

## Mexico's CPI, first half of December 2024

Next inflation report for **December**: January 9

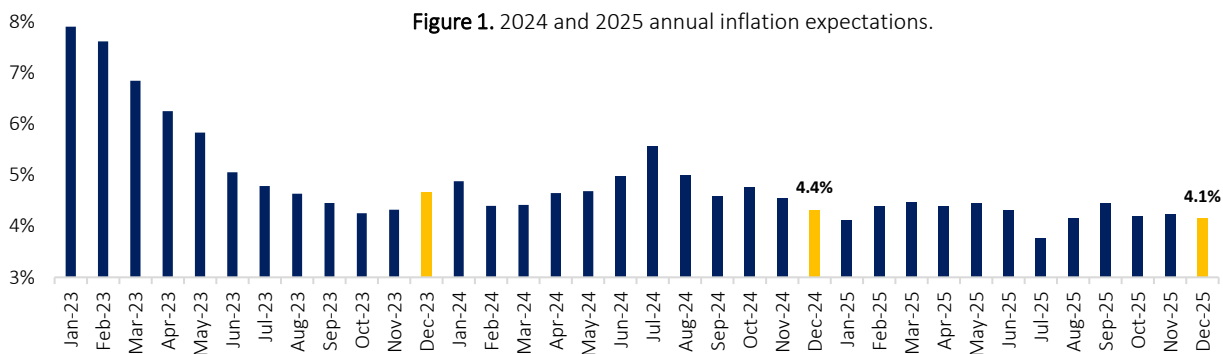
### 1. Summary

Inflation in Mexico continued to decelerate during the first half of December, both on a biweekly and annual basis. However, both the core and non-core components appear to be nearing the limits of their capacity to decline further. Additionally, several risks persist that could exert upward pressure, including:

1. The incoming Donald Trump administration and its protectionist policies, particularly regarding trade and immigration.
2. The depreciation of the Mexican peso, which increases the cost of imported goods and may continue to drive upward pressures on good prices.
3. The elevated fiscal deficit.
4. Increases in the minimum wage and other contractual wages.
5. Public insecurity, which particularly affects agricultural products and services.

In this context, Grupo Financiero BASE maintains its year-end inflation forecast at 4.4% for 2024 and 4.1% for 2025. Considering these projections, Bank of Mexico is expected to continue cutting interest rates. However, given the inflationary risks and the likelihood that the Federal Reserve will only lower its rate twice next year, it would be prudent for Bank of Mexico to pause its rate-cutting cycle before proceeding further.

For 2025, it is estimated that Bank of Mexico will reduce its interest rate by a total of 150 basis points, ending the year at 8.5%.



### 2. Mexico's inflation in the first half of December, biweekly variation

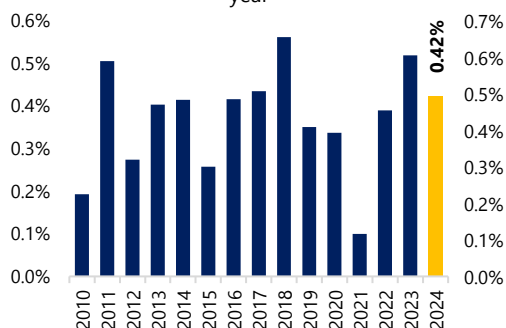
In the first half of December, **Mexico's headline inflation** stood at 0.42% on a biweekly basis, surpassing market expectations of 0.38% (Figure 2 and Table 1). This was the lowest inflation for the same period since 2022 (0.39%).

However, the **core component** stood at 0.50% biweekly (Figure 3 and Table 1), marking the highest for the same period since 2022 (0.57%). Within this component, **goods** (both **food** and **non-food goods**) recorded the highest biweekly rates since 2022 (Table 1), likely due to the depreciation of the Mexican peso.

In contrast, **services** recorded a biweekly inflation rate of 0.56% (Table 1), the lowest for a comparable period since 2022 (0.51%). **Housing services**, as well as **other services**, showed their lowest rates since 2023 and 2022, respectively. This is positive, as services have shown the most resistance to price reductions throughout the year.

