. The results are shown in the table below.

### CPI Inflation Evolution

Inflation During:	May-24		June-24		Annualized 3MMA		
	Monthly	Annual	Monthly	Annual	Apr-24	May-24	Jun-24
<b>Headline</b>	<b>0.01%</b>	<b>3.25%</b>	<b>-0.06%</b>	<b>2.98%</b>	<b>4.41%</b>	<b>4.01%</b>	<b>2.82%</b>
<b>Core</b>	<b>0.16%</b>	<b>3.41%</b>	<b>0.06%</b>	<b>3.28%</b>	<b>4.27%</b>	<b>3.98%</b>	<b>3.17%</b>
Services less Energy	0.29%	5.25%	0.16%	5.06%	7.05%	6.78%	5.28%
Services less Rent	0.02%	4.97%	0.04%	4.81%	7.50%	6.65%	4.12%
Rent of Shelter	0.39%	5.42%	0.20%	5.18%	5.81%	5.61%	4.85%
Non Durable Goods	-0.43%	1.83%	-0.48%	1.29%	2.35%	2.10%	1.39%
Durable Goods	-0.48%	-3.82%	-0.50%	-4.12%	-3.23%	-3.67%	-4.64%
Food	0.14%	2.14%	0.24%	2.23%	1.70%	1.21%	1.06%
Energy	-2.03%	3.52%	-2.04%	0.91%	11.33%	9.97%	2.30%
Gasoline	-3.64%	2.19%	-3.79%	-2.46%	14.27%	15.75%	5.66%

Fuente: HR Ratings with seasonally adjusted information from the U.S. Bureau of Labor Statistics, retrieved from FRED.



Both headline and core inflation have slowed for three months in a row, reaching levels not seen since early 2021. In addition to these numbers, the May PCE report revealed that inflation had eased for the third consecutive month. Both outcomes, along with a weaker labor market, may lead to an earlier than projected rate cut by the Federal Reserve. The next monetary policy decision is later this month, on July 30-31, and while we do not expect a decrease, the committee may deliver new indications about future rate movements.

## U.S. Employment Report for June

According to the Establishment Survey, the US labor market added 206k jobs, in line with the consensus forecast of 200k jobs, but even as the job creation grew at a steady pace in June, further data suggests that the labor market may be cooling off. In the previous two months, the total number of jobs created was revised downwards by 111k as May's nonfarm payroll gains were revised down 54k to 218k, and April's gains were revised down by another 57k to 108k. As a result, an average of 177,000 jobs were created in the second quarter of the year, as opposed to 267,000 in the first quarter. According to the Bureau of Labor Statistics, both the private sector (+136k) and the government (+70k) added jobs in June. Among the industries that had the greatest gains were health and social assistance (+82k) and construction (+27k).

On the other hand, according to household survey statistics, more people are seeking employment, with the labor force increasing by 270 thousand, reversing the previous month's loss of 250 thousand positions. The participation rate increased slightly to 62.6% (up from 62.5% the previous month), and the unemployment rate rose from 4.0% to 4.1%, hitting its highest level since 2020. This weakening could add further support (in addition to declining inflation) for a rate cut in the third quarter.

