

## Mexico's National Consumer Price Index (CPI), December 2024

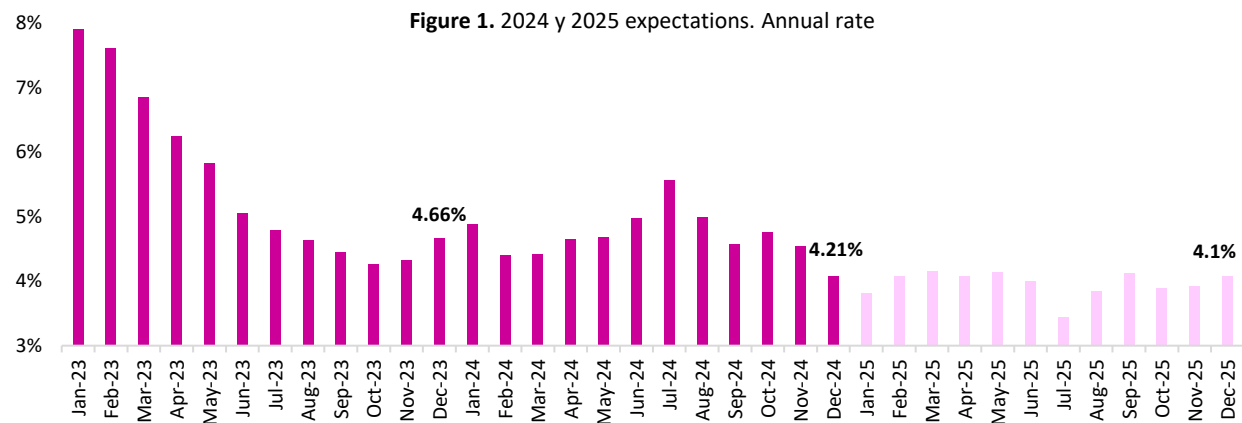
Next release on inflation as of the first half of January: January 23

Consumer inflation in Mexico decelerated from 4.55% annually in November to 4.21% in December, marking the lowest inflation rate since February 2021. In the second half of December, inflation stood at 3.99% annually, breaking the 4% threshold for the first time after 91 half-month periods oscillating between 4.12% and 8.77%.

The deceleration of inflation throughout 2024 was partly due to the economic slowdown in Mexico, which reduced pressures on the core component. However, in December, core inflation accelerated from 3.58% to 3.65% annually, interrupting 22 consecutive months of annual deceleration.

The main driver of the deceleration in headline inflation in December 2024 was the non-core component, which slowed from 7.60% to 5.95% annually. This component tends to be volatile and does not dictate the overall trajectory of headline inflation.

As headline inflation has slowed and monetary policy in Mexico remains restrictive, the likelihood of Banco de México implementing a 50-basis-point interest rate cut at its February 6 monetary policy announcement has increased. Inflation risks remain on the upside for Mexico in 2025. For this reason, Grupo Financiero BASE estimates that inflation will close 2025 at 4.1%.



Source: GF BASE with information from INEGI.

### 1. Mexico's inflation during 2024 and expectations

The greatest deceleration of inflation in Mexico was observed as of July, when it reached the year's maximum of 5.57% annual rate (Figure 1). Internally:

1. The main driver of the deceleration in inflation during the second half of the year was the **core component**. Core inflation closed the year at 3.65% annually, slowing down from 5.09% at the end of 2023. This decrease was primarily due to the deceleration of goods inflation, which stood at 3.65% annually in December, compared to 5.09% in December 2023. Additionally, the deceleration of the core component was partly explained by a slight slowdown in services inflation toward the end of the year (from August to November). Notably, in December, services inflation recorded three consecutive months below 5%

annually, a trend not seen since 2022. It is important to note that services inflation remains elevated (4.94%), and further deceleration will be necessary for headline inflation to approach the 3% target.