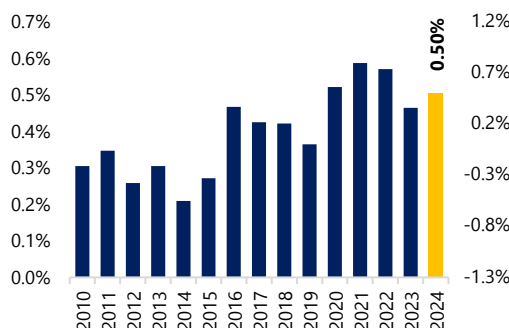
Meanwhile, the **non-core component**, characterized by high volatility, stood at 0.16% biweekly (Figure 4 and Table 1), the lowest for a comparable period since 2022 (-0.14%). Within this component, **agricultural products** recorded the lowest inflation for a comparable period since 2021, while **energy and government-authorized tariffs** showed the lowest inflation for the same period since last year (Table 1).

**Figure 2.** Biweekly headline inflation, first half of December each year



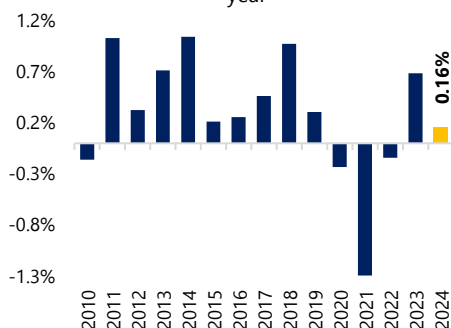
Source: GF BASE with information from INEGI.

**Figure 3.** Biweekly core inflation, first half of December each year



Source: GF BASE with information from INEGI.

**Figure 4.** Biweekly non-core inflation, first half of December each year



Source: GF BASE with information from INEGI.

**Table 1.** Biweekly and annual inflation.

1st half of December 2024	Biweekly inflation	Lowest for an equal fortnight since	Annual inflation	Lowest since	Consecutive fortnights decelerating
<b>Headline inflation</b>	<b>0.42%</b>	<b>2022</b>	<b>4.44%</b>	<b>2H Mar 2024</b>	<b>3</b>
<b>Core inflation</b>	<b>0.50%</b>	<b>2023</b>	<b>3.62%</b>	<b>2H Nov 2024</b>	-
<b>Goods</b>	<b>0.44%</b>	<b>2023</b>	<b>2.44%</b>	<b>2H Nov 2024</b>	-
Food goods	0.31%	2023	3.59%	2H Nov 2024	-
Non-food goods	0.56%	2023	1.28%	2H Nov 2024	-
<b>Services</b>	<b>0.56%</b>	<b>2022</b>	<b>4.88%</b>	<b>1H Nov 2024</b>	<b>1</b>
Housing	0.13%	2023	4.00%	2H Nov 2024	-
Education	0.00%	-	5.79%	2H Oct 2024	-
Other services	1.06%	2022	5.67%	1H Nov 2024	1
<b>Non-core inflation</b>	<b>0.16%</b>	<b>2022</b>	<b>7.00%</b>	<b>2H Sep 2024</b>	<b>3</b>
<b>Agricultural products</b>	<b>0.10%</b>	<b>2021</b>	<b>8.68%</b>	<b>2H Sep 2024</b>	<b>3</b>
Fruits and vegetables	-0.45%	2021	11.23%	2H Sep 2024	3
Livestock	0.52%	2023	5.79%	2H Nov 2024	-
<b>Energy and authorized tariffs</b>	<b>0.21%</b>	<b>2023</b>	<b>5.11%</b>	<b>2H Nov 2024</b>	-
Energy	0.12%	2023	5.91%	2H Nov 2024	-
Authorized tariffs	0.38%	2023	4.17%	2H Nov 2024	-

Source: Grupo Financiero BASE with information from INEGI.

### 3. Generics of Mexico's inflation, biweekly variation

Within the core inflation component, and focusing on services specifically<sup>1</sup>, the generics with the largest increases and decreases in prices during the first half of December were (Table 2):

<sup>1</sup> Due to the lack of detailed data on generic goods for the first half of December from INEGI, it was only possible to accurately identify 10 generic goods out of a total of 189 generic goods.

