Scotiabank.

GLOBAL ECONOMICS

LATAM DAILY

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Contributors

Juan Manuel Herrera, Senior Economist
+52.55.2299.6675 (Mexico)
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Jackeline Pirajún, Head Economist, Colombia
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Rodolfo Mitchell, Director of Economic and Sectoral Analysis
+52.55.3977.4556 (Mexico)
mitchell.cervera@scotiabank.com.mx

Brian Pérez, Quant Analyst
+52.55.5123.1221 (Mexico)
bperezgu@scotiabank.com.mx

Miguel Saldaña, Economist
+52.55.5123.1718 (Mexico)
msaldanab@scotiabank.com.mx

Latam Daily: Small Mexico Inflation Overshoot

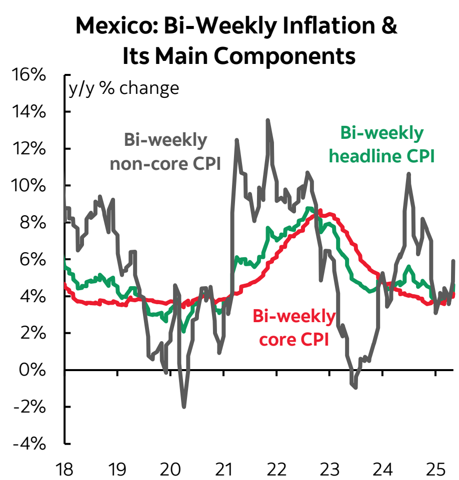
- **Mexico: May inflation surprises higher driven by non-core components**

In May, inflation rose to 4.42% y/y from 3.93% (vs. 4.37% consensus in the Citi Survey), with core inflation standing at 4.06% from 3.93% (vs. 4.02% consensus). Within core inflation, goods increased by 3.67% (3.38% previously), while services slowed to 4.49% (4.56% previously). On the other hand, non-core inflation rose to 5.34% (3.76% previously), with agricultural products accelerating to 6.76% (4.13% previously) as fruits and vegetables ended a four-month negative y/y streak with a 0.04% rise (-2.45% previously) while meat and eggs prices soared 10.85% (8.25% previously).

On a monthly comparison basis, headline inflation was 0.28% (0.33% previously, 0.23% consensus), core prices rose 0.35% (0.49% previously, 0.26% consensus), and non-core inflation stood at 0.23% (-0.21% previously). In the coming months, the outlook remains uncertain with an upward bias; it is worth noting that inflation in the second half of the month stood at 4.62% y/y, marking two consecutive fortnights above 4.0%.

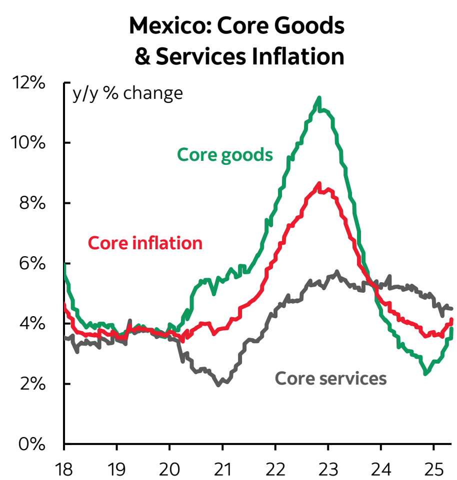
We believe Banxico will cut its benchmark rate by 50 basis points to 8.00% at its June 26th meeting, as the recent inflation spike appears driven by volatile components and weaker growth expectations. However, persistent inflationary pressures may lead to a split decision and prompt a more cautious stance over the second half of the year, with any further easing likely to proceed gradually.

Chart 1



Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña