February 7, 2025

January inflation – Downside surprise despite a difficult seasonality

- **Headline inflation (January): 0.29% m/m; Banorte: 0.33%; consensus: 0.31% (range: 0.24% to 0.40%); previous: 0.38%**
- **Core inflation (January): 0.41% m/m; Banorte: 0.45%; consensus: 0.45% (range: 0.37% to 0.47%); previous: 0.51%**
- **The period has an important seasonality, with adjustments mostly skewed upwards due to revisions by producers and the update to the excise tax of several goods. Thus, within the core, goods advanced 0.7% m/m –with increases in both food (0.8%) and 'others' (0.6%). In services (0.2%), housing was more limited (0.3%), while in 'others' (0.0%), setbacks in tourism limited the increase. In the non-core (-0.14%), agricultural items fell 1.5% –dragged down by fruits and vegetables (-4.7%). Meanwhile, energy prices rose 1.1% –highlighting the increase in low-grade gasoline (1.0%)–, with government tariffs up 0.6%**
- **With these results, annual inflation moderated to 3.59% from 4.21% in December, within Banxico's variability range for the first time since February 2021. Core inflation accelerated at the margin to 3.66% (previous: 3.65%)**
- **Today's print supports our forecast of another 50bps cut from Banxico in March, with the reference rate by year-end at 8.50%**

Inflation of 0.29% m/m in January. The period has a significant seasonality, with adjustments mostly to the upside due to start-of-the-year revisions by producers and traders, as well as the inflationary update to the excise tax of several goods. In this sense, within the core (0.41%), goods advanced 0.7%. Within these, both processed foods (0.8%) and 'others' (0.6%) had substantial increases –with cigarettes (4.2%) standing out in the former due to tax adjustments. Turning to services (0.2%), housing was limited (0.3%) when compared to previous years. Meanwhile, 'others' came in at 0.0%, with pressures in 'dining away from home' (1.2%) and restaurants (1.0%) offset by the decline in tourism categories (*e.g.* airfares by -38.6% and packages by -9.6%). Turning to the non-core (-0.14%), the decline of 1.5% in agricultural products was explained by fruits and vegetables (-4.7%). In the latter, the most significant reductions were in tomatoes, onions, and husk tomatoes. Meat and egg grew 0.9%, driven by chicken and beef. In energy (1.1%), the increase in low-grade gasoline (1.0%) stood out, driven by a higher excise tax, as well as adjustments in international references. Finally, government tariffs advanced 0.6%.

January 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
Dinning away from home	6.3	1.2
Low-grade gasoline	4.9	1.0
Chicken	4.0	2.3
Housing	3.4	0.2
Bananas	3.0	16.5
Goods and services with the largest negative contribution		
Air fares	-13.7	-38.6
Tomatoes	-10.5	-15.5
Onions	-2.9	-10.3
Eggs	-2.4	-2.3
Husk tomatoes	-2.0	-14.0

Source: INEGI


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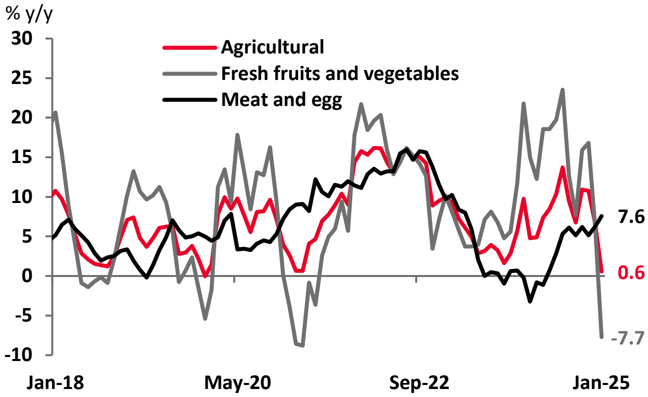
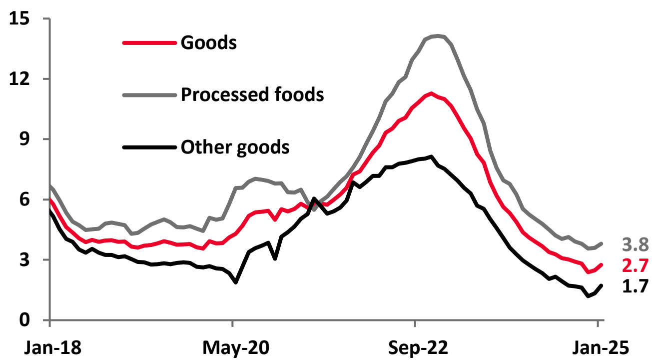
Headline inflation breaks the 4% barrier to the downside, although core inflation adjusted marginally higher. With these results, headline inflation came in at 3.59% y/y from 4.21% in December, placing it within Banxico's variability range for the first time since February 2021. The decrease was mostly explained by a positive base effect at the non-core –which dropped to 3.34% from 5.95%–, particularly within fruits and vegetables, which reached -7.7% (see chart below, left). Such movement will reverse as soon as the second half of February, expected to push the headline metric above 4%. However, the trajectory for the item could be better than last year, with more favorable weather conditions at the margin vs. 2024, even though the expectation is that the *La Niña* phenomenon will extend until April. Meanwhile, in energy (in 6.3%), after an increase throughout January –with adverse weather conditions in the US–, international benchmarks started to retreat, a situation that could be favorable for short-term dynamics. Meanwhile, the medium-term path remains favorable, at least considering future prices and estimates from various organizations. The core adjusted marginally upwards to 3.66% (previous: 3.65%). The increase is explained by goods, which seem to have already left their lows, now at 2.7%. Inside, increases have been seen in both processed foods and 'others' (see chart below, right), where base effects have become more challenging and some pass-through of the previous depreciation of the MXN to final prices cannot be ruled out. On the other hand, services have continued to adjust downwards, reaching 4.7%. Declines within have been widespread, although with 'others' leading, which could be associated with more slack conditions in the economy, consistent with the decline in 4Q24 GDP. Considering these factors, we believe that price dynamics will be more favorable than in 2024. We maintain our year-end estimate at 4.0% for the headline and 3.6% for the core.

Agricultural
% y/y



Source: Banorte with data from INEGI

Goods
% y/y



Source: Banorte with data from INEGI

Banxico accelerated the pace of cuts, a situation we expect to continue in March. Yesterday, the central bank cut the reference rate by 50bps to 9.50%. The statement was considerably more dovish, highlighting the new forward guidance signaling that "*…looking forward it could continue calibrating the monetary policy stance and consider adjusting it in similar magnitudes…*". Considering this, as well as our views on inflation and economic activity, we reiterate our call for a 50bps rate cut on March 27th, taking the interest rate to 9.00%. Moreover, we believe that easing will continue after this, reaffirming our year-end rate forecast at 8.50%.

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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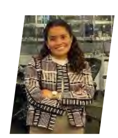
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