

Mexico's CPI, first half of January 2025

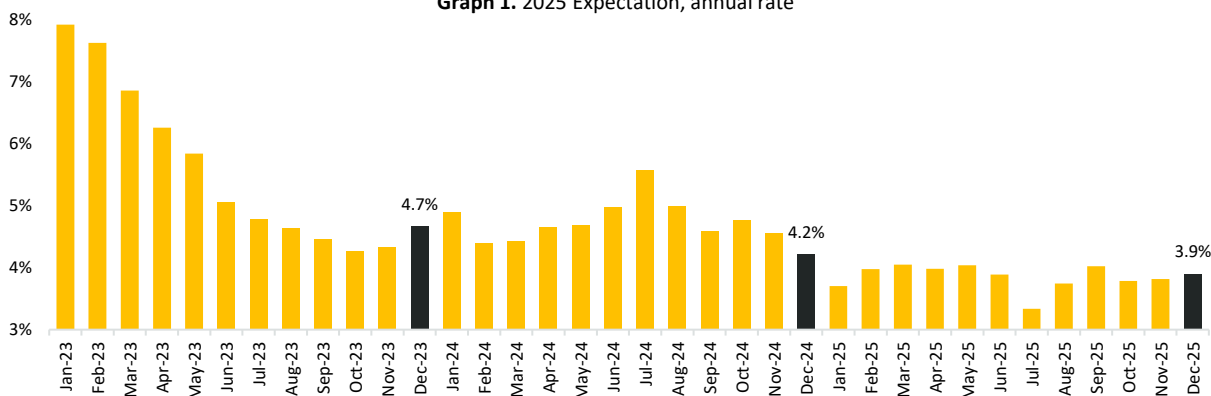
Next inflation report for January: February 7

1. Expectation

The results for the first half of January suggest that inflation is performing better and could close at 3.9% annually in December 2025 (Graph 1). However, with all of 2025 ahead and ongoing uncertainty, further adjustments in the coming months cannot be ruled out. The main upside risks to inflation include: 1) public insecurity, which particularly impacts agricultural products and services, 2) depreciation of the Mexican peso, 3) a high fiscal deficit, 4) increases in the minimum wage and other contractual wages, and 5) potential supply chain disruptions.

The deceleration in inflation increases the likelihood that Banco de México will announce a 50-basis-point interest rate cut on February 6.

Graph 1. 2025 Expectation, annual rate



Source: Grupo Financiero Base with information from INEGI.

Table 1. Biweekly and annual inflation

1st half of January 2025	Biweekly inflation	Lowest for an equal fortnight since	Annual inflation	Lowest since	Consecutive fortnights decelerating
Headline inflation	0.20%	2019	3.69%	2H Feb 2021	5
Core inflation	0.28%	2024	3.72%	2H Dec 2024	-
Goods	0.49%	2024	2.75%	2H Dec 2024	-
Food goods	0.56%	2024	3.83%	2H Dec 2024	-
Non-food goods	0.44%	2024	1.68%	2H Dec 2024	-
Services	0.07%	2022	4.82%	1H Jul 2022	1
Housing	0.21%	2022	3.93%	2H Jun 2024	1
Education	0.20%	2021	5.73%	2H Aug 2023	1
Other services	-0.08%	2022	5.59%	1H Nov 2021	1
Non-core inflation	-0.04%	2016	3.60%	2H Feb 2024	5
Agricultural products	-0.99%	2018	1.06%	1H Mar 2021	5
Fruits and vegetables	-2.67%	2018	-6.11%	1H May 2021	5
Livestock	0.26%	2024	7.03%	2H Dec 2024	-
Energy and authorized tariffs	0.70%	2024	5.41%	2H Dec 2024	-
Energy	0.82%	2024	6.42%	2H Dec 2024	-
Authorized tariffs	0.48%	2021	4.05%	2H Nov 2024	2