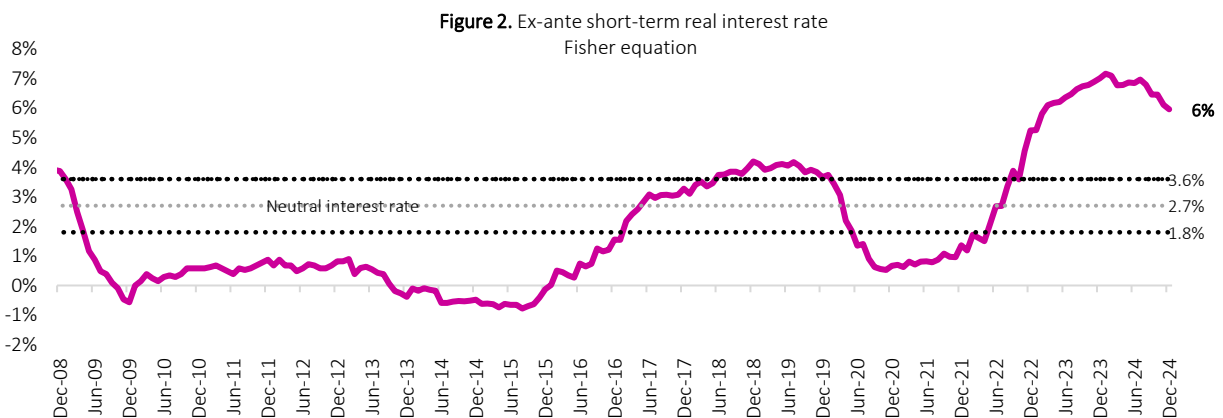
2. **Non-core inflation**, which includes the more volatile components such as agricultural products, energy, and government-regulated tariffs, showed significant fluctuations throughout the year. In particular, strong upward pressures were observed in the second half of 2024, especially in the fruits and vegetables subcomponent, which recorded annual inflation of 23.55% in July, a level not seen since 2017. Similarly, livestock products averaged an annual inflation rate of 5.70% in the second half of the year, compared to an average of -0.29% in the first half. Likewise, pressures were evident in the energy component, which averaged 6.68% annually in the second half of 2024, compared to 3.54% in the first half.

## 1.2 Monetary policy

Throughout 2024, Banco de México maintained a restrictive stance, closing the year with an interest rate of 10.00%, after accumulating 125 basis points of cuts during the year. These rate cuts were made possible due to the highly restrictive monetary stance. To measure the degree of monetary restriction, the neutral real interest rate (estimated by Banco de México to range between 1.8% and 3.6%) is used as a reference, alongside the ex-ante real interest rate, estimated at approximately 6% at the start of 2025 (Figure 2). Since the ex-ante real interest rate is above the neutral rate, the monetary stance is considered restrictive, providing room for Banco de México’s Governing Board to implement additional target rate cuts.

According to the minutes from December 19, 2024, monetary policy announcement, three out of five Governing Board members believe that rate cuts could continue in 2025 and potentially at a faster pace, with cuts of 50 basis points. Given that inflation continued to decelerate in December 2024, the probability of a 50-basis point rate cut to 9.50% at the February 6 Governing Board meeting has increased. For 2025, Grupo Financiero BASE maintains its expectation of a total 150 basis points reduction in the interest rate, bringing it down to 8.50%.

It is worth noting that several Governing Board members highlighted increased uncertainty due to the change in administration in the United States. This stems from the potential impact of Donald Trump’s trade policy decisions, starting January 20, on Mexico’s economic growth and inflation. If tariffs on Mexican imports are announced and severely affect Mexico’s economic growth, more significant interest rate cuts could take place during the year.



Source: GF BASE with information from INEGI.

