

Inflation 1H-June – The non-core moderated, but lingering pressures in services remain

- **Headline inflation (1H-June): 0.10% 2w/2w; Banorte: 0.06%; consensus: 0.11% (range: -0.01% to 0.20%); previous: 0.19%**
- **Core inflation (1H-June): 0.22% 2w/2w; Banorte: 0.17%; consensus: 0.18% (range: 0.09% to 0.25%); previous: 0.15%**
- **Price dynamics were favored by the decline of the non-core component (-0.29%), driven by agricultural items (-0.5%). This was mainly due to fruits and vegetables (-1.7%), with a favorable rainy season for some crops. In energy (0.2%), electricity, LP gas and low-grade gasoline fell again**
- **The core accelerated to 0.22%. Goods (0.2%) showed some pressures in 'others' (0.3%) with processed foods (0.1%) more stable. In services (0.2%), the upward trend continued for most categories. In this sense 'others' (0.4%) reflected a rebound in tourism items, with 'dinning away from home' still under pressure**
- **With bi-weekly figures, annual inflation moderated to 4.51% from 4.62% in the 2nd half of May, above 4% for a third consecutive fortnight. On the contrary, the core accelerated to 4.20% (previous: 4.15%)**
- **Despite a complex outlook, we still expect -50bps by Banxico on Thursday. In addition, we reiterate our year-end estimate at 7.00%**

Inflation of 0.10% 2w/2w in the first half of June. The result was helped by the fall of the non-core component (-0.29%), with declines both in agricultural items (-0.5%) and energy (-0.2%). Within the former, fruits and vegetables came in at -1.7% –with relevant declines in tomatoes, papaya, and zucchinis. 'Meat and egg' moderated to 0.3% after two fortnights of meaningful increases, especially due to chicken. In energy, declines continued in electricity (-0.9%), low-grade gasoline (-0.1%), and LP gas (-0.23%) –supported by international references, among other factors. The core advanced 0.22%. Goods accelerated to 0.2%. We should consider the end of the *Hot Sale* discount campaign, resulting in a rebound; on the contrary, summer discounts began in this period. Processed foods grew 0.1%, with 'others' at 0.3%. Pressures in services (0.2%) continued. 'Others' rose 0.4%, impacted by the rebound in tourism items (e.g. air fares up 9.9 % and packages up 2.0%). Moreover, 'dining away from home' (0.4%) and restaurants (0.3%) kept trending higher. Finally, housing was more stable at 0.2%.

1H-June 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
Housing	2.3	0.2
Air fares	2.2	9.9
Dining away from home	2.2	0.4
Beef	1.4	0.7
Pork	1.1	1.2
Goods and services with the largest negative contribution		
Tomatoes	-1.7	-3.0
Papaya	-1.1	-9.4
Zucchini	-1.0	-8.8
Electricity	-1.0	-0.9
Serrano chilies	-0.9	-9.4

Source: INEGI



Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com



Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com



Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com



Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com



Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com



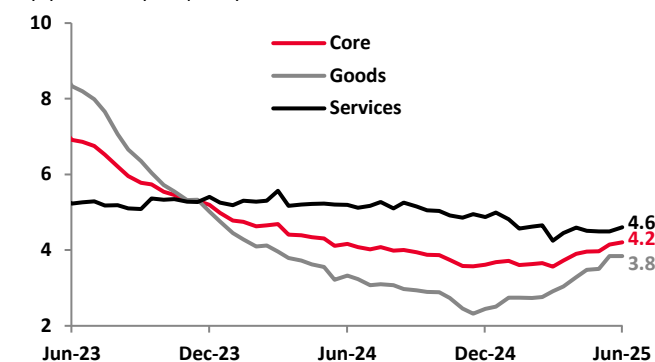
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Slight moderation in annual headline inflation but still above 4%. Annual inflation has been above Banxico's target range for three consecutive fortnights, currently at 4.51% from 4.62% y/y in the second half of May. The core accelerated at the margin to 4.20% (previous: 4.15%). It is important to note that services have shown resistance to dip below 4.0% since the beginning of the year, while goods have rebounded. The non-core moderated to 5.25% from 5.91%, again supported by energy prices. Agricultural products remain somewhat volatile, so we will monitor closely the evolution of chicken, beef, and pork prices. President Sheinbaum said on June 12th that the *Ministry of Agriculture* is seeking voluntary agreements or pacts to include these three goods in the *Plan Against Inflation* (PACIC in Spanish). The *National Union of Poultry Farmers* (UNA in Spanish) and the president of the *Consejo Coordinador Empresarial*, Francisco Cervantes, have confirmed an upcoming agreement for them. In this backdrop, it is relevant to recap other pricing policies implemented or planned by the government to 'contribute to price stability'. The most recent is the National Corn-Tortilla Agreement (June 12th), which aims to maintain a stable price for tortillas. This could benefit items such as processed foods and 'other services' (through the 'dining away from home' component). In energy, the low-grade gasoline cap at \$24 per liter is expected to expire in August 2025. Nevertheless, it will likely be renewed for another six months. We will monitor closely whether these policies are reflected in the CPI. For now, results indicate that it has been effective for gasoline, with decreases since the agreement went into effect. In meat and eggs, the scope is unclear, as the specifics will be key (e.g. a goal for each product, maximum prices, etc.). On another front, the implementation of the 21% US tariff on Mexican tomatoes is scheduled for July 15th, which would be significant. The first effect will involve an excess of domestic supply, helping to prices to the downside.

