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Latam Daily: Peru's Reference Rate Unchanged; Mexico's Weak Industrial Activity Start

- **Peru: BCRP remains cautious**
- **Mexico: 2025 started with weaker industrial activity**

PERU: BCRP REMAINS CAUTIOUS

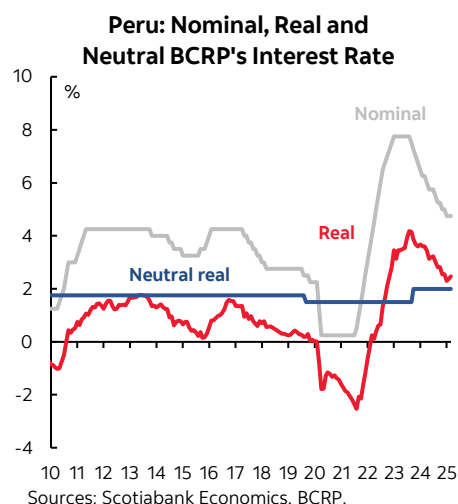
The Board of Directors of the Central Reserve Bank of Peru (BCRP) decided to keep its reference rate unchanged at 4.75%, in line with market consensus (the Bloomberg median). Despite the continued decline in inflation, the BCRP remained cautious due to high uncertainty related to tariff policies, and also supported by expectations for strong economic activity data (chart 1).

Regarding the statement, we see three key points. The first is inflation. Headline inflation, which is currently at 1.5%, is expected to approach 1.0% in March (the lower limit of the target range). We estimate monthly inflation in March will be 0.7% m/m, accumulating an annual rate of 1.2%. On the side of core inflation, which is currently at 2.1%, it is expected to remain around the target range (2.0%) in the coming months. We estimate that core inflation will also be 0.7% m/m in March, translating into an annual rate slightly below 2.0%.

The second element is economic activity. The BCRP indicated in its statement that most economic activity expectation indicators remained in the optimistic range and showed a recovery for the second consecutive month. Additionally, they highlight that economic activity has been registering higher growth in recent months.

Finally, in reference to the international context, the statement highlights greater tightening of financial conditions and notes that uncertainty persists regarding the possible implementation of trade policies under Trump.

With the decision, the real interest rate slightly increases from 2.38% to 2.47%, moving away from the 2.00% level considered neutral, so the BCRP would have room to make one or two additional cuts of 25 basis points. We expect the second cut to occur during the second quarter of 2025. For April, it is more likely that the reference rate will be maintained again. Despite the continued reduction in inflation levels—partly due to base effects—uncertainty regarding tariff policies would persist, along with ongoing strength in economic activity indicators. One thing that may encourage the BCRP to cut would be easing by the Fed, which could still take place in May or June, according to the market consensus.

Chart 1


—Ricardo Avila

MEXICO: 2025 STARTED WITH WEAKER INDUSTRIAL ACTIVITY

Industrial production had a weak start to the year. In January it deepened its decline to -2.9% y/y annually from -2.7% previously, marking six consecutive months of setbacks (chart 2). By components, the greatest deterioration occurred in mining (-8% vs. -6.3%

March 14, 2025

previously) due to lower oil and gas. Meanwhile, the weakness in construction persists, which fell for the sixth consecutive time to -6.7% (-7.5% previously) due to the collapse of civil engineering works (-27.5%) caused by the change in administration in the federal government and increased uncertainty (both international and domestic). Similarly, manufacturing decreased for the third consecutive month, from -0.6% to -0.8%, with notable declines in machinery and equipment by -6.9% and in transport equipment by -0.9%, two of the sectors with an export profile. On the other hand, utilities grew by 0.8% (1.7% previously), although it remains considerably below pre-pandemic levels (table 1).

In the monthly comparison, the index fell for the second time, now to -0.4% m/m from -1.4% previously, with seasonally adjusted figures. Manufacturing declined by -0.3%, and construction slightly rebounded by 0.1%.

Looking ahead, we expect that manufacturing, and construction will continue to be in negative territory, affected by uncertainties around US tariff policies, as well as the fiscal balance and the implementation of the constitutional reforms from last year.

Chart 2

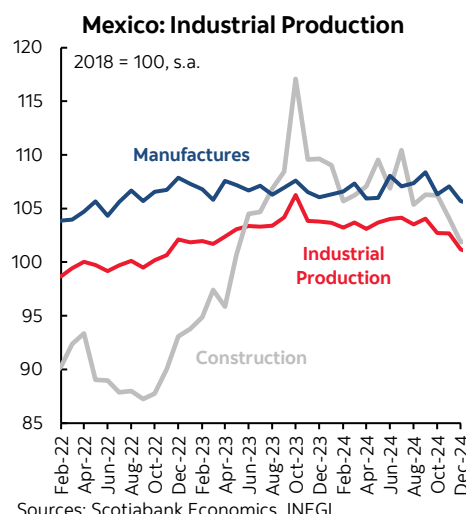


Table 1: Mexico—Industrial Production by Components

Sector/Subsector	Part. % GDP Ind.	% real annual		% m/m S.A.	
		Jan			
	Q4 2024	2024	2025	Dec	Jan
Total Industry	31.5	2.5	-2.9	-1.4	-0.4
Mining	3.7	-2.1	-8.8	-1.2	-1.8
Oil and Gas	2.4	-2.9	-10.7	-1.9	-1.3
Min. Non-Metallic	1.0	-0.2	-0.4	0.2	0.9
Utilities	1.2	-2.7	0.8	-1.9	-0.8
Construction	6.6	16.2	-6.7	-2.1	0.1
Building	4.3	10.8	-1.6	-2.6	-0.7
Civ. Eng	1.5	45.0	-27.5	-1.7	1.4
Specialized Work	0.8	12.6	-3.4	-0.4	0.9
Manufactures	20.0	0.2	-0.8	-1.3	-0.3
Food	3.9	-0.4	0.0	-0.8	0.0
Beverages and Tobacco	1.0	1.7	0.1	-0.3	2.3
Textile Supplies	0.1	-10.2	-5.0	-1.2	-1.2
Textile Products	0.1	-4.0	-2.3	0.4	1.0
Clothing	0.2	-3.4	-7.5	-1.0	2.1
Leather Products	0.1	-13.9	-7.4	-0.9	-1.5
Wood	0.1	-11.1	-2.4	2.8	-5.5
Paper	0.4	-6.0	4.6	-0.6	2.0
Print	0.1	2.7	4.7	5.0	-3.1
Oil Derivatives	0.7	12.0	-8.2	13.7	-3.9
Chemistry	1.4	4.1	-1.6	-0.7	0.9
Plastic and Rubber	0.6	-2.4	3.9	-1.9	3.1
Non-metallic Products	0.6	-3.6	-6.5	-1.7	0.2
Basic Metal Industry	1.0	-1.1	-3.5	-0.3	2.0
Metal Products	0.7	1.8	-3.2	-3.4	2.9
Machinery and Equipment	0.8	-7.4	-6.9	0.3	-5.8
Computer Equipment	1.9	1.5	1.7	-0.9	2.0
Electrical Generation Equipment	0.8	-0.9	2.4	2.0	-1.4
Transportation Equipment	4.8	1.4	-0.9	-6.7	-0.8
Furniture	0.2	-3.1	-3.9	-4.3	-1.0
Other Manufactures	0.2	-2.9	14.8	9.7	-12.5
Sources: Scotiabank Economics, INEGI.					

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—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña

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