

## Inflation 1H-September – Good print, helped once again by the non-core

- **Headline inflation (1H-September): 0.18% 2w/2w; Banorte: 0.17%; consensus: 0.17% (range: 0.08% to 0.25%); previous: 0.10%**
- **Core inflation (1H-September): 0.22% 2w/2w; Banorte: 0.21%; consensus: 0.20% (range: 0.10% to 0.25%); previous: 0.14%**
- **The result was aided by the non-core at 0.03%, noting the 0.1% decline in energy prices. The fall was concentrated in LP gas (-0.5%) and electricity (-0.4%). In agricultural goods (0.1%), fruits and vegetables fell 0.1%, but 'meat & egg' was somewhat pressured at 0.2%. Core goods faced an adverse seasonality, up 0.2% –driven by 'others' (0.3%). Services rose by the same magnitude, pushed by education (3.1%) in response to adjustments in lower-level school tuition. 'Others' (0.1%) benefited from discounts on testaments, also with declines in tourism items even with the Independence Day holiday**
- **With bi-weekly figures, annual inflation rose to 3.74% from 3.65% in the 2<sup>nd</sup> half of August, with the positive base effect still fading away. Core inflation was little changed at 4.26% (previous: 4.25%)**
- **We expect Banxico to continue with its rate cutting cycle with a 25bps reduction in tomorrow's decision –and with the reference rate closing the year at 7.00%–**

**Inflation of 0.18% 2w/2w in the 1<sup>st</sup> half of September.** The result was low compared to historical averages, explained by the favorable performance of the non-core (0.03%), noting the 0.1% decline in energy prices. The fall was concentrated in LP gas (-0.5%) and electricity (-0.4%), with low-grade gasoline up marginally (0.1%). Agricultural goods came in at 0.1%, with fruits and vegetables down (-0.1%) –highlighting declines in potatoes, avocados, oranges, and tomatoes– but with pressures on meat and egg (0.2%) –especially chicken and beef. Government tariffs advanced 0.1%. In the core (0.22%) seasonality is adverse, reflected in both goods (0.2%) and services (0.2%). In the former, the 0.3% increase in 'others' stood out, while processed foods were more moderate (0.1%). Moving on to the latter, the most relevant driver was education (3.1%) –now highlighting changes in elementary and middle school tuitions–, which accelerated vs previous years. Housing increased by 0.1%. Finally, in 'Other services' (0.1%), promotions in professional services due to 'Mes del Testamento' (testaments and wills) discounts helped, highlighting also a decline in tourism items despite of the September 16<sup>th</sup> holiday. However, some pressures prevailed in 'dining away from home'.

### 1H-September 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
Elementary school	2.6	5.8
University	1.9	1.6
Housing	1.5	0.1
High school	1.1	2.7
Middle school	1.1	5.5
Goods and services with the largest negative contribution		
Professional services	-3.8	-15.3
Potatoes	-1.2	-4.3
Avocados	-1.0	-5.9
Air fares	-0.8	-3.4
Tequila	-0.8	-2.8

Source: INEGI



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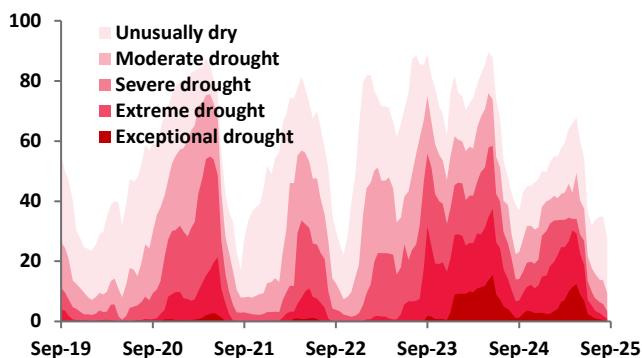
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**Modest increase in headline inflation, with the core still high.** With these results, headline inflation stood at 3.74% y/y, up from 3.65% in the 2<sup>nd</sup> half of August. It should be noted that the base effect that helped in previous months continues to fade, bearing in mind that this is associated with the non-core, which accelerated to 2.01% (previous: 1.66%). Apart from this, the latter category has been very positive, highlighting stability in energy (0.0%) and more limited changes –and skewed to the downside– in agriculture (3.0%). For the former, as we have mentioned before, government actions amid favorable benchmark prices globally explain much of the performance. Based on this, our view for the remainder of the year is that the trend will continue. In the latter, drought conditions have eased significantly in recent weeks (see chart below, left), which should help crops in coming months. However, we will be watching possible weather disruptions in the short-term as the hurricane season is expected to end in November. Meanwhile, the core came in at 4.26% (previous: 4.25%), marking eight fortnights above the target range. Inside, goods rose marginally to 4.2%, with the challenging base effect mainly impacting processed foods –which should prevail until November. However, recent Mexican peso dynamics appear to be helping to reverse previous pressures on ‘others’. Services moderated to 4.3%, with education accelerating to 5.8% (see chart below, right), due to by higher adjustments compared to recent years and contrasting with the dynamic seen in previous fortnights. Housing stabilized at around 3.4%, with a slightly more positive base effect. Finally, ‘other services’ moderated to 5.0% despite several factors [that we have detailed before](#) that are still pressuring the category.

#### Drought monitor in Mexico

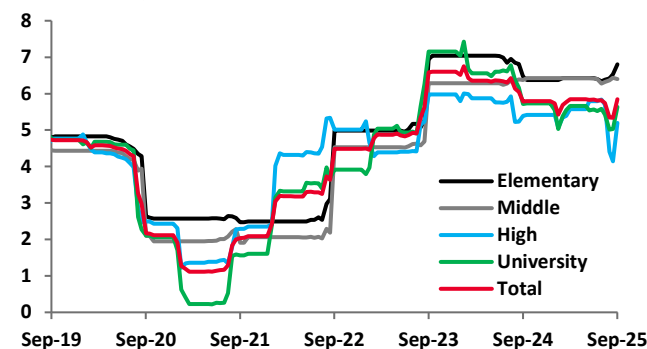
% of the national territory under some kind of distortion



Source: Banorte with data from CONAGUA

#### Core inflation: Education

% y/y, bi-weekly frequency



Source: Banorte with figures from INEGI

**Banxico will continue with rate cuts.** With today's result, headline inflation so far in 3Q25 averages 3.6%, 20bps below the central bank's latest estimate. In contrast, the average for core inflation is 4.2%, exceeding the forecast by 10bps. Considering the first point, along with other factors detailed in our [View from the Top](#), we believe that Banxico will continue with its rate-cutting cycle. Thus, we anticipate a 25bps reduction in the reference rate tomorrow to 7.50%. After that, cuts would continue in the two remaining meetings, expecting a year-end level of 7.00%.

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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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