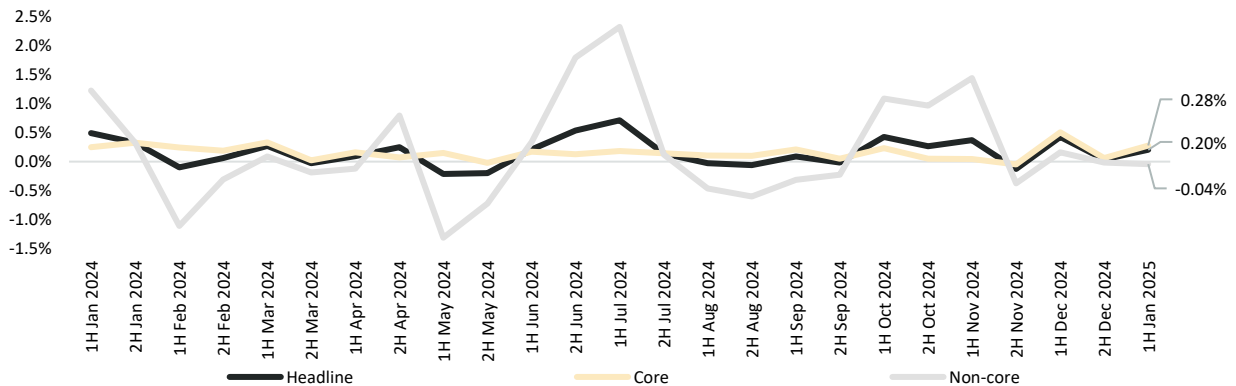
Source: Grupo Financiero BASE with information from INEGI.

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

In the first half of January, headline inflation stood at 0.20% biweekly, rebounding from the 0.04% recorded in the second half of December (Graph 2). It is important to note that this behavior is typically observed at the beginning

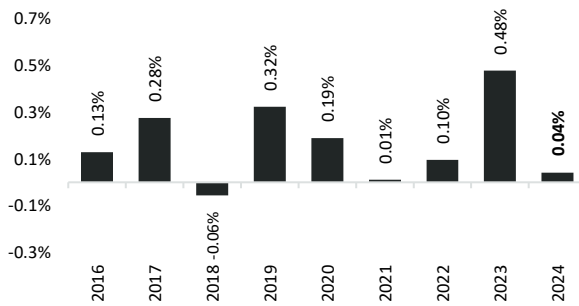
of the year, as December often shows a moderation in inflation rates, particularly in its second half (Graph 3). While the figure for the first half of January followed this pattern by exceeding the previous period, it is worth highlighting that it represents the lowest inflation rate for the same biweekly period since 2019 (Graph 4). Moreover, the result was well below market expectations, which anticipated greater inflationary pressures at the start of the year (0.27% biweekly).

Graph 2. Headline, core and non-core inflation, biweekly rate



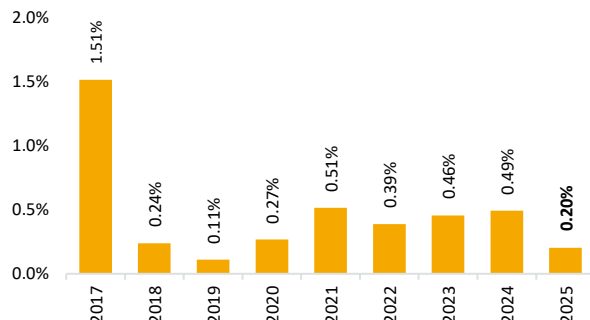
Source: Grupo Financiero Base with information from INEGI.

Graph 3. Biweekly headline inflation, 2H December, in different years



Source: GF Base with information from INEGI.

Graph 4. Biweekly headline inflation, 1H January, in different years



Source: GF Base with information from INEGI.

The biweekly inflation rate of 0.20% was primarily driven by:

1. The **non-core component**, which includes products with more volatile prices, showed a negative biweekly inflation rate of -0.04% (Graph 1), marking the first decline for the same biweekly period since 2016 (-0.13%) (Graph 5). This decline was entirely attributed to the agricultural subcomponent. Within this category (Table 1), **agricultural products** registered a negative biweekly inflation rate of -0.99%, the largest drop for the same biweekly period since 2018. Notably, this decline was led by **fruits and vegetables**, which recorded a negative biweekly inflation rate of -2.67%. Mainly, the following items drove the decrease: 1) tomatoes (-9.08%), 2) grapes (-8.34%)—which had seen the highest inflation rates in the first and second half of December since the second half of January 2024—and 3) poblano chili (-7.94%) (Table 2). In contrast, **livestock products** registered a biweekly inflation rate of 0.26%, the highest for the same biweekly period since 2023.