### June Payroll, Employment and Hourly Wage Report

	Jun-22	Jun-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Total payrolls in the month (millions)	152.3	156.0	157.6	157.8	158.1	158.2	158.4	158.6
Net New Payrolls in month (thousands)	420.0	240.0	256.0	236.0	310.0	108.0	218.0	206.0
Net New Payrolls 3mma (thousands)	326.0	273.7	242.7	260.7	267.3	218.0	212.0	177.3
Annualized quarterly change in total payrolls	3.27%	1.96%	1.68%	1.84%	1.98%	1.91%	1.78%	1.55%
Annual quarterly change in total payrolls	4.70%	2.50%	1.87%	1.84%	1.81%	1.80%	1.77%	1.71%
Labor force (millions)	164.1	167.0	167.3	167.4	167.9	168.0	167.7	168.0
Jobs (millions)	158.1	161.0	161.2	161.0	161.5	161.5	161.1	161.2
Unemployed (millions)	6.0	6.0	6.1	6.5	6.4	6.5	6.6	6.8
Labor force entrants (thousands)	-180.0	177.0	-175.0	150.0	469.0	87.0	-250.0	277.0
Monthly unemployment rate	3.6%	3.6%	3.7%	3.9%	3.8%	3.9%	4.0%	4.1%
Labor participation rate	62.2%	62.6%	62.5%	62.5%	62.7%	62.7%	62.5%	62.6%
Quarterly average real hourly earnings*	33.51	33.70	33.90	33.90	33.89	33.84	33.87	33.94
Annualized quarterly change*	-4.78%	1.61%	1.79%	1.30%	0.49%	-0.75%	-0.35%	0.63%
Quarterly annual change*	-2.77%	0.56%	1.07%	1.05%	0.97%	0.75%	0.66%	0.73%
Quarterly average weekly real wage*	1,160	1,158	1,164	1,163	1,162	1,162	1,163	1,164
Annualized quarterly change*	-4.78%	0.05%	1.40%	0.52%	-0.29%	-0.75%	0.04%	0.64%
Quarterly annual change*	-3.51%	-0.21%	0.58%	0.47%	0.38%	0.55%	0.56%	0.53%
Quarterly annualized inflation*	10.02%	3.04%	2.39%	2.91%	3.81%	4.41%	4.01%	2.82%
Quarterly annual inflation*	8.59%	4.03%	3.19%	3.20%	3.25%	3.33%	3.36%	3.19%

Source: HR Ratings with data from the US BLS & information retrieved from FRED, Federal Reserve Bank of St. Louis.

\*Inflation based on Headline CPI. Data in average 2023 USD. Measures the real quarterly wage compared to the same quarter of the previous year and to the immediately preceding quarter annualized. Refers to all employees in the private sector.



In June, the annualized quarterly growth in hourly compensation was 0.63%, reversing a two-month decline. The real weekly compensation increased by 0.64%, following a modest 0.04% increase in the previous month. However, it is possible that this trend could be reversed in the months ahead if the labor market continues to slow down, thereby enabling inflation to continue advancing toward its target.

## U.S. Industrial Production for June

June marked a 0.6% increase in industrial production showing three consecutive months of growth. The majority of significant market groups observed gains in June, producing a good growth rate for the second quarter. The table below shows that manufacturing production increased by 0.4% m/m in comparison to the previous month's 1.0% rise. Following two months of declines, motor vehicles and parts experienced a 1.6% m/m increase translating into a 13.4% annualized growth for the quarter. This is a positive development for both Mexico's manufacturing sector its level of exports. Non-durable goods saw a 0.8% m/m increase, indicating a good performance for the second quarter vs. 1Q24. However, on an annual basis, the second quarter's advance was modest.

The improvement in the operating rate to 89.3 percent in June was accompanied by a 0.3% month-over-month increase in mining output. Because of the increased demand for power, which is expected to rise in the upcoming months due to the summer season, the utilities index increased 2.8% m/m.

Industrial production rose 4.3% annualized the second quarter, offsetting the 2.1% quarterly decline in the prior quarter. The mining (+3.4% q/q), automotive and parts (+13.4% q/q), and utility (+12.0% q/q) sectors also performed well, contributing to the manufacturing sector's 3.4% quarterly growth.

### Evolution of the U.S. Industrial Production

Sector	Annual Change		Shorter term change <sup>1</sup>	
	Monthly	Quarterly	m/m	q/q
<b>Manufacturing</b>	1.1%	0.1%	0.4%	3.4%
Durable	0.2%	-0.3%	0.0%	2.2%
Motor vehicles and parts	4.2%	1.3%	1.6%	13.4%
Nondurable	2.1%	0.5%	0.8%	4.6%
<b>Mining</b>	-0.6%	-0.5%	0.3%	3.4%
<b>Utilities</b>	7.9%	3.9%	2.8%	12.0%
<b>Total</b>	1.6%	0.4%	0.6%	4.3%

Source: HR Ratings based on US Census Bureau and FRED data. Seasonally adjusted data.

<sup>1</sup> Month over month and Quarter over immediately prior quarter annualized.



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