March 24, 2025

Inflation 1H-March – Improvements continue, key to Banxico's cuts

- **Headline inflation (1H-March): 0.14% 2w/2w; Banorte: 0.18%; consensus: 0.17% (range: 0.03% to 0.30%); previous: 0.14%**
- **Core inflation (1H-March): 0.24% 2w/2w; Banorte: 0.26%; consensus: 0.25% (range: 0.21% to 0.30%); previous: 0.21%**
- **The result was favorable once again, partly explained by the decline in the non-core (-0.19% 2w/2w). On this occasion, energy (-0.7%) was dragged down by low-grade gasoline at -1.3%. Agricultural items rebounded at the margin (0.1%), highlighting a more modest uptick in meat and egg (0.2%), with fruits and vegetables still to the downside (-0.1%). At the core, goods were relatively contained at 0.3% –with 'others' skewing the result down at 0.2%–, while services advanced 0.2%. Inside the latter, some pressures and an unfavorable seasonality were seen in 'others' (0.3%), while housing (0.1%) was more subdued**
- **With bi-weekly figures, annual inflation moderated to 3.67% from 3.81% in the 2nd half of February. The core was also lower at 3.56% (previous: 3.66%)**
- **Today's results support our view of a 50bps cut to Banxico's reference rate in Thursday's decision**

Inflation of 0.14% 2w/2w in the first half of March. The result was again favorable, driven by a fall in the non-core (-0.19%). However, on this occasion, the main highlight was the 0.7% decline in energy prices, with low-grade gasoline (-1.3%) dragging down the total. Regarding the latter, the contraction was explained by the agreement between the federal government and some hydrocarbon sellers to cap the price at $24 per liter. In the rest of the category, LP gas (0.0%) was more stable, with electricity higher (0.2%). Within agricultural items (0.1%), meat and egg showed a more modest advance (0.2%) with decreases in chicken and eggs despite continued bird flu outbreaks. Meanwhile, fruits and vegetables came in at -0.1% –highlighting upticks in husk tomatoes and lemons, but with declines in onions and potatoes. The core grew 0.24%. Goods were contained at 0.3% –with 'others' relatively low at 0.2%, but with processed foods a bit stronger at 0.4%. In services (0.2%), 'others' rose 0.3%, with pressures continuing in 'dining away from home' (0.2%) and increases also in tourism categories (*e.g.* air fares at 6.1%). Finally, housing expanded by 0.1%, showing a more modest advance for a second consecutive fortnight.

1H-March 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
Beef	2.8	1.5
Housing	1.9	0.1
Other cooked foods	1.4	0.6
Air fares	1.4	6.1
Dining away from home	1.2	0.2
Goods and services with the largest negative contribution		
Low-grade gasoline	-6.3	-1.3
Onions	-1.3	-6.0
Eggs	-0.9	-0.8
Potatoes	-0.7	-2.7
Sanitary pads	-0.7	-3.0

Source: INEGI


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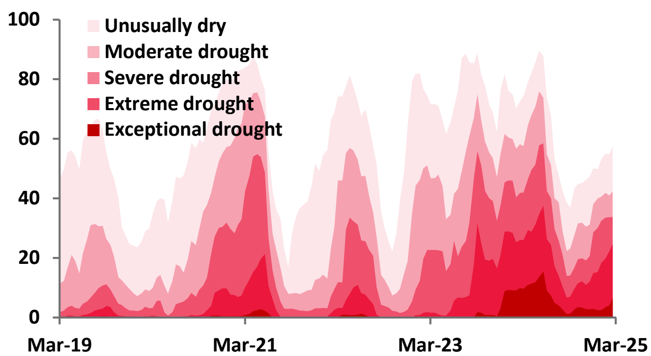
Reductions in both headline and core inflation in the annual comparison. The former came in at 3.67% from 3.81% y/y in the second half of February. Part of the improvement is due to the fading of the adverse base effect at the non-core, which declined to 3.89% (previous: 4.18%). Inside, agricultural goods stood at 4.2%, with a slight acceleration in fruits and vegetables (-3.7%) –with a more adverse seasonality–, but with meat and egg moderating (to 8.9%). Regarding the former, drought conditions have worsened in the last fortnights –consistent with the dry season– (see chart below, left), which could represent greater upside risks, as described in a previous note. In the latter, the bird flu issue is still latent, with the UN's FAO warning about unprecedented contagions, which "*...could have severe impacts on food security and availability...*". Turning to energy (at 2.8%), the situation appears more favorable. The agreement between the federal government and gasoline sellers is contemplated for six months –although we do not rule out an extension–, which should provide stability to the hydrocarbon. However, the US reference price for natural gas has been on an upward path for the last seven months (see chart below, right), which poses risks not only for said commodity but also for electricity, as it is a key input for power generation. The core moderated to 3.56% (previous: 3.66%). The improvement in services stood out, with the category reaching 4.2% –its lowest level since early 2022. Inside, housing (3.6%) has already left behind its cycle highs, a situation that we believe is linked to increased economic slack. The latter factor would also be helping certain categories within 'others' (4.7%), although we believe that wage pressures (as well as in other costs) continue to drive food away from home. Finally, goods increased only 2.9%, recognizing challenging base effects. Thus, both processed foods (4.1%) and 'others' (1.8%) rose at the margin, in our view still quite favorable considering the accumulated depreciation of the Mexican peso over the last 12 months.

Drought monitor
% of the national territory with some degree of impact



Source: Banorte with data from CONAGUA

Natural gas (NG1)
US$ per million BTUs

Source: Banorte with data from Bloomberg

Banxico will continue easing, expecting -50bps on Thursday. Today's results validate our view that the central bank will cut its reference rate to 9.00% this week. Specifically, and as we detailed in our *View from the Top*, improvements in the inflation outlook and challenges for economic activity will be sufficient reasons to drive the cut. In addition, we will be watching for changes to the statement, particularly in the forward guidance, which will be key to elucidate the magnitude of adjustments ahead.

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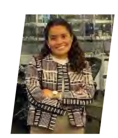

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