- Goods:
  - Biggest increase: 1) plants and flowers (+2.26%), 2) audio and video players (+0.92%) and 3) blankets (+0.84%).
  - Biggest drop: 1) video game consoles (-1.95%) and 2) pet food (-0.72%).
- Services:
  - Biggest increase: 1) air transport (+38.47%), 2) tour packages (+12.86%), 3) pay-tv services (+2.01%).
  - Biggest drop: 1) streaming services (-0.28%), 2) internet packages (-0.23%), 3) car insurance (-0.10%).

**Within non-core inflation, the generics with the greatest price increases and decreases (biweekly) in the first half of December were (Table 3):**

- Fruits and vegetables:
  - Biggest increase: 1) zucchini (+13.78%), 2) watermelon (+13.28%), 3) grapes (+11.21%)
  - Biggest drop: 1) papaya (-18.56%), 2) green tomato (-8.59%), 3) serrano chili (-8.46%).
- Livestock:
  - Biggest increase: 1) chicken (+1.18%), 2) beef (+0.77%), 3) pork (+0.53%).
  - Biggest drop: eggs (-0.72%), 2) shrimp (-0.38%), 3) pork lard (-0.06%).
- Energy:
  - Biggest increase: 1) domestic LP gas (+0.59%), 2) premium gasoline (+0.07%), 3) regular gasoline (+0.04%).
  - Biggest drop: 1) electricity (-0.05%).
- Government-authorized tariffs:
  - Largest increase: 1) taxi fares (+1.49%), 2) vehicle-related fees (+0.49%), 3) issuance of public documents (+0.37%).
  - Biggest drop: 1) none.

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

1H of Dec, 2024	Goods	Biweekly (%)	Services	Biweekly (%)
Generics with the highest increase	Plants and flowers	2.26%	Air transportation	38.47%
	Audio and video players and their accessories	0.92%	Package tour services	12.86%
	Quilts and blankets	0.84%	Pay television service	2.01%
	Musical instruments, and audio and video downloads	0.75%	Hotels	1.97%
	Fashion accessories	0.46%	Long-distance bus	0.78%
	Towels, curtains, and other linens	0.42%	Sports club	0.75%
	Energy drinks	0.42%	Cinema	0.73%
	Sandals and huaraches	0.30%	Car repair	0.68%
Generics with the biggest decrease			Professional services	0.61%
			Party packages	0.58%
	Consoles, discs, and video game downloads	-1.95%	Movie and music streaming	-0.28%
	Pet food	-0.72%	Internet, phone, and pay TV packages	-0.23%
		Car insurance	-0.10%	

**Note\*:** Due to the lack of detailed data on generic goods for the first half of December from INEGI, it was only possible to accurately identify 10 generic goods out of a total of 189 generic goods.

Source: Grupo Financiero BASE with information from INEGI.

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

1H of Dec, 2024	Fruits and vegetables	Biweekly (%)	Livestock	Biweekly (%)	Energy	Biweekly (%)	Government authorized tariffs	Biweekly (%)
Generics with the highest increase	Zucchini	13.78%	Chicken	1.18%	LP domestic gas	0.59%	Taxi	1.49%
	Watermelon	13.28%	Beef	0.77%	Premium gasoline	0.07%	Car permits	0.49%
	Grapes	11.21%	Pork	0.53%	Regular gasoline	0.04%	Issuance of public sector documents	0.37%
	Green beans	7.63%	Fish	0.06%			Water supply fees	0.18%
	Tomato	6.65%	Beef offal	0.03%			Subway or electric transportation	0.06%
	Guava	6.42%						
	Melon	5.78%						
	Pear	2.96%						
	Other vegetables and legumes	1.93%						
Generics with the biggest decrease	Lettuce and cabbage	1.23%						
	Papaya	-18.56%	Eggs	-0.72%	Electricity	-0.05%		
	Green tomato	-8.59%	Shrimp	-0.38%				
	Serrano chili	-8.46%	Pork lard	-0.06%				
	Carrot	-5.81%						
	Other fresh chilies	-5.30%						
	Onion	-5.07%						
	Nopales	-4.83%						
	Cucumber	-3.92%						
Pineapple	-3.83%							
Lemon	-3.62%							

Source: Grupo Financiero BASE with information from INEGI.