### 1.3 Expectations and risks

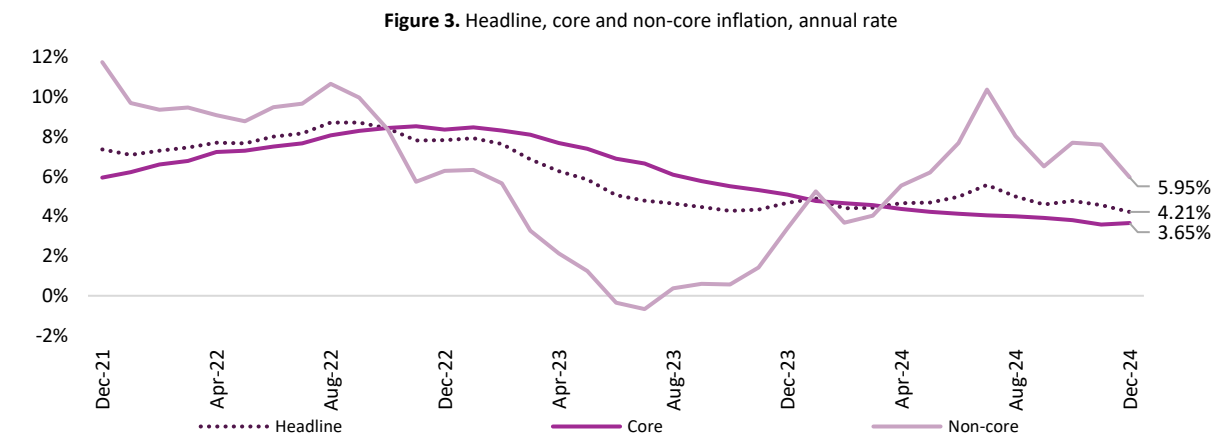
For 2025, headline inflation in Mexico is expected to continue its downward trend, closing the year at around 4.1% (Figure 1). However, several risks remain that could exert upward pressure:

- The incoming administration of Donald Trump and its protectionist stances, particularly on trade and immigration.
- Depreciation of the Mexican peso, which raises the cost of imported goods and pressures goods inflation upward.
- The high fiscal deficit.
- Increases in the minimum wage and other contractual wages.
- Public insecurity, which particularly impacts agricultural products and services.
- The persistence of elevated services inflation.
- The possibility that core inflation stagnates at current levels, meaning the deceleration halts or becomes limited, as the room for further reductions in goods inflation has narrowed.
- Supply chain disruptions due to geopolitical conflicts.

It is worth noting that, despite the observed deceleration in inflation, these risks could delay the convergence of inflation toward the 3% target. Considering this, Grupo Financiero BASE anticipates that Banco de México will cut its interest rate by a total of 150 basis points in 2025, bringing it to 8.5%.

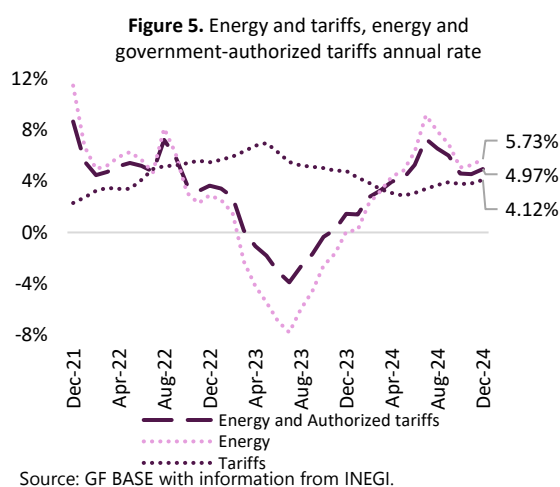
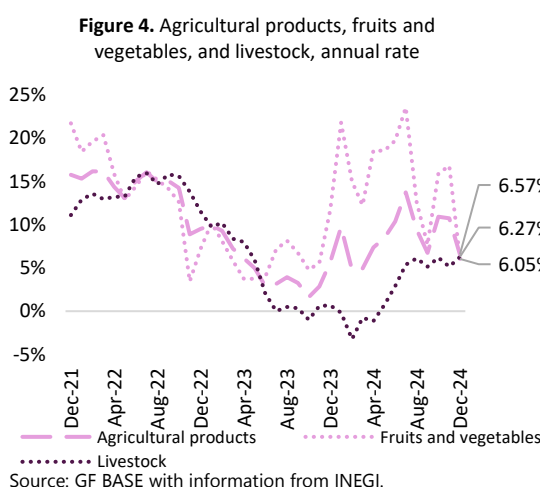
## 2. December annual inflation

