

August inflation – Modest increase helped by the non-core

- **Headline inflation (August): 0.06% m/m; Banorte: 0.04%; consensus: 0.05% (range: 0.00% to 0.09%); previous: 0.27%**
- **Core inflation (August): 0.22% m/m; Banorte: 0.19%; consensus: 0.20% (range: 0.18% to 0.25%); previous: 0.31%**
- **The result was supported by the non-core at -0.47%. Agricultural products fell 1.1%, with declines in both meat and egg (-1.2%) and fruits and vegetables (-0.8%). Energy maintained its streak of stability (0.0%). In the core, seasonal effects dominated services (0.2%). Specifically, the start of classes boosted education (1.0%), although it also helped tourism items within 'others' (0.1%). Housing came in at 0.3%. Goods moderated to 0.2%, noting the uptick in 'others' (0.1%) due to various promotional campaigns**
- **Annual headline inflation rose to 3.57% from 3.51% in July, with the positive base effect starting to fade. Core inflation remained somewhat high at 4.23% (previous: 4.23%)**
- **Banxico will continue with rate cuts, expecting -25bps in September and a terminal rate for this cycle at 6.50%, with it being reached by the end of 1Q26**

Inflation of 0.06% m/m in August. The result was low, supported by the non-core at -0.47%. In detail, agricultural products fell 1.1%, with a better performance in meat and egg (1.2%) –driven by declines in chicken– and fruits and vegetables (-0.8%) –with reductions in tomatoes, avocados, and squashes–, although the latter showed an upward adjustment in the second half. Energy prices (0.0%) remained stable, with a limited uptick in electricity (0.2%) and a decline in LP gas (-0.2%). Low-grade gasoline was unchanged (0.0%). Government tariffs moderated to 0.0%. Moving on to the core (0.22%), the seasonal effects of the return to classes concentrated in services (0.2%), although with mixed impacts. Education was up 1.0% –noting increases in universities and high schools. In contrast, within 'others' (0.1%), tourism items contracted (e.g. air fares at -9.8%). 'Dining away from home' (0.6%) and 'restaurants' (0.3%) continued to advance. Housing came in at 0.3%. Lastly, goods moderated (0.2%), helped by 'others' (0.1%) due to various promotional campaigns. In turn, processed foods were also better at 0.3%.

August 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 | 3.7 | 0.3 |
| Dining away from home | 3.3 | 0.6 |
| Serrano chilies | 2.8 | 34.9 |
| Husk tomatoes | 2.0 | 16.7 |
| University | 1.6 | 1.3 |
| Goods and services with the largest negative contribution | | |
| Chicken | -8.6 | -4.6 |
| Tomatoes | -6.1 | -11.5 |
| Air fares | -2.6 | -9.8 |
| Cinema | -1.7 | -11.0 |
| Avocados | -1.4 | -7.4 |

Source: INEGI



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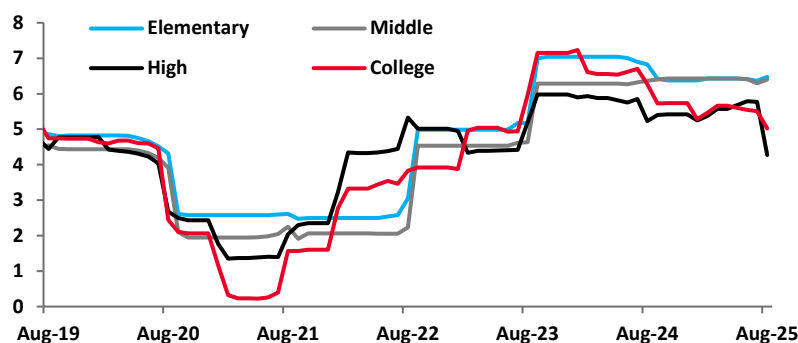
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Increase in the annual print for headline inflation as the positive base fades, while the core remained high. With these results, headline inflation stood at 3.57% from 3.51% y/y in July. The non-core rose to 1.38% (previous: 1.14%). As mentioned [last month](#), much of the decline was explained by positive base effects in both agriculture (1.2%) and energy (0.3%), which now is reversing. Focusing on the former, recent rainfall in the country has had mixed effects on various crops. According to some press reports, some corn fields in the state of Querétaro have been impacted by flooding in recent weeks, which could lead to some upward adjustments in prices. However, farmers in the state of Veracruz point to overproduction of lemons and some varieties of chili peppers due to the same phenomena. In this context, we will closely monitor prices in the coming weeks and months, although the outlook appears more positive given [the expectation of extended rainfalls in September and October](#). As for the latter, we will see if LP gas distribution tariffs increase and is made official, which could lead to higher prices. On the external front, [OPEC+ announced an additional production increase](#) this weekend, although lower than in previous months, which contributes to the local stability that has characterized this category in recent months. The core remained high at 4.23% (previous: 4.23%). Despite the positive sequential results for goods, the annual figure continued to accelerate, now at 4.1%. As we have detailed previously, base effects will continue to deteriorate for the category, even though several pressure points –such as the exchange rate– have improved and should help eventually. Finally, services remained at 4.0%. Inside, we remain somewhat concerned about the pause in the downward trend for housing, while challenges in the food categories within ‘others’ continue. However, evidence so far suggests that education could decline at the margin based on the results already known for higher education (see chart below).

Core inflation: Education

% y/y, monthly frequency



Source: Banorte with data from INEGI

Banxico will continue with its rate-cutting cycle. Despite a still challenging outlook for inflation, we believe the Board has clearly pointed out other factors that will continue to drive rate cuts, including: (1) Greater room to maneuver, with the level of the Mexican peso against the USD allowing for a further compression of the rate differential versus the Fed; (2) the expectation that the Fed will resume its own easing cycle; and (3) the view that slack in the economy will continue, helping prices via lower aggregate demand. Therefore, we continue to expect -25bps at the September 25th meeting, as well as a year-end rate of 7.00%. After this, reductions will continue into 2026, with a total of -50bps in said year –materializing in 1Q26– resulting in a rate of 6.50%, which we believe will be the terminal level for this cycle.

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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, 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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