#### 4. Mexico's inflation in the first half of December, annual variation

**Headline inflation** stood at an annual rate of 4.44%, decelerating for the third consecutive fortnight and reaching its lowest rate since the second half of March (4.37%).

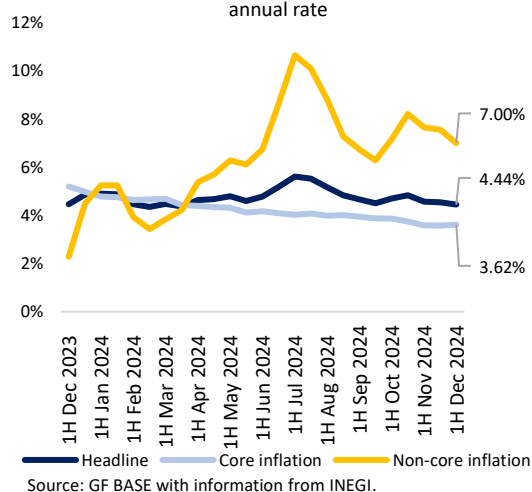
The **core component** recorded an annual inflation rate of 3.62%, breaking a streak of six consecutive fortnights decelerations.

Meanwhile, the **non-core component** recorded an annual inflation rate of 7.00%, which, despite remaining high, was the lowest since the second half of September and marked the third consecutive fortnight of deceleration.

**Within the annual core inflation component** (Figure 6 and 7):

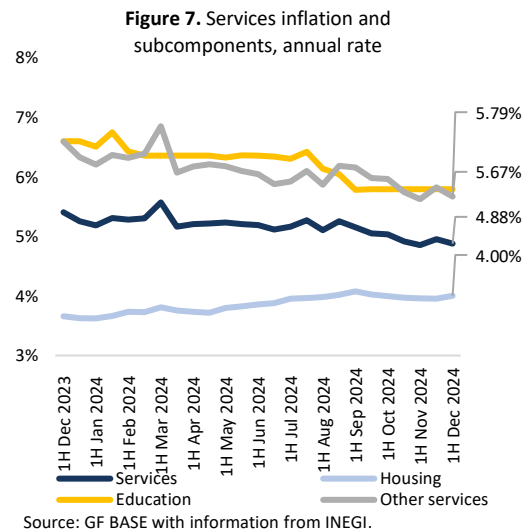
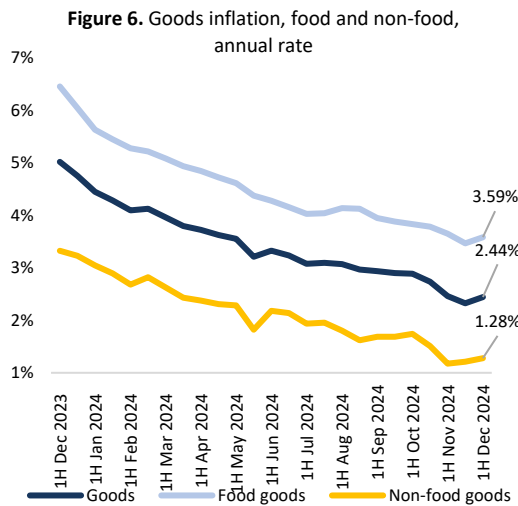
- **Core inflation** (3.62%) interrupted six consecutive half-month decelerations, standing at its highest annual rate since the second half of October (3.74%).
- **Goods inflation** (2.44%) accelerated after eight consecutive half-month decelerations, reaching its highest rate since the first half of November (2.46%).
- **Food goods** inflation (3.59%) broke a streak of six consecutive half-month decelerations, registering its highest annual rate since the first half of November (3.65%).
- **Non-food goods** inflation (1.28%) accelerated for the second consecutive half-month, recording its highest annual rate since the second half of October (1.51%).
- **Services** inflation (4.88%) decelerated, registering its lowest rate since the first half of November (4.85%).
- **Housing services** (3.96%) interrupted five consecutive fortnights of deceleration and stood at its highest annual rate since the second half of September (4.03%).

