July 9, 2025

June inflation – We review our year-end estimate upwards due to higher pressures at the core

- **Headline inflation (June): 0.28% m/m; Banorte: 0.28%; consensus: 0.27% (range: 0.20% to 0.34%); previous: 0.28%**
- **Core inflation (June): 0.39% m/m; Banorte: 0.38%; consensus: 0.37% (range: 0.32% to 0.40%); previous: 0.30%**
- **The result was lower than historical averages, aided by the non-core at -0.10%. Inside agriculture (-0.1%), fruits and vegetables fell 1.4%, although with meat and egg under pressure at 0.8%. Energy prices fell 0.3%, with widespread downward adjustments. Core dynamics were to the upside within goods (0.4%). Services also accelerated (0.4%), with seasonal and non-seasonal pressures within 'others' (0.5%)**
- **As a result, annual inflation moderated to 4.32% from 4.42% in May. However, the core was higher at 4.24% (previous: 4.06%)**
- **Considering its recent performance, we are revising our year-end outlook for headline inflation to 4.0% (previous: 3.8%). The upward adjustment would stem from the core, which we now forecast at 4.2% (previous 3.8%)**
- **A more challenging inflationary backdrop will consolidate more limited moves by Banxico in its upcoming decisions, still expecting -25bps in August and the reference rate by the end of the year at 7.00%**

Inflation of 0.28% m/m in June. The result was lower than its historical averages (5 years: 0.48%; 10 years: 0.34%), helped by the non-core at -0.10%. Inside, agricultural products came in at -0.1%, with fruits and vegetables down 1.4%. We note declines in papayas, serrano chilies, and zucchinis. However, meat and egg remained somewhat pressured at 0.8% –with beef leading the way. In energy items (-0.3%), downward adjustments were widespread, including electricity (-0.9%), low-grade gasoline (-0.1%), and LP gas (-0.2%). Government tariffs were somewhat high at 0.2%. Moving on to the core (0.39%), goods were slightly higher at 0.4%. Performance among categories was relatively stable, with both processed foods and 'others' at 0.4%, with the latter affected by the reversal of *Hot Sale* discounts. Services advanced 0.4%, accelerating at the margin. Pressures continued in 'others' (0.5%), both of seasonal –with the holiday period boosting tourism items (*e.g.* airfares at 7.2%)– and non-seasonal nature –with increases prevailing in 'dining away from home' (0.8%) and restaurants (0.6%). Finally, housing remained relatively stable, up 0.3%.

June 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
Housing	4.5	0.3
Dinning away from home	4.0	0.8
Beef	2.6	1.4
Air fares	1.7	7.2
Restaurants	1.6	0.6
Goods and services with the largest negative contribution		
Papayas	-1.6	-14.0
Serrano chilies	-1.5	-15.3
Zucchinis	-1.2	-10.0
Guava	-1.0	-15.6
Lemons	-1.0	-9.7

Source: INEGI


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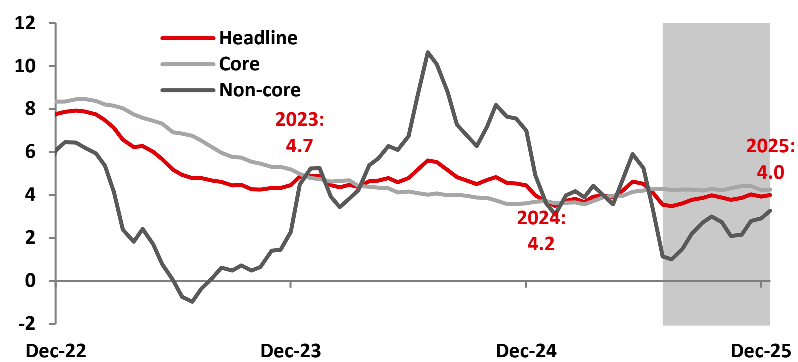
Slight moderation for the headline in the annual comparison, albeit with the core higher. With these results, headline inflation came in at 4.32% from 4.42% y/y in May. In this regard, non-core inflation moderated to 4.33% (previous: 5.34%), with reductions in both agricultural products—due to recent dynamics—and energy—shaking off a challenging base and with good news abroad on this front. Meanwhile, core inflation was higher at 4.24% (previous: 4.06%). Both goods and services rose. Increases were widespread in the former, while pressures in 'others' stood out in the latter.

Higher inflation by year-end at 4.0%, driven by the core component. This implies +20bps relative to our previous estimate, with much of the adjustment driven by a more adverse performance of the core component. Specifically, we anticipate the latter category at 4.2% (+40bps), with higher-than-anticipated pressures in goods –in our opinion, responding to a more challenging base effect, trade rigidities, and a possible pass-through effect from the previous depreciation of the Mexican peso. In services we see a high resistance to the downside. Delving deeper into the latter, education has been very high year-to-date, although adjustments coming in August and September will be key in determining its level over the next 12 months. More importantly, strong pressures remain on 'dinning away from home' within 'others', probably impacted by price volatility in input costs and wage increases. We believe that leaving these trends behind will be difficult in the short term. Moving on to the non-core, we believe the outlook is relatively more encouraging. In energy, a more favorable international backdrop –with OPEC+ continuing its efforts to bring production back to the market– along with some actions from the federal government should result in greater stability for the sector. In agriculture, we will be watching the effects of the rainy season on key crops; in livestock, the resumption of imports from Brazil and progress in containing the screwworm should help combat recent increases.

Inflation forecast
% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

Banxico will moderate the magnitude of cuts in upcoming decisions. With today's result, average headline inflation in 2Q25 was 4.2%, 10bps below Banxico's latest estimate. Core inflation came in at 4.1%, in line with the central bank's forecast. Considering the language of the latest statement –and awaiting more detail in tomorrow's minutes– the central bank has reacted to a more challenging inflationary environment. This suggests that cuts remain in the cards, but they will likely be of a smaller magnitude. Thus, we continue to anticipate -25bps in August, with the rate by year-end at 7.00%. We consider that said level will be the terminal rate for this rate-cutting cycle, placing it within the institution's neutral range for the real interest rate.

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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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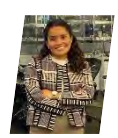
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