January 23, 2025

Inflation 1H-January – Less-than-expected pressures at the start of the year

- **Headline inflation (1H-January): 0.20% 2w/2w; Banorte: 0.23%; consensus: 0.27% (range: 0.05% to 0.53%); previous: 0.04%**
- **Core inflation (1H-January): 0.28% 2w/2w; Banorte: 0.24%; consensus: 0.24% (range: 0.20% to 0.42%); previous: 0.06%**
- **The period is characterized by seasonal adjustments associated with the start of the year, highlighting revisions by producers and retailers, as well as the inflationary update to the excise tax of some goods. In this sense, within the core, goods came in at 0.5% –with pressures concentrated in processed foods (0.6%). In services (0.1%), the fall in tourism items within 'others' (0.1%) helped, albeit with additional advances in housing (0.2%). In the non-core (-0.04%), agricultural items fell 1.0% –dragged by fruits and vegetables (-2.7%)–, with energy up 0.8%. Finally, government tariffs advanced 0.5%**
- **In bi-weekly terms, annual inflation kept moderating, now at 3.69% from 3.99% in the second half of December. The core was more stable at 3.72% (previous: 3.69%)**
- **The path of inflation will continue supporting Banxico's cuts, although with uncertainty on the external front that would limit the magnitude of the next move**

Inflation of 0.20% 2w/2w in the first half of January. The period is characterized by different seasonal adjustments associated with the start of the year, highlighting annual revisions by producers and retailers, as well as the inflationary update to the excise tax of some goods. In this sense, goods advanced 0.5% within the core (0.28%), highlighting processed foods (0.6%) –where tax adjustment impacted goods such as sodas (0.5%) and cigarettes (3.2%). On the other hand, 'other goods' surprised to the upside at 0.4%. Moving on to services (0.1%), housing came in at 0.2%, while education grew at the same magnitude, driven by universities (0.4%). Meanwhile, 'other services' were negative at -0.1%, with relevant setbacks in tourism items (*e.g.* airfares at -31.5% and packages at -8.7%) offsetting rises on other fronts (*e.g.* dinning away from home at 0.8%). Turning to the non-core (-0.04%), agricultural items fell 1.0%, dragged down by fruits and vegetables at -2.7% –with relevant declines in tomatoes, onions, and grapes. However, meat and egg grew 0.3%. Energy expanded 0.8%, with increases in low-grade gasoline (0.8%) and LP gas (0.1%) as the former suffered the excise tax adjustment, as well as increases in international references for both. Government tariffs came in at 0.5%, with adjustments in different components such as vehicle paperwork (3.2%) and legal documents (2.7%).

1H-January inflation: Goods and services with the largest contributions
% 2w/2w; bi-weekly incidence in basis points

Goods and services with the largest positive contribution	Incidence	% 2w/2w
Dinning away from home	4.0	0.8
Low-grade gasoline	3.7	0.8
Electricity	2.9	1.8
Cigarettes	1.9	3.1
Housing	1.9	0.1
Goods and services with the largest negative contribution		
Air fares	-10.0	-31.5
Tomatoes	-6.2	-9.1
Eggs	-1.9	-1.8
Tourism packages	-1.7	-8.7
Onions	-1.3	-4.7

Source: INEGI


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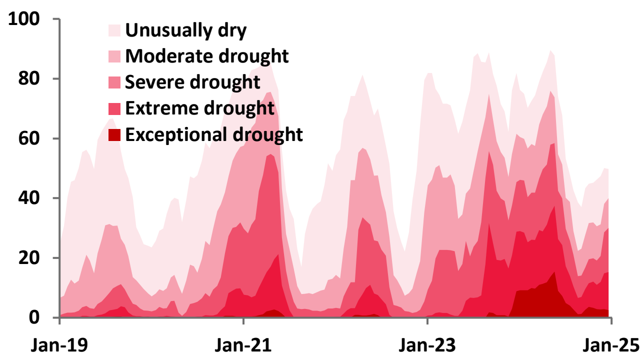
Headline inflation receded further, helped by a relevant base effect. This came in at 3.69% from 3.99% y/y in the 2nd half of December. This is due to the decline in the non-core to 3.60% from 4.91%, with a considerably more favorable base effect in fruits and vegetables –which adjusted to -6.1% from 4.5%– given the elimination of an adverse shock last year. However, it is relevant to note that this will likely reverse in February. In this sense, the outlook for the sector remains relatively adverse, although better than at the same point in 2024. Specifically, drought levels are more limited with 49.8% of the national territory affected as of January 15th vs. 81.9% the previous year (see chart below, left), while the fill level of dams and reservoirs is also higher at 57.1% vs. 49.7% in 2024 (see chart below, right). In energy, we believe that US weather conditions will continue to dictate short-term dynamics, although in subsequent months futures point to a downward trajectory. The core was more stable at 3.72% (previous: 3.69%), highlighting an additional rebound inside goods to 2.7% from 2.5%, adding three fortnights to the upside from a highly favorable point. On this front, risks are more focused on potential tariffs (with countervailing measures possibly impacting categories) as well as the risk of an acceleration of the exchange rate pass-through. Finally, services (at 4.8%) continued to adjust lower, highlighting additional gains in 'other services' despite some reticence to the downside in housing and education. However, we believe that increased slack in the economy in the coming months will contribute to a further reduction in this category.

Drought monitor

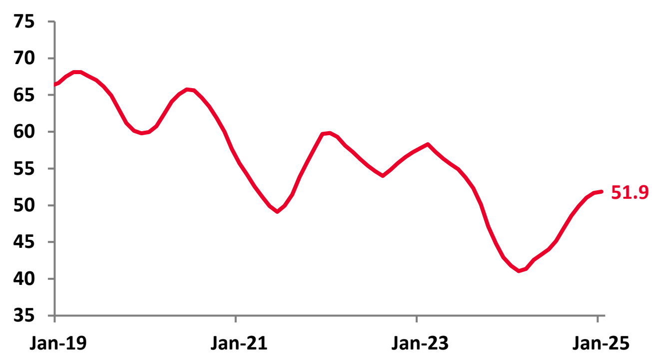
% of territory with a type of impact



Source: Banorte with data from CONAGUA

Dam fill level*

% of national total, 6-month moving average



*January 2025 figures include up to January 15th

Source: Banorte with data from CONAGUA

Banxico will continue easing, expecting -25bps in the February 6th decision. We continue to believe that the downward path of inflation will remain as the main driver for the monetary authority to proceed with additional cuts to the reference rate. In addition, expectations of an economic slowdown in 2025 will also weigh on the reaction function. Nevertheless, the external environment remains a high source of uncertainty, with the threat from the US that 25% tariffs will be imposed on imports from Mexico as early as February 1st. Thus, we still forecast -25bps at the next meeting on February 6th, taking the rate to 9.75%. It is worth noting that the market is more sanguine, already pricing a 50bps cut with a high probability. After this, we anticipate adjustments of both -25bps and -50bps in subsequent decisions, followed by a pause in 2H25. All in all, this would take the reference rate to 8.50% by the end of the year.

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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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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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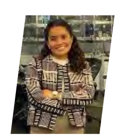

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