**Figure 5.** General, core and non-core inflation, annual rate



- **Education services** (5.79%) showed no changes, maintaining said inflation for 6 consecutive fortnights.
- **Other services** (5.67%) slowed down and showed the lowest annual rate since the first half of November (5.63%).

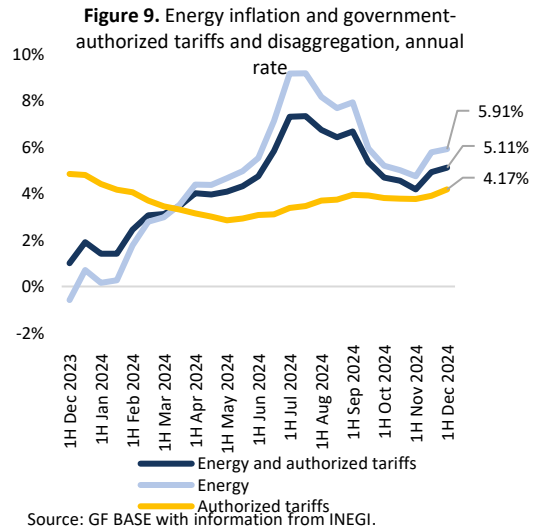
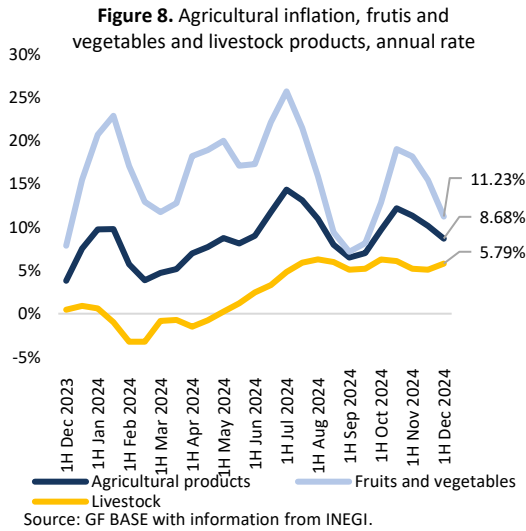
It is important to note that most of the subcomponents of **core inflation** recorded annual rates that stand out as the highest or lowest in recent fortnights (all this year). This behavior suggests that the core component could start to stabilize or even enter a stage of stagnation, in which the slowdown observed in previous months begins to lose momentum.



#### Within the annual non-core inflation component (Figure 8 and 9):

- **Non-core inflation** (7.00%) decelerated for the third consecutive fortnight, reaching its lowest annual rate since the second half of September (6.28%).
- Annual inflation for **agricultural products** (8.68%) and **fruits and vegetables** (11.23%) decelerated for the third consecutive fortnight, both reaching their lowest rates since the second half of September (7.02% and 8.15%, respectively). However, they remain at very high levels.
- **Livestock product** inflation (5.79%) broke a streak of three consecutive fortnight decelerations, showing the highest rate since the second half of October.
- **Energy and government-authorized tariffs** inflation (5.11%), **energy** inflation (5.91%), and **tariff** inflation (4.17%) all accelerated for the second consecutive fortnight, showing their highest rates since the second half of September for the first two (5.35% and 5.94%, respectively) and since the first half of January for tariffs (4.41%).

Similarly to the core component, the behavior of the **non-core component** shows mixed signals that could suggest the beginning of a moderation in its trajectory too. In previous fortnights, the subcomponent rates were closer to patterns observed in earlier years, with lower rates. Moreover, although the non-core component has continued to decelerate and contribute to the decline in Mexico's general inflation, its high volatility and sensitivity to external factors could exert additional pressures in the short term.



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