July 24, 2025

Inflation 1H-July – Downward surprise mainly on the back of a moderation in agricultural goods

- **Headline inflation (1H-July): 0.15% 2w/2w; Banorte: 0.36%; consensus: 0.22% (range: 0.16% to 0.40%); previous: 0.16%**
- **Core inflation (1H-July): 0.15% 2w/2w; Banorte: 0.26%; consensus: 0.21% (range: 0.13% to 0.26%); previous: 0.20%**
- **Non-core inflation advanced 0.16%, bounded by favorable behavior in agricultural items (0.2%), both in fruits and vegetables and meat and egg. Also, from limited changes in energy (0.1%), albeit in line with their recent dynamics. Turning to the core (0.15%), goods were more modest at 0.1%, with 'others' down -0.1%. In services (0.2%) seasonality is more adverse, mainly in tourism items within 'others' (0.4%) –although with other pressures at play–, and partly because of education (0.1%). Housing slowed down to 0.1%**
- **With bi-weekly figures, annual inflation moderated to 3.55% from 4.13% in the 2nd half of June, helped by a base effect at the non-core, which fell to 1.24% (previous: 3.43%). The core was more stable at 4.25% (previous: 4.28%)**
- **We expect Banxico to continue with its rate-cutting cycle at a slower pace on the back of underlying inflation risks. We see -25bps in August and a year-end rate of 7.00%**

Inflation of 0.15% 2w/2w in the first half of July. This was explained by positive surprises in several fronts, with the non-core at 0.16% standing out. Inside, agricultural items moderated (0.2%), helped by both fruits and vegetables at 0.3% –with advances in nopales and onions, but with declines in grapes, avocadoes, and tomatoes– and meat and egg at 0.2% –with eggs to the upside, but with chicken lower. In energy, stability prevailed at 0.1%. Changes were quite limited, highlighting electricity (0.4%), LP gas (0.3%), and low-grade gasoline (0.0%), overall helped by international benchmarks, Mexican peso strength, and local actions. The core came in at 0.15%. Goods were lower at the margin (0.1%), with 'others' to the downside (-0.1%), and processed foods more modest (0.2%). In services (0.2%) there is an adverse seasonality, seen both in 'others' (0.4%) –specially tourism (*e.g.* air fares at 11.2%)– and education (0.1%). However, pressures in the former continue within food-related categories (*e.g.* 'dining away from home' at 0.3%). Finally, housing slowed down to 0.1%.

1H-July 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
Eggs	3.4	3.3
Air fares	2.8	11.2
Dinning away from home	1.6	0.3
Housing	1.5	0.1
Others cooked foods	1.0	0.5
Goods and services with the largest negative contribution		
Chicken	-3.4	-1.8
Grapes	-1.0	-12.0
Diapers	-0.8	-2.0
Avocadoes	-0.6	-3.2
Tomatoes	-0.6	-1.0

Source: INEGI


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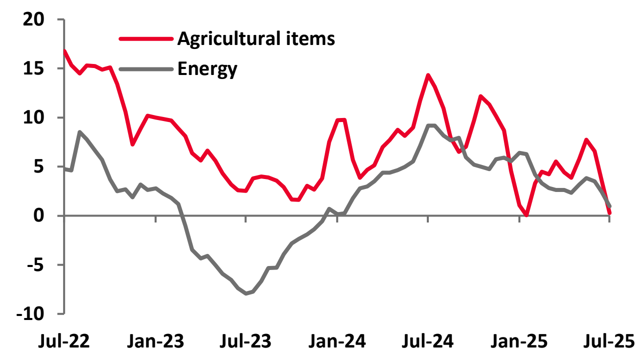
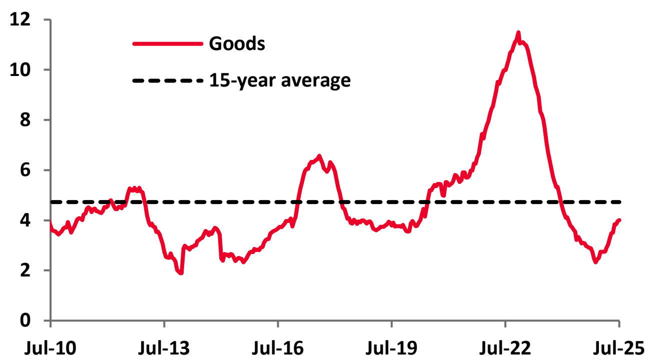
Headline inflation lower on base effects, with the core more stable. With these results, inflation returned to Banxico's target range, at 3.55% y/y from 4.13% in the second half of June. This is explained by the non-core, now at 1.24% (previous: 3.43%), with positive base effects in both agricultural and energy items (see chart below, left). On the former, fruits and vegetables fell sharply to -12.2%, recalling that they peaked last year on very challenging drought conditions. In the short term, the recent rainy season could be a positive catalyst, although prices in the sector will remain very volatile. Another factor to consider will be the imposition of tariffs on tomato exports to the US, with somewhat uncertain medium-term effects. 'Meat and egg' were more stable at 10.7%, with pressures prevailing in several items. As for energy (0.9%), the decline was concentrated in LP gas (2.3%) and low-grade gasoline (-1.1%), with a relatively positive outlook on both external and domestic drivers. The core stabilized at 4.25% (previous: 4.28%). Goods reached 4.0% driven by processed foods, with 'others' slightly lower. While this is below its long-term average (see chart below, right), the base effect after sharp declines last year complicates its reading. Finally, services moderated to 4.5%. 'Others' declined slightly to 5.4% but challenges remain, as we elaborated in our last *View from the Top*.

Non-core inflation: Agricultural and energy items
% y/y, bi-weekly frequency



Source: Banorte with data from INEGI

Core inflation: Goods
% y/y, bi-weekly frequency



Source: Banorte with figures from INEGI

Cuts will continue in August. Despite a challenging outlook for inflation –specially for the core– we think that Banxico's Board will continue with its rate-cutting cycle. Thus, we continue to expect -25bps in August, likely with a dissenting vote from Deputy Governor Jonathan Heath given his recent comments on price dynamics. Following this, with concerns about economic performance as the main argument, we believe that reductions will continue, with the reference rate closing the year at 7.00%. We believe this level will be the terminal rate of this cycle, which would be 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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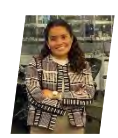

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