In December, annual inflation in Mexico stood at 4.21%, aligning with market expectations and below the 4.55% recorded in November (Figure 3 and Table 1). With this, headline inflation marked two consecutive months of deceleration and reached its lowest annual rate since February 2021 (3.76%).



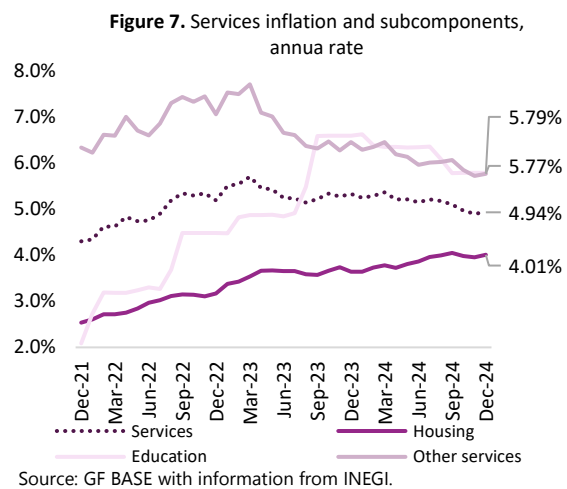
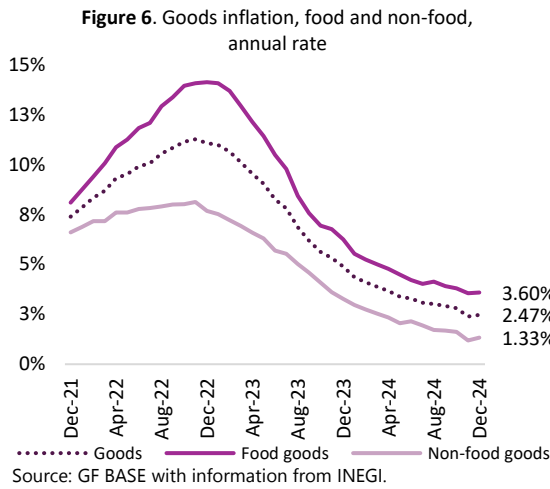
Non-core inflation also decelerated for the second consecutive month, posting an annual rate of 5.95% (Figure 3 and Table 1), the lowest since April (5.54%). It is worth noting that this component includes the most volatile prices and government-regulated tariffs. Within this component (Figures 4 and 5):

1. Agricultural products recorded an annual inflation rate of 6.57% (Figure 4), the lowest since March (4.92%).
  - a. This was driven by an annual inflation rate of 6.05% for fruits and vegetables, a sharp deceleration from 16.81% in November and the lowest rate since November 2023 (5.59%). However, the annual inflation rate for livestock products stood at 6.27%, the highest rate since April 2023 (8.01%).
2. Energy and government authorized tariffs posted an annual inflation rate of 4.97% (Figure 5), interrupting four consecutive months of deceleration and marking the highest rate since September (6.01%). Within this component:
  - a. The annual inflation rate for energy was 5.73%, marking two consecutive months of acceleration.
  - b. For government authorized tariffs, inflation stood at 4.12%, also accelerating for the second consecutive month and reaching the highest rate since January (4.29%).