In contrast, **energy and government-authorized tariffs** showed a biweekly inflation rate of 0.70%, the highest for the same biweekly period since 2021. Within this category, **government-authorized tariffs** registered a biweekly inflation rate of 0.48%, the lowest for a similar period since 2021 (0.46%). Meanwhile, **energy** prices increased by 0.82% biweekly, marking seven consecutive fortnights of positive biweekly variation. Electricity tariffs rose by 1.80%, an effect typically observed in the first half of January, which is not expected to persist in subsequent periods. Gasoline prices also saw significant increases, with regular gasoline rising by 0.77% and premium gasoline by 0.54%, while domestic LP gas showed a moderate biweekly increase of 0.10% (Table 2). The rise in energy prices can be attributed to a combination of factors: 1) correction in global commodity prices, as the average price of WTI crude oil increased by 7.63%¹ biweekly, 2) an upward adjustment in electricity tariffs implemented at the beginning of the year, 3) moderate adjustment in LP gas prices, contrasting with the previous three years (2022, 2023, and 2024), which had recorded negative biweekly variations during the first half of January, and 4) increases in gasoline prices, driven by the annual adjustment of the Special Tax on Production and Services (IEPS for its acronym in Spanish), which impacts the final consumer price. As of January 1, a 4.5% increase in the IEPS came into effect, according to the Ministry of Finance and Public Credit (SHCP for its acronym in Spanish), in line with the annual inflation rate for November 2024.

2. **Core inflation** stood at 0.28% biweekly, the highest for the same period since 2023 and significantly above the average performance of the past ten years, where the biweekly rate averaged 0.21% (Graph 6).

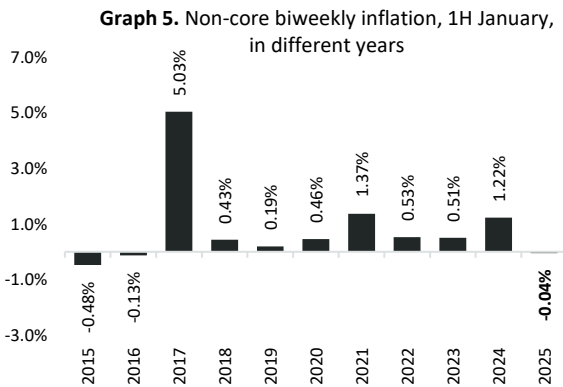
Within this component, **goods**² recorded a biweekly inflation rate of 0.49%, also the highest for the same period since 2023. This was driven by inflationary pressures in both types of goods. On one hand, **food goods** showed a biweekly inflation rate of 0.56%, the highest for the same period since 2023, while **non-food goods** registered a biweekly inflation rate of 0.44%, marking the highest for a similar period since 2010.

The main pressures are linked to the depreciation of the Mexican peso and the possibility that the exchange rate will continue to rise. This typically affects both food and non-food goods due to increased import costs. It is worth noting that many food goods rely on inputs or products sourced from abroad, while non-food goods (particularly durable and semi-durable goods) are also sensitive to exchange rate fluctuations. It is important to remember that the exchange rate experienced significant volatility at the end of 2024 and the beginning of 2025, reaching a peak of 20.9072 pesos per dollar on December 31. This occurred following the results of the U.S. elections, which resulted in Donald Trump's victory. Uncertainty increased due to Trump's threats to impose a 25% tariff on imports from Mexico after his swearing-in ceremony on January 20.

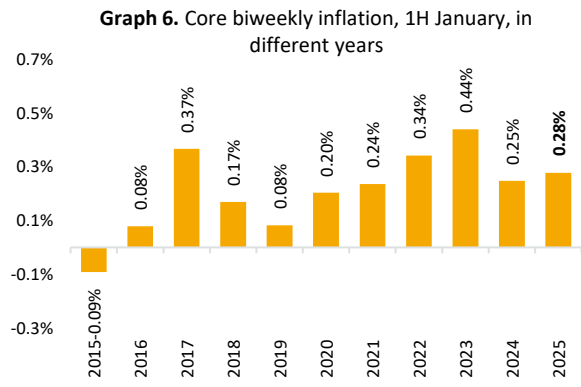
Meanwhile, **services** inflation stood at 0.07% biweekly, the lowest rate for the same period since 2022. Within this category, the biweekly inflation rates for **housing** and **education** services were 0.21% and 0.20%, respectively, marking the lowest rates for the same period since 2022 and 2021, respectively. It is worth noting that education services inflation showed no variation for six consecutive biweekly periods, and the positive biweekly variation in the first half of January reflects a seasonal effect, as price adjustments for these services are typically observed during this period. **Other services** registered a negative biweekly inflation rate of -0.08%, the first decline for the same period since 2022. This decrease was partially driven by price adjustments in 1) air transportation (-31.51%), 2) package tour services (-8.70%), and 3) hotels (-3.29%) following the holiday season (Table 3).

¹ This calculation compares the average price of WTI in the second half of December (\$70.25 per barrel) with that of the first half of January (\$75.61 per barrel).

² Due to the lack of detailed data on generic goods for the first half of January from INEGI, it was only possible to accurately identify 10 generic goods out of a total of 189 generic goods.



Source: GF Base with information from INEGI.



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

1H of Jan	Fruits and vegetables	Biweekly (%)	Livestock	Biweekly (%)	Energy	Biweekly (%)	Government authorized tariffs	Biweekly (%)
10 generics with the highest increase	Bananas	7.96%	Beef offal	1.33%	Electricity	1.80%	Car permits	3.17%
	Lemon	7.30%	Chicken	1.07%	Regular gasoline	0.77%	Issuance of public sector documents	2.66%
	Chayote	2.85%	Beef	0.71%	Premium gasoline	0.54%	Highway tolls	1.94%
	Watermelon	2.26%	Pork	0.37%	LP domestic gas	0.10%	Water supply fees	1.61%
	Coriander, epazote, and parsley	1.59%	Pork lard	0.21%	Natural domestic gas	0.00%	Urban bus	0.46%
	Orange	1.11%	Shrimp	0.07%			Parking lots	0.36%
	Avocado	1.02%					Shared taxis	0.11%
	Pear	0.98%					Subway or electric transportation	0.06%
	Peach	0.76%						
	Apple	0.53%						
10 generics with the biggest decrease	Tomato	-9.08%	Eggs	-1.83%			Taxi	-0.45%
	Grapes	-8.34%	Fish	-0.10%				
	Poblano chili	-7.94%						
	Papaya	-7.92%						
	Green beans	-7.19%						
	Green tomato	-6.60%						
	Cucumber	-5.64%						
	Serrano chili	-5.60%						
	Guava	-5.43%						
	Onion	-4.65%						

Source: Grupo Financiero BASE with information from INEGI.

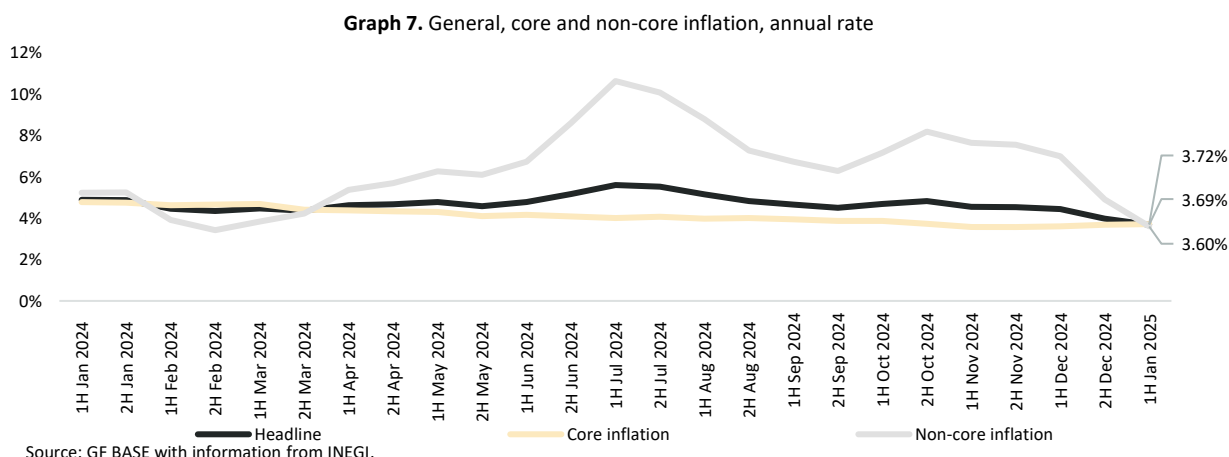
Table 3. Generics with the highest and lowest biweekly variation, core component.

1H of Jan	Goods	Biweekly (%)	Services	Biweekly (%)
10 generics with the highest increase	Consoles, discs, and video game downloads	3.19%	Pet services	2.52%
	Musical instruments, and audio and video downloads	1.84%	Professional services	1.78%
	Audio and video players and their accessories	1.75%	Car washing and greasing	1.56%
	Quilts and blankets	1.00%	Maintenance, repair, and security services for housing	1.26%
	Energy drinks	0.63%	Car repair	1.24%
	Pet food	0.50%	Clinical tests	1.19%
			Sports club	1.12%
			Dental consultation and prosthetics	1.10%
			Pay television service	1.08%
			Domestic service	1.00%
10 generics with the biggest decrease	Fashion accessories	-0.58%	Air transportation	-31.51%
	Plants and flowers	-0.30%	Package tour services	-8.70%
	Sandals and huaraches	-0.22%	Hotels	-3.29%
	Towels, curtains, and other linens	-0.07%	Cinema	-0.18%
			Landline phone services	-0.04%

Source: Grupo Financiero BASE with information from INEGI.

3. Mexico's inflation in the first half of January, annual variation

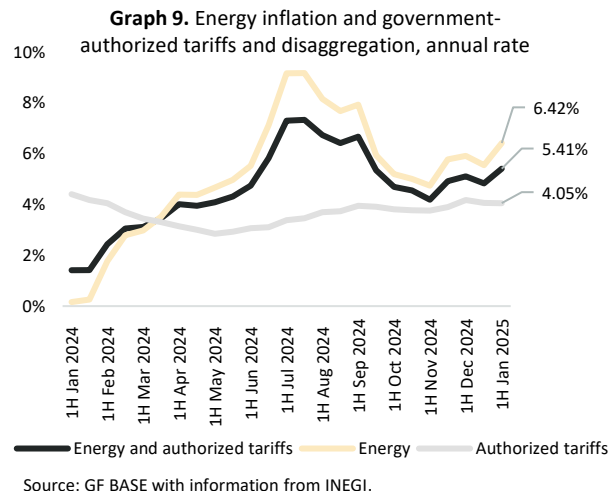
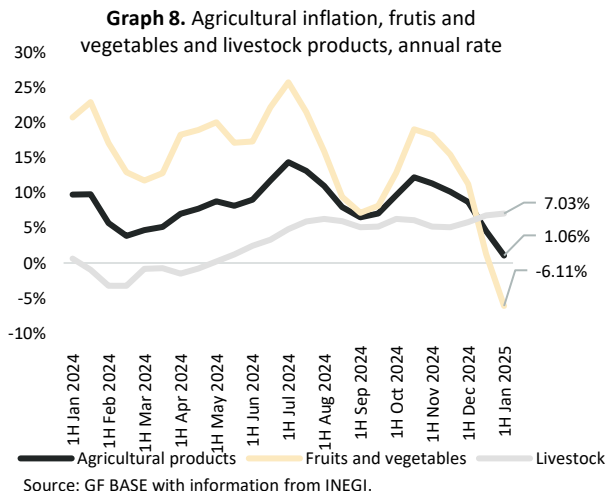
Headline inflation decelerated in the first half of January to an annual rate of 3.69% (Graph 7), marking its lowest level since the second half of February 2021 (3.68%). Within this, non-core inflation also registered a significant deceleration, reaching 3.60% annually, its lowest level since the second half of February 2024 (3.42%). In contrast, the core component recorded an annual inflation rate of 3.72%, the highest since the second half of October (3.74%), marking three consecutive biweekly periods of acceleration.



