April 9, 2025

March inflation – Downside revision in our 2025 year-end forecast

- **Headline inflation (March): 0.31% m/m; Banorte: 0.39%; consensus: 0.32% (range: 0.27% to 0.40%); previous: 0.28%**
- **Core inflation (March): 0.43% m/m; Banorte: 0.45%; consensus: 0.44% (range: 0.39% to 0.45%); previous: 0.48%**
- **Results inside were somewhat volatile –in contrast to what was seen in the first fortnight–, with some bright spots and negative notes to highlight. Within the non-core (-0.08%), the setback in energy (-0.9%) –with low-grade gasoline down (-1.6%) and LP gas stable (0.0%)– was partially offset by an uptick in agricultural items (0.4%) –driven by meat and egg at +0.7%. In the core, goods accelerated at the margin (0.4%), highlighting the 0.7% advance in processed foods. In services (0.4%), 'others' (0.6%) already showed signs of the seasonal advance in tourism items, with housing more moderate at 0.3%**
- **Thus, annual inflation accelerated to 3.80% from 3.77% in February. The core was more stable at 3.64% (previous: 3.65%), adding seven months below 4%**
- **Considering the recent performance as well as some bright spots for the non-core, we revised our estimate for year-end headline inflation to 3.8% (previous: 4.0%). However, the core would be higher at 3.8% (previous: 3.6%)**
- **Attention on Banxico's minutes tomorrow, expecting the dovish tone to continue, supporting our view of -50bps in May and a year-end rate of 7.75%**

Inflation of 0.31% m/m in March. Results inside showed greater volatility, especially relative to what was seen in the first half of the month. Specifically, the non-core stood at -0.08%. Inside, energy prices fell 0.9%, dragged down by the decline in low-grade gasoline (-1.6%) –with the effects of the price cap agreement extending to the second fortnight– and with LP gas more stable (0.0%). On the contrary, agricultural items advanced 0.4%, driven by meat and egg at 0.7% –highlight an increase in beef, although with chicken and eggs lower. Meanwhile, fruits and vegetables fell 0.1%. Government tariffs came in at 0.3%. Turning to the core (0.43%), goods accelerated to 0.4%, with the adjustment mainly explained by processed foods at 0.7%, while 'others' were more restrained at 0.3% –albeit with volatility in some items. Services advanced 0.4%. Within 'others' (0.6%) there were already some signs of hikes ahead of the Easter holiday (*e.g.* air fares at 10.9%), with pressures prevailing in other categories such as 'dining away from home' (0.6%). Finally, housing moderated at the margin to 0.3%.

March 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
Beef	5.9	3.3
Housing	3.5	0.3
Dining away from home	3.0	0.6
Air fares	2.4	10.9
Other cooked food	2.2	1.0
Goods and services with the largest negative contribution		
Low-grade gasoline	-7.8	-1.6
Onions	-3.0	-13.4
Potatoes	-1.3	-4.8
Chicken	-1.2	-0.7
Squash	-1.1	-19.0

Source: INEGI


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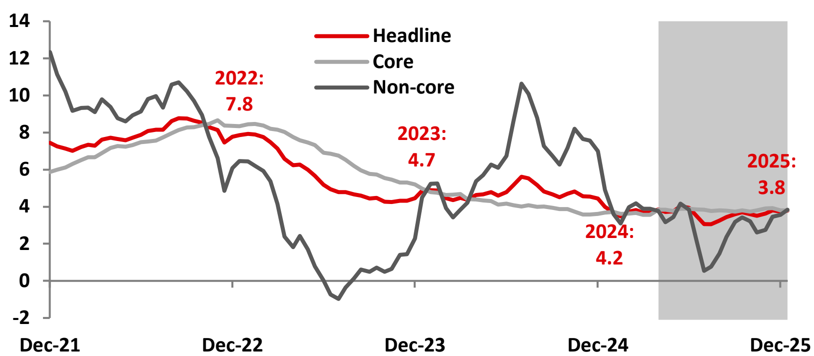
Modest acceleration in the annual comparison for the headline, with the core more stable. With these results, headline inflation came in at 3.80% from 3.77% y/y in February. In this sense, the non-core accelerated to 4.16% (previous: 4.08%), driven by the agricultural item at 4.9%, while energy moderated to 2.7%. Meanwhile, the core was more stable at 3.64% (previous: 3.65%). In this case, goods were higher at 3.0%, with services lower at 4.3%.

Downward revision to year-end headline inflation to 3.8%, helped by the non-core. This implies a -20bps revision from our previous estimate, with much of the adjustment coming from improvements in the outlook for the non-core component. Much of the change comes from energy, where the agreement to cap the price of low-grade gasoline at $24 per liter as well as actions by OPEC+ will help limit pressures on this front. Regarding agricultural items, although the short-term performance could be more complex, the fact that the *La Niña* phenomenon is expected to fade in the coming months will probably result in a more favorable behavior than seen both last year and what we previously expected. Nonetheless, we revise upward our forecast for the core to 3.8% (previous: 3.6%), as shown in the chart below. So far this year, goods have shown greater pressures than anticipated –especially processed foods. On the other hand, services have lost some momentum due to the economic slowdown, although certain items such as 'food away from home' and education remain somewhat elevated. In addition, our scenario now contemplates the imposition of tariffs on China as part of an early renegotiation of USMCA in the second half of the year, which would have an impact on the category.

Banorte: Inflation forecasts
% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

…with a slight rebound in 2026. We also set our estimate for next year at 3.9%, expecting a modest increase considering an acceleration in economic activity. However, with less uncertainty and improvements on other fronts, we expect the core to moderate to 3.7%.

Banxico will reiterate the dovish tone in its minutes tomorrow, supporting our estimate of more cuts. In our view, the monetary authority was clear in its latest statement that easing will continue, which led us to now anticipate an additional 50bps cut in the May 15th decision, with the benchmark rate at year-end at 7.75%. However, the views of the members in the minutes will be key to gauge more precisely subsequent moves, as well as the most important points which they will follow up in the short-term. Such is the case of Jonathan Heath, who mentioned in an interview with *Arena Pública* that he decided to support the -50bps given that "*...the probability that we are already in recession has increased a lot...*".

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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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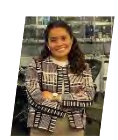

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