Core inflation, which determines the trajectory of headline inflation in the medium and long term, stood at 3.65% annually (Figure 3 and Table 1), interrupting 22 consecutive months of deceleration. The core inflation stood in line with market expectations. Within this component (Figures 6 and 7):

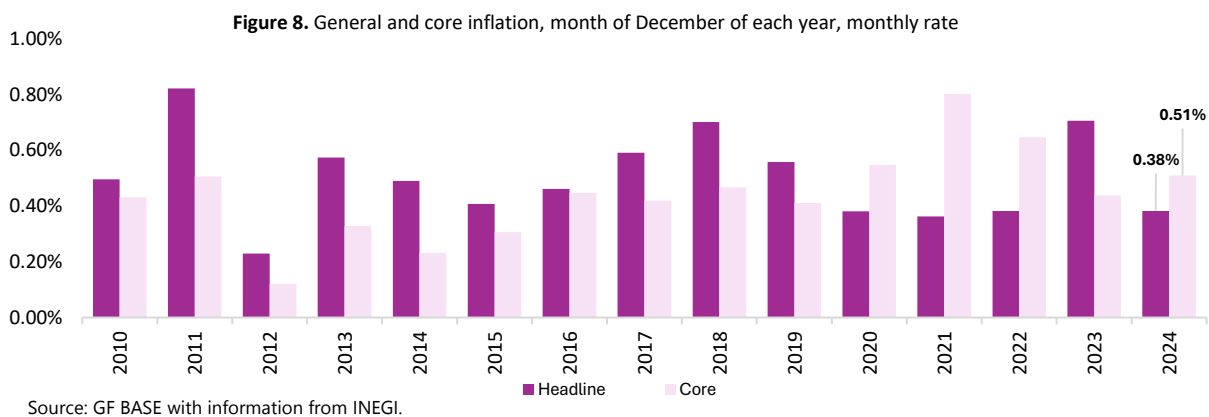
1. Goods recorded an annual inflation rate of 2.47% (Figure 6), breaking a streak of 24 consecutive months of deceleration. This was due to an acceleration in both types of goods:
  - a. Food goods showed an annual inflation rate of 3.60%, accelerating from 3.56% in November, while non-food goods registered an annual inflation rate of 1.33%, accelerating from 1.19% in the previous month. The upward pressures were linked to the depreciation of the Mexican peso.
2. The annual inflation rate for the services subcomponent also accelerated after four consecutive months of deceleration. Notably, this marked the third consecutive month where the 5% annual threshold was breached, something not seen since 2022. In December, services recorded an annual inflation rate of 4.94%, compared to 4.90% in November. Within this subcomponent, all categories accelerated except for educational services, which showed no variation. The acceleration in services inflation was mainly related to the holiday season, as prices for airfares and tourist packages increased.
  - a. Housing services and other services stood at 4.01% and 5.77% annually, respectively, the highest rates since September and October.