In detail, within the annual inflation of the **non-core component**, the following highlights stand out (Graphs 8 and 9, Table 1):

- **Non-core inflation** (3.60%) has now decelerated for five consecutive biweekly periods, reaching its lowest annual rate since the second half of February 2024 (3.42%).
- Annual inflation for **agricultural products** (1.06%) decelerated for the fifth consecutive biweekly period, marking its lowest rate since the first half of March 2021 (0.07%). Inflation for **fruits and vegetables** decelerated for the fifth consecutive biweekly period, registering a negative inflation rate of -6.11%. This represents the first annual decline since the second half of May 2021 and the largest drop since the first half of May 2021 (-6.25%). Meanwhile, **livestock products** showed an annual inflation rate of 7.03%, accelerating for the third consecutive biweekly period and reaching its highest annual rate since the second half of April 2023 (8.21%).
- Annual inflation for **energy and government-authorized tariffs** (5.41%), as well as **energy** inflation (6.42%), were the highest since the first half of September (6.67% and 7.92%, respectively). On the other hand, the annual inflation rate for **government-authorized tariffs** (4.05%) was the lowest since the second half of November (3.90%).

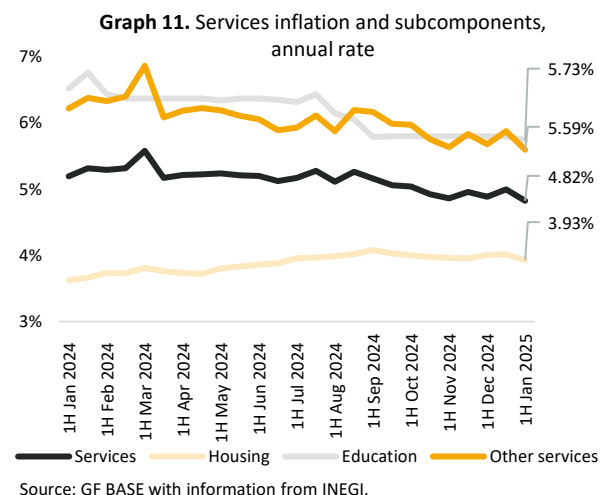
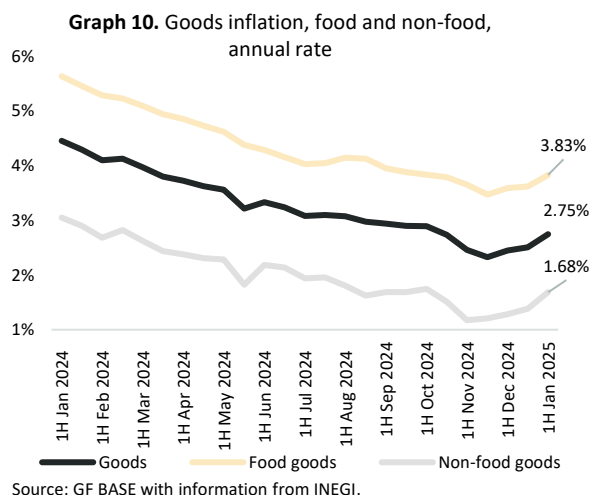
In summary, the non-core component shows mixed signals. On one hand, lower pressures in agricultural products, driven primarily by the decline in fruit and vegetable prices, contribute to the deceleration. On the other hand, energy prices are under increased pressure due to the general rise in commodity markets and adjustments at the beginning of the year.



Within the annual inflation of the **core component**, the following highlights stand out (Graphs 10 and 11, Table 1):

- **Core inflation** (3.72%) accelerated for the third consecutive biweekly period, reaching its highest annual rate since the second half of October (3.74%).
- Inflation for **goods** (2.75%) and **food goods** (3.83%) accelerated for three consecutive biweekly periods, while **non-food goods** (1.68%) recorded four consecutive biweekly periods of acceleration. All three reached their highest annual rates since the first half of October (2.89%, 3.83%, and 1.74%, respectively).
- **Services** inflation (4.82%) was the lowest since the first half of July 2022 (4.81%). Within this category, **housing services** (3.93%) recorded their lowest annual rate since the second half of June (3.88%). **Education** services decelerated to an annual rate of 5.73%, after remaining unchanged at 5.79% for seven consecutive biweekly periods. Finally, the annual inflation rate for **other services** decelerated to 5.59%, marking the lowest annual rate since the first half of November 2021 (5.48%).

In summary, core inflation appears to be starting to show some upward pressures, particularly driven by goods due to greater exchange rate volatility. However, these pressures could be mitigated if services continue to gradually decelerate, particularly in housing and other services.



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