Economic and Financial Markets Research
Economic Research, Mexico

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May inflation – Strong pressures on meat and egg, with a modest acceleration on the core

- **Headline inflation (May): 0.28% m/m; Banorte: 0.27%; consensus: 0.24% (range: 0.14% to 0.30%); previous: 0.33%**
- **Core inflation (May): 0.30% m/m; Banorte: 0.27%; consensus: 0.27% (range: 0.22% to 0.35%); previous: 0.49%**
- **The result was high, especially considering that the period has a positive seasonal bias. The push came from the non-core at 0.23%, highlighting pressures in agricultural items at 3.2% –with increases in both meat & egg and fruits & vegetables. This expansion more than compensated for the 3.4% drop in energy, remembering that electricity tariffs fell 18.5% as a result of summer discounts. In the core, performance was more stable, with goods at 0.4% –with 'others' (0.3%) marginally helped by *Hot Sale* discounts in the 2nd fortnight. Services came in at 0.2%, with 'others' (0.2%) maintaining some persistence to the upside, although with housing more stable (0.3%)**
- **As such, annual inflation accelerated to 4.42% from 3.93% in April, its highest level since November. Core inflation was also higher at 4.06% (previous: 3.93%), breaking with eight months below 4%**
- **Despite the rebound in inflation, Banxico's communication is clear that the rate-cutting cycle will continue, including a 50bps cut in the June 26th decision**

Inflation of 0.28% m/m in May. The result was considerably high considering that the period usually benefits from a positive seasonal effect, with much of the performance seen in the 1st fortnight predominating throughout the month. The push came from the non-core at 0.23%, highlighting the strong increase in agricultural items (3.2%). Within, meat & egg advanced 3.5% –with relevant expansions in chicken and beef–, with fruits and vegetables at 2.8% –with upticks in tomatoes, papaya, and potatoes standing out. In energy (-3.4%), as we already knew, electricity tariffs contracted 18.5% as the second tranche of summer discounts came into effect, with the rest of the goods showing more limited moves (*e.g.* LP gas at 0.0% and low-grade gasoline at -0.2%). Turning to the core (0.30%), the performance was more stable. Goods came in at 0.4%, with 'others' (0.3%) helped slightly by *Hot Sale* discounts in the 2nd half of the month, although with processed foods (0.4%) also moderating at the margin. Finally, services advanced 0.2%, with some pressures prevailing in 'others' (0.2%) –again highlighting the rise in 'dining away from home' (0.5%)– although with tourism services to the downside (*e.g.* air fares and packages both at -7.6%). Housing was more stable, expanding by 0.3%.

May 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
Chicken	18.5	10.6
Tomatoes	4.9	10.0
Housing	3.9	0.3
Beef	3.3	1.8
Dining away from home	2.7	0.5
Goods and services with the largest negative contribution		
Electricity	-26.6	-18.5
Air fares	-1.9	-7.6
Tourism packages	-1.5	-7.6
Lemons	-1.2	-10.5
Low-grade gasoline	-0.9	-0.2

Source: INEGI


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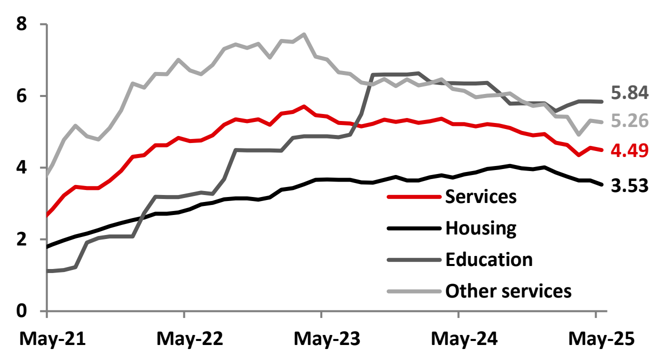
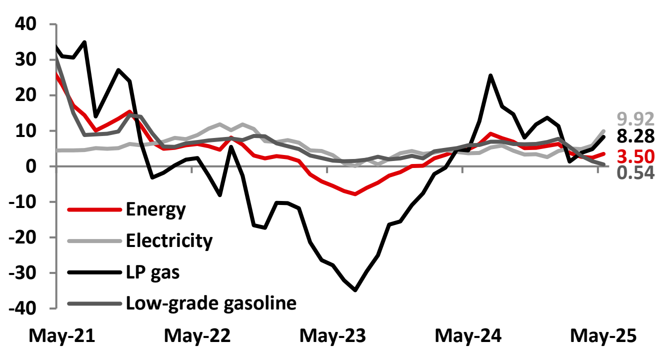
Further increases in headline and core inflation. With these results, headline inflation came in at 4.42% from 3.93% y/y in April, marking four months of upward adjustments and a new high since November. Core inflation also accelerated, reaching 4.06% (previous: 3.93%), breaking a streak of eight months below the 4% threshold. It is relevant to note that there is a slight distortion due to the timing of the *Hot Sale*, with discounts taking place entirely in May last year, while in 2025 it also comprised the first three days of June. In this regard, goods continued to increase, now by 3.7%. Both processed foods and 'others' were higher, albeit with the latter likely moderating in the coming fortnight due to the calendar effect described above. Services were more stable at 4.5%, still not being able to consolidate a clear and rapid downward trend. The main obstacle to this continues to be 'others', which came in at 5.3% (see chart below, left). Our attention will remain focused on the performance of 'dinning away from home', which, while already under pressure, could accelerate in the short-term given recent shocks in meat & egg. On a more favorable note, housing continues to decline, now at 3.5%, its lowest level since February 2023. The performance of goods and services validates Deputy Governor Jonathan Heath's view, which we believe underpins his less dovish bias within Banxico's Board. Meanwhile, the non-core rose to 5.34% (previous: 3.76%). Our concerns on this front have now turned to meat & egg, where the ban on poultry and egg imports from Brazil appears to have fueled the recent rally in chicken. Meanwhile, for beef, which had already been advancing at high rates for several months, we will remain very attentive to the evolution of the screwworm outbreak in the south of the country. In fruits and vegetables, weather conditions could change in the coming months, a situation that we detailed in our last *View from the Top*. Energy rose to 3.5%, with the negative base effect in LP gas reaching its worst point (see chart below, right). On this front, we believe categories will maintain a much more stable performance, with external pressures highly covered by OPEC+ actions, while government measures at the local level will remain in play.

Core inflation: Services
% y/y, monthly frequency



Source: Banorte with data from INEGI

Non-core inflation: Energy
% y/y, monthly frequency



Source: Banorte with data from INEGI

Banxico will continue with the cuts despite the rebound in inflation. With today's result, average headline inflation so far in 2Q25 is 4.2%, with the core at 4.0%, both exceeding the central bank's expectation of 3.9%. Although dynamics are likely to remain challenging, information contained in the latest minutes and the *Quarterly Report* points to the fact that concerns about economic activity –and its effects on prices– will continue to be the main catalyst for upcoming decisions. As such, we continue to expect a 50bps cut at the June 26th meeting, with the reference rate at 7.00% by year-end.

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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, 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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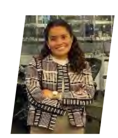

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