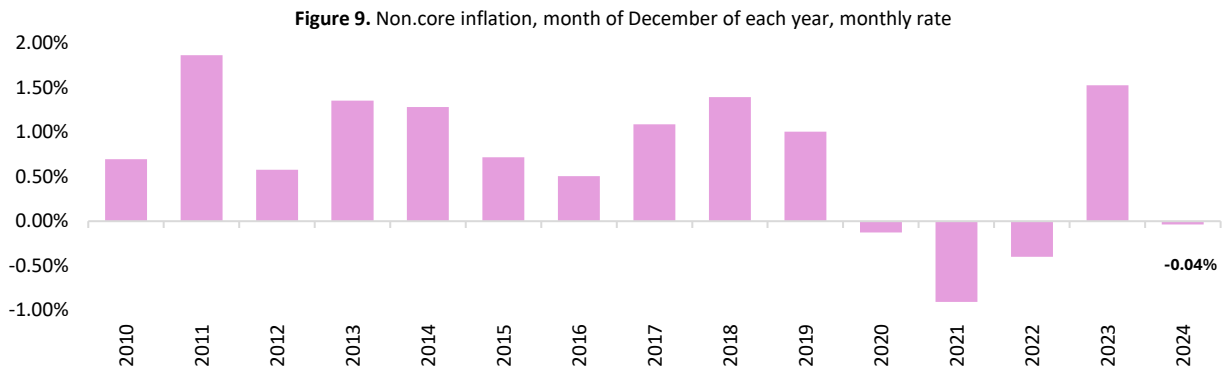


### 3. December monthly inflation

On a monthly basis, consumer inflation in December stood at 0.38%, the lowest rate for December since 2022 (Figure 8). This was driven by a monthly drop in the prices of fruits and vegetables (-2.82%), which led the agricultural products subcomponent to register negative inflation of -0.64%, both figures being the lowest for December since 2020 (Table 1). On the other hand, the monthly inflation rates for goods and services (within the core component), as well as for livestock products, energy, and government-regulated tariffs (within the non-core component), recorded their highest rates for December since 2023, limiting the deceleration of headline inflation (Table 1).

Due to the monthly drop in fruits and vegetables, non-core inflation stood at -0.04% (Figure 9), the lowest monthly rate for December since 2022, contrasting with core inflation, which stood at 0.51% (Figure 8), the highest for December since 2022.





Source: GF BASE with information from INEGI.

### 3.1 Generics, monthly rate

As for generics, within the core component, those that showed the greatest monthly increase or decrease in prices during December were (Table 2):

#### 1. Goods:

- Increase: 1) skin creams (+2.88%), personal deodorants (+2.86%) and 3) makeup products (+2.46%).
- Drop: 1) consoles, discs and downloads (-2.10%), 2) cold medications (-2.05%) and 3) washing machines (-1.96%).

#### 2. Services:

- Increase: 1) air transportation (+26.27%), 2) package tour services (+8.32%) and 3) cinema (+4.44%).
- Drop: 1) movie and music streaming (-0.69%), 2) car insurance (-0.37%) and 3) internet packages (-0.29%).

Finally, within the non-core component, those that showed the greatest monthly increase or decrease in prices during December were (Table 3):

#### 1. Fruits and vegetables:

- Increase: 1) grapes (+20.27%), 2) watermelon (+19.35%) and 3) guava (+11.70%).
- Drop: 1) papaya (-25.80%), 2) serrano chili (-13.99%) and 3) green tomato (-13.93%).

#### 2. Livestock:

- Increase: 1) chicken (+2.29%), 2) pork (+1.41%) and 3) beef (+1.35%).
- Drop: 1) egg (-1.56%) and 2) pork lard (-0.12%).

#### 3. Energy:

- Increase: 1) natural domestic gas (+2.47%), 2) LP domestic gas (+1.90%) and 3) regular gasoline (+0.15%).
- Drop: 1) electricity (-0.05%).

#### 4. Government authorized tariffs (there were only increases):

- Increase: 1) taxi (+1.87%), 2) issuance of public sector documents (+0.34%) and 3) parking lots (+0.22%).

**Table 1.** December inflation, core and non-core component.

December 2024	Monthly inflation	Minor for one month equal since:	Annual inflation	Minor since:	Consecutive months of acceleration (annual)
<b>Headline inflation</b>	<b>0.38%</b>	<b>2022</b>	<b>4.21%</b>	<b>February-21</b>	<b>-</b>
<b>Core inflation</b>	<b>0.51%</b>	<b>2023</b>	<b>3.65%</b>	<b>November-24</b>	<b>1</b>
Goods	0.40%	2023	2.47%	November-24	1
Food goods	0.43%	2023	3.60%	November-24	1
Non-food goods	0.37%	2023	1.33%	November-24	1
Services	0.61%	2023	4.94%	November-24	1
Housing	0.23%	2023	4.01%	November-24	1
Education	0.00%	2013	5.79%	October-24	-
Other services	1.07%	2023	5.77%	November-24	1
<b>Non-core inflation</b>	<b>-0.04%</b>	<b>2022</b>	<b>5.95%</b>	<b>April-24</b>	<b>-</b>
Agricultural	-0.64%	2020	6.57%	March-24	-
Fruits and vegetables	-2.82%	2020	6.05%	November-23	-
Livestock	1.06%	2023	6.27%	November-24	1
Energy and authorized tariffs	0.45%	2023	4.97%	November-24	1
Energy	0.44%	2023	5.73%	November-24	1
Authorized tariffs	0.46%	2023	4.12%	November-24	1

Source: Grupo Financiero BASE with information from INEGI.

