

## Inflation 1H-May – Pressures on meat and egg push the annual metric above 4%

- **Headline inflation (1H-May): 0.09% 2w/2w; Banorte: -0.04%; consensus: -0.10% (range: -0.30% to 0.20%); previous: 0.20%**
- **Core inflation (1H-May): 0.16% 2w/2w; Banorte: 0.19%; consensus: 0.16% (range: 0.10% to 0.22%); previous: 0.13%**
- The period usually has a positive seasonal bias due to the start of the second tranche of summer discounts on electricity (-18.5%). Other energy items were more stable, with low-grade gasoline at -0.1% and LP gas at 0.0%. Agricultural items were much more pressured (2.3%), driven by both meat and egg (2.9%) and fruits and vegetables (1.5%). Turning to the core, goods rose 0.1%, with processed foods (0.2%) higher than 'others' (0.1%). In services (0.2%), 'others' rose 0.2%, with tourism items normalizing but with pressures continuing in food away from home. Finally, housing was contained at 0.1%
- With bi-weekly data, annual inflation rose to 4.22% from 3.90% in the 2<sup>nd</sup> half of April, surpassing the 4% barrier for the first time since early December. Core inflation also picked up at the margin, now at 3.97% (previous: 3.96%)
- Despite less favorable price dynamics in recent fortnights, Banxico's forward guidance was clear in signaling an additional 50bps cut in June. We also maintain our year-end forecast at 7.75%

**Inflation of 0.09% 2w/2w in the first half of May.** The result is usually skewed to the downside because of the second tranche of summer discounts in electricity tariffs (-18.5%), which are of greater magnitude than in [April](#). Other energy items were more stable, with low-grade gasoline at -0.1% and LP gas at 0.0%, both helped by policies to keep prices contained. Agricultural items expanded 2.3%, with meat and egg up 2.9% –with chicken accelerating strongly and beef extending its upward trend. Fruits and vegetables added four fortnights with relevant increases at 1.5% –driven by tomatoes, papayas, and bananas. The core expanded 0.16%. Goods moderated to 0.1%, with higher prices in both processed foods (0.2%) and 'others' (0.1%). In services (0.2%), 'others' advanced 0.2%, with tourism items normalizing after the *Easter* holiday (e.g. air fares by -0.1%; packages -2.0%). More relevantly, some pressures remained in 'dining away from home' (0.3%). Finally, housing grew 0.1%, with better performance for a second fortnight in a row.

### 1H-May 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
Chicken	15.6	8.9
Tomatoes	2.2	4.4
Housing	2.2	0.2
Cinema	1.9	14.8
Beef	1.9	1.0
Goods and services with the largest negative contribution		
Electricity	-26.6	-18.5
Tequila	-1.1	-3.8
Lemons	-0.9	-7.3
Wine	-0.7	-2.5
Rum	-0.6	-3.9

Source: INEGI



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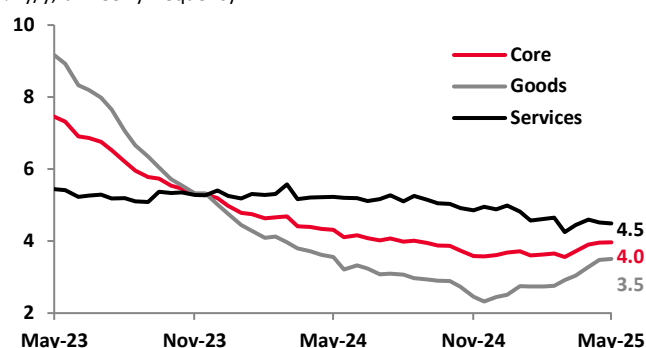
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**Acceleration in the annual comparison for both the headline and the core.** The former came in at 4.22% from 3.90% y/y in the second half of April, surpassing the 4% threshold for the first time since the first half of December. The core picked up at the margin, to 3.97% (previous: 3.96%). As pointed out by Deputy Governor Jonathan Heath in our [Norte Económico](#) podcast, This was driven by an acceleration in goods (3.5%) which was not offset by services (4.5%), as shown in the chart below to the left. The former's performance in the short-term will be influenced by the *Hot Sale* –which will take place between May 26<sup>th</sup> and June 3<sup>rd</sup>. However, the difference in base effects vs. 2024 (when it took place between May 15<sup>th</sup> and 23<sup>rd</sup>) could push the annual comparison even higher in the next fortnight. Regarding the latter, our attention remains focused on 'others' (at 5.3%) as they maintain some upward pressure despite greater economic slack. The non-core came in at 4.78% (previous: 3.57%). Agricultural prices were higher by 5.8%, with possible distortions in meat and egg prices in the short-term. Specifically, two factors stand out: (1) The temporary US ban on Mexican cattle imports due to the detection of cases of screwworm infections; and (2) the suspension of chicken imports from Brazil due to H5N1 bird flu. In fruits and vegetables, the drought has deteriorated at the margin (see chart below, right). Energy accelerated to 3.2%, with an adverse base effect impacting LP gas. However, continuity in government actions along with some stability in benchmark prices should help to fade pressures in coming fortnights.

#### Core inflation

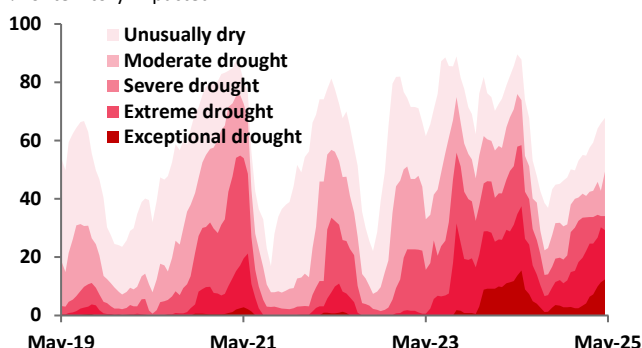
% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

#### Drought monitor

% of territory impacted



Source: Banorte with figures from CONAGUA

**Banxico maintains dovish signals, targeting another -50bps in June.** With today's result, headline inflation in the 1<sup>st</sup> half of the quarter averaged 4.0%, 10bps above the institution's latest estimates (and 50bps higher than its previous forecast). Nevertheless, the core has been in line with their estimate so far at 3.9%. Despite this more challenging environment, the forward guidance in the [latest decision](#) was quite clear in stating that "...looking ahead it could continue calibrating the monetary policy stance and consider adjusting it in similar magnitude...". We will be watching more information next week in the 1Q25 *Quarterly Report* and the minutes, but the Board's bias points towards a 50bps reference rate cut in its June 26<sup>th</sup> meeting, taking it to 8.00%. After this, we maintain our year-end estimate at 7.75%, with the room for maneuver across several fronts narrowing.

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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 Thalia 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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