Core inflation

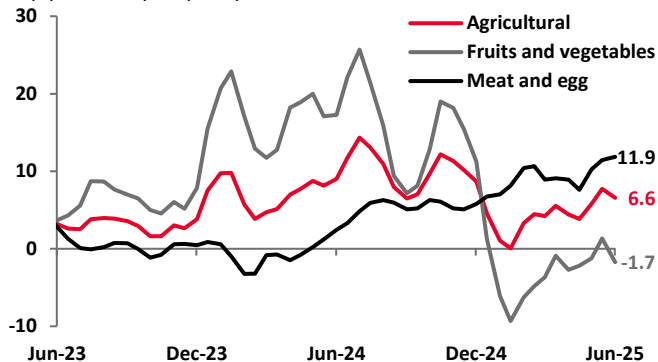
% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

Non-core inflation: Meat and egg

% y/y, bi-weekly frequency



Source: Banorte with figures from INEGI

Banxico will make its fourth consecutive 50bps rate cut on Thursday. With this result, headline inflation has averaged 4.2% so far in 2Q25, 30bps higher than Banxico's estimates for the period. However, recent statements by some Board members suggest a strong conviction for [a 50bps cut to the reference rate](#), taking it to 8.00%. We anticipate a split decision. In our view, the statement will continue to reflect concerns about the economic slowdown. Nevertheless, the focus will be on the forward guidance and if they reiterate, eliminate or modify it. All in all, we reaffirm our estimate of a 7.00% reference rate by year-end 2025.

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Raquel Vázquez Godínez
Assistant
raquel.vazquez@banorte.com
(55) 1670 - 2967



María Fernanda Vargas Santoyo
Analyst
maria.vargas.santoyo@banorte.com
(55) 1103 - 4000 x 2586

Economic Research



Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and
Market Strategy
juan.alderete.macal@banorte.com
(55) 1103 - 4046



Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com
(55) 5268 - 1694

Market Strategy



Santiago Leal Singer
Director of Market Strategy
santiago.leal@banorte.com
(55) 1670 - 1751



Carlos Hernández García
Senior Strategist, Equity
carlos.hernandez.garcia@banorte.com
(55) 1670 - 2250



Marcos Saúl García Hernández
Analyst, Fixed Income, FX and Commodities
marcos.garcia.hernandez@banorte.com
(55) 1670 - 2296



Ana Gabriela Martínez Mosqueda
Strategist, Equity
ana.martinez.mosqueda@banorte.com
(55) 5261 - 4882

Quantitative Analysis



Alejandro Cervantes Llamas
Executive Director of Quantitative Analysis
alejandro.cervantes@banorte.com
(55) 1670 - 2972



Daniel Sebastián Sosa Aguilar
Senior Analyst, Quantitative Analysis
daniel.sosa@banorte.com
(55) 1103 - 4000 x 2124



Alejandro Padilla Santana
Chief Economist and Head of
Research
alejandro.padilla@banorte.com
(55) 1103 - 4043



Itzel Martínez Rojas
Analyst
itzel.martinez.rojas@banorte.com
(55) 1670 - 2251



Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com
(55) 1670 - 2957



Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com
(55) 1105 - 1438



Marissa Garza Ostos
Director of Equity Strategy
marissa.garza@banorte.com
(55) 1670 - 1719



Hugo Armando Gómez Solís
Senior Strategist, Equity
hugo.gomez@banorte.com
(55) 1670 - 2247



Gerardo Daniel Valle Trujillo
Senior Analyst, Corporate Debt
gerardo.valle.trujillo@banorte.com
(55) 1670 - 2248



Paula Lozoya Valadez
Analyst, Equity
paula.lozoya.valadez@banorte.com
(55) 1103 - 4000 x 2060



José Luis García Casales
Director of Quantitative Analysis
jose.garcia.casales@banorte.com
(55) 8510 - 4608



Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1670 - 2904



Lourdes Calvo Fernández
Analyst (Edition)
lourdes.calvo@banorte.com
(55) 1103 - 4000 x 2611



Katia Celina Goya Ostos
Director of Economic Research,
Global
katia.goya@banorte.com
(55) 1670 - 1821



Luis Leopoldo López Salinas
Economist, Global
luis.lopez.salinas@banorte.com
(55) 1103 - 4000 x 2707



Víctor Hugo Cortes Castro
Senior Strategist, Technical
victorh.cortes@banorte.com
(55) 1670 - 1800



Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com
(55) 5268 - 1698



Juan Carlos Mercado Garduño
Strategist, Equity
juan.mercado.garduno@banorte.com
(55) 1103 - 4000 x 1746



José De Jesús Ramírez Martínez
Senior Analyst, Quantitative Analysis
jose.ramirez.martinez@banorte.com
(55) 1103 - 4000



Andrea Muñoz Sánchez
Strategist, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1105 - 1430