**Table 2.** Generics with the highest and lowest monthly variation, core component.

Dec 2024	Goods	Monthly (%)	Services	Monthly (%)
<b>10 generics with the highest increase</b>	Skin creams	2.88%	Air transportation	26.27%
	Personal deodorants	2.86%	Package tour services	8.32%
	Makeup products	2.46%	Cinema	4.44%
	Televisions	2.35%	Hotels	3.49%
	Plants and flowers	2.26%	Pay television service	2.11%
	Children's underwear	1.99%	Long-distance bus	1.36%
	Women's dresses and skirts	1.96%	Restaurants and similar	0.92%
	Cookware	1.95%	Diners, snack bars, and taco stands	0.90%
	Hair care products	1.92%	Car repair	0.77%
	Toilet soap	1.82%	Dry cleaning services	0.70%
<b>10 generics with the largest decrease</b>	Consoles, discs, and video game downloads	-2.10%	Movie and music streaming	-0.69%
	Cold medications	-2.05%	Car insurance	-0.37%
	Washing machines	-1.96%	Internet, phone, and pay TV packages	-0.29%
	Moles and sauces	-1.60%	Domestic service	-0.04%
	Toys and board games	-1.50%		
	Gelatin, honey, and jams	-1.03%		
	Fabric softeners and cleaners	-0.83%		
	Corn	-0.83%		
	Liquid chocolate and chocolate drink mix	-0.77%		
	Microwave ovens	-0.76%		

Source: Grupo Financiero BASE with information from INEGI.

**Table 3.** Generics with the highest and lowest monthly variation, non-core component.

Dec 2024	Fruits and vegetables	Monthly (%)	Livestock	Monthly (%)	Energy	Monthly (%)	Government authorized tariffs	Monthly (%)
<b>10 generics with the highest increase</b>	Grapes	20.27%	Chicken	2.29%	Natural domestic gas	2.47%	Taxi	1.87%
	Watermelon	19.35%	Pork	1.41%	LP domestic gas	1.90%	Issuance of public sector documents	0.34%
	Guava	11.70%	Beef	1.35%	Regular gasoline	0.15%	Parking lots	0.22%
	Melon	5.39%	Shrimp	1.02%	Premium gasoline	0.12%	Water supply fees	0.18%
	Calabacita	5.18%	Fish	0.87%			Car permits	0.09%
	Zucchini	4.46%	Beef offal	0.67%			Urban bus	0.09%
	Green beans	3.97%					Subway or electric transportation	0.06%
	Peach	3.01%						
	Tomato	1.84%						
	Other vegetables...	1.64%						
<b>10 generics with the largest decrease</b>	Papaya	-25.80%	Eggs	-1.56%	Electricity	-0.05%		
	Serrano chili	-13.99%	Pork lard	-0.12%				
	Green tomato	-13.93%						
	Cucumber	-11.51%						
	Carrot	-10.17%						
	Nopales	-9.76%						
	Chayote	-9.58%						
	Other fresh chillies	-8.38%						
Lemon	-7.24%							
Onion	-6.86%							

Source: Grupo Financiero BASE with information from INEGI.

