January 9, 2025

December inflation – We expect year-end 2025 inflation at Banxico's upper bound

- **Headline inflation (December): 0.38% m/m; Banorte: 0.33%; consensus: 0.38% (range: 0.28% to 0.54%); previous: 0.44%**
- **Core inflation (December): 0.51% m/m; Banorte: 0.48%; consensus: 0.50% (range: 0.09% to 0.55%); previous: 0.05%**
- **The period is impacted by several seasonal trends, mainly at the core. As such, the rebound in goods (0.4%) stood out, driven by 'others' (0.4%), albeit also with some pressures in processed foods (0.4%). In services (0.6%), the net effect in tourism items is to the upside due to the holiday period, driving 'others' at 1.1%. At the non-core (-0.04%), agricultural items fell 0.6%, dragged by fruits and vegetables (-2.8%). Meanwhile, energy advanced 0.4%, with almost all categories higher**
- **Thus, inflation in 2024 was 4.21%, improving from 4.66% in the previous year. The core came in at 3.65%, accelerating at the margin, but also lower than in 2023 (5.09%)**
- **Following the latest results, we revise our 2025 estimates downwards. We now expect the headline at the end of the period at 4.0% (previous: 4.4%), with the core at 3.6% (previous: 3.7%)**
- **Attention on Banxico's minutes later today, awaiting information on the magnitude of rate cuts in coming decisions**

Inflation of 0.38% m/m in December. As in the previous month, the period is characterized by different seasonal factors, although in the opposite direction. These are most noticeable at the core (0.51%). Goods (0.4%) were driven by the 0.4% advance in 'others' due to the end of *El Buen Fin* discounts and other promotions, along with the year-end shopping period. In addition, processed foods also had some pressures (0.4%). In services (0.6%), the net effect of tourism items within 'others' (1.1%) is to the upside (*e.g.* air fares up by 26.3% and services by 8.3%). In this sense, increases in the first half were only partially offset by setbacks in the second fortnight. Housing remained somewhat high at 0.2%. Turning to the non-core (-0.04%), the 0.6% decline in agricultural items due to fruits and vegetables (-2.8%) stood out. In the latter, the most significant declines were in papayas, husk tomatoes, and onions. Meat and egg grew 1.1%, boosted by chicken and beef. In energy (0.4%), generalized increases prevailed, highlighting LP gas (1.9%) and low-grade gasoline (0.1%). Government tariffs stood at 0.5%, higher at the margin.

December inflation: Goods and services with the largest changes
Monthly incidence in basis points; % m/m

Goods and services with the largest positive contribution	Incidence	% m/m
Air fares	7.4	26.3
Dining away from home	4.6	0.9
Chicken	3.9	2.3
Housing	3.4	0.3
LP gas	2.7	1.9
Goods and services with the largest negative contribution		
Papayas	-4.1	-25.8
Husk tomatoes	-2.3	-13.9
Onions	-2.1	-6.9
Potatoes	-2.0	-6.3
Eggs	-1.7	-1.6

Source: INEGI


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Winners of the award as the best economic forecasters in Mexico by *LSEG* in 2023

LSEG STARMINE AWARD FOR REUTERS POLLS
Best Forecaster Economic Indicators for Mexico 2023

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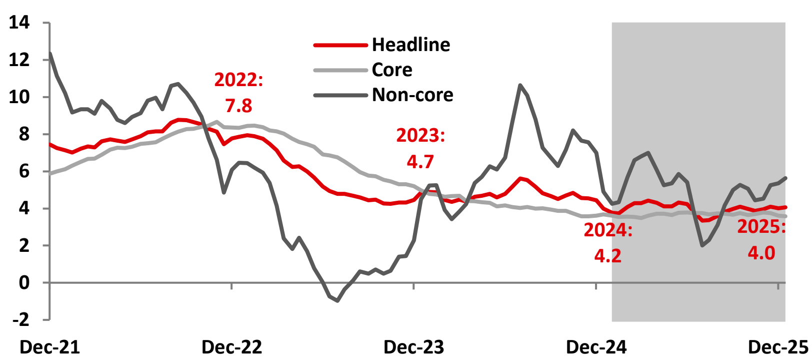
Inflation in 2024 was 4.21%, with the core component lower at 3.65%. The former moderated from 4.55% in the previous month and reached its best year-end level since 2020, when it stood at 3.15%. The yearly decline was largely explained by: (1) The reduction in core inflation, from 5.09% at year-end 2023 to 3.65%, largely explained by goods (2.5% vs. 4.9%), while services did moderate, albeit to a lesser extent (4.9% from 5.3%); in contrast, (2) the non-core rose from 3.39% to 5.95%, with the main catalyst behind this adjustment being energy (5.7% vs. 0.1% in 2023) and meat and egg (6.3% vs. 0.7%). On the contrary, we also note fruits and vegetables, standing at 6.0% from 11.7% as part of the shock at the end of 2023 faded away.

We revise our year-end 2025 forecasts to the downside. Specifically, we expect the headline by the end of the year at 4.0% (previous: 4.4%), with the core also within the central bank's target range –which is key to our forecast of further monetary easing– at 3.6% (previous: 3.7%). The adjustment starts from a lower base in 2024, helping with about -20bps to the headline. Other drivers that could skew prices lower include: (1) The anticipated slowdown in local economic activity, dampening demand-side pressures –which we expect to influence services to the downside; (2) limited moves in energy, with estimates of an oversupply of crude oil –despite calls of higher demand due to better US economic dynamism; and (3) a limited effect from the pass-through effect of exchange rate movements to final prices of imported goods, especially considering an output gap that will gradually turn more negative. On the contrary, we highlight two main risks. The first consists of the possibility of a tariff war that could affect very positive dynamics seen in goods, led by an aggressive stance on trade by the US. This would be exacerbated if other countries enact countervailing measures in response. Second, the performance of agricultural goods, with weather conditions still key. In this regard, although NOAA's Climate Prediction Center expects that the *La Niña* phenomenon may dissipate between March and May, drought conditions nationally remain high –with around 50% of the territory experiencing at least some kind of negative effects.

Inflation forecasts
% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

Attention on Banxico's minutes, awaiting information on the magnitude of upcoming rate cuts. At 10:00am ET, the monetary authority will release the minutes of its latest decision, where they cut their reference rate by 25bps to 10.00%. Considering the adjustments made to the statement that accompanied the meeting, our attention will be on comments about the magnitude of upcoming moves, particularly on which factors could convince members to accelerate the pace of monetary easing.

Analyst Certification.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernandez, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Ana Laura Zaragoza Félix, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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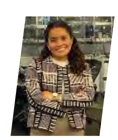

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