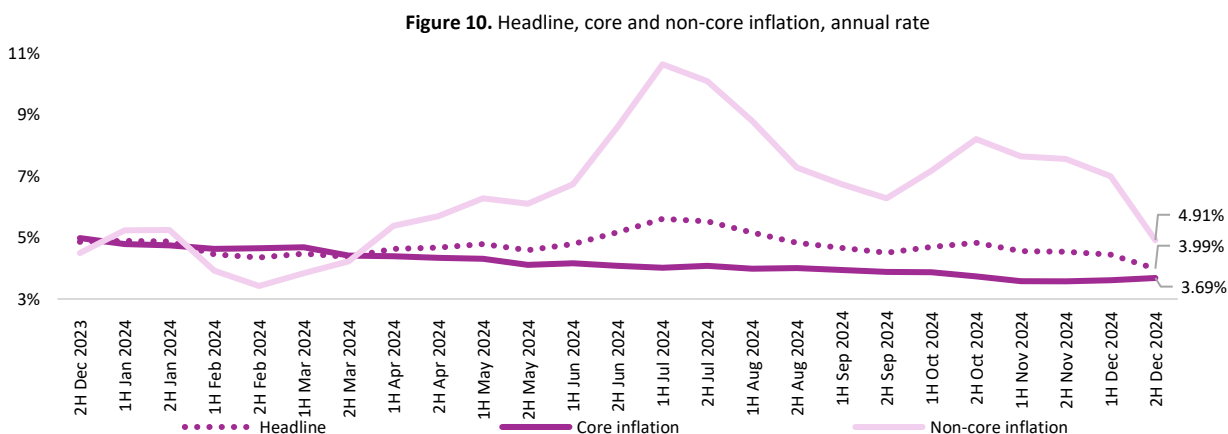
#### 4. Inflation as of the second half of December

In Mexico, inflation for the second half of the month stood at 0.04% biweekly, the lowest for the same period since 2021 (0.01%). Highlights within this (Table 4):

- Non-food goods (0.16%) recorded the highest rate for the same period since 2016 (0.22%).
- Non-core inflation (-0.02%) showed the largest decrease since 2022 (-0.19%).
- Inflation for agricultural products (-0.12%) and fruits and vegetables (-1.69%) registered the largest declines for the same period since 2021 (-0.98% and -3.23%, respectively).
- Energy and government-regulated tariffs (0.07%) and energy alone (0.09%) posted the lowest rates for the same period since the declines recorded in 2022 (0.56% and 0.85%, respectively).

On an annual basis, headline inflation stood at 3.99% (Figure 10 and Table 4), the lowest rate since the second half of February 2021 (3.68%) and the first time it has fallen below the 4% threshold after 91 biweekly periods fluctuating between 4.12% and 8.77%. With this, Mexico's annual inflation has recorded four consecutive biweekly periods of deceleration.

Within its components, core inflation stood at 3.69% annually, the highest since the second half of October (3.74%) and marking two consecutive biweekly periods of acceleration. Finally, non-core inflation was 4.91% annually, the lowest since the second half of March (4.23%), with four consecutive biweekly periods of deceleration.



**Table 4.** Inflation in the second half of December, core and non-core components.

	November 2024	Biweekly inflation	Lowest for an equal fortnight since	Annual inflation
<b>Headline inflation</b>		<b>0.04%</b>	<b>2021</b>	<b>3.99%</b>
<b>Core inflation</b>		<b>0.06%</b>	<b>2023</b>	<b>3.69%</b>
Goods		0.17%	2023	2.50%
Food goods		0.18%	2023	3.62%
Non-food goods		0.16%	2023	1.38%
Services		-0.05%	2022	4.99%
Housing		0.10%	2023	4.02%
Education		0.00%	-	5.79%
Other services		-0.20%	2022	5.87%
<b>Non-core inflation</b>		<b>-0.02%</b>	<b>2022</b>	<b>4.91%</b>
Agricultural		-0.12%	2021	4.54%
Fruits and vegetables		-1.69%	2021	1.25%
Livestock		1.08%	2023	6.75%
Energy and authorized tariffs		0.07%	2023	4.83%
Energy		0.09%	2023	5.55%
Authorized tariffs		0.01%	2023	4.06%

Source: Grupo Financiero Base with information from INEGI.



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