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## Latam Daily: Mexican CPI Undershoots, Services Resilience vs Weak Industry in GDP

- **Mexico: Core and headline inflation came in below expectations in 1H August; Banxico meeting minutes recap; Economic activity grew 0.6% q/q in Q2 amid resilient services, but weak industry**

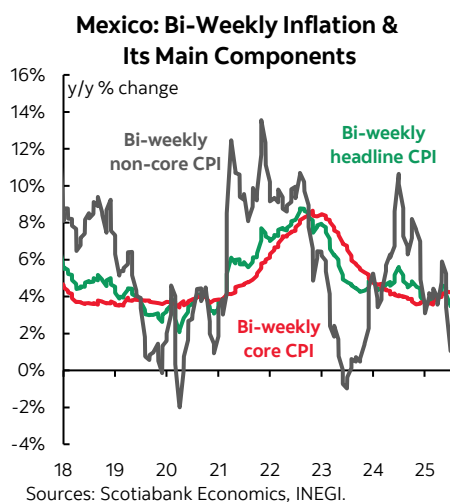
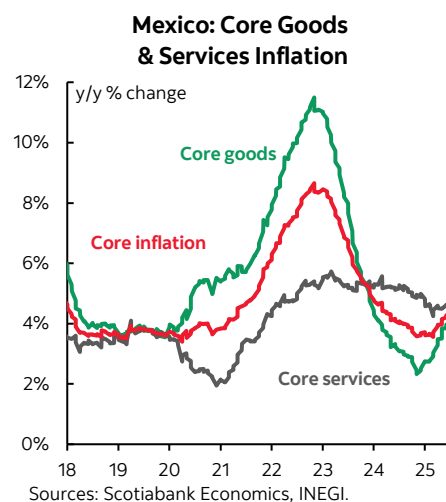
### MEXICO: CORE AND HEADLINE INFLATION CAME IN BELOW EXPECTATIONS IN 1H AUGUST; BANXICO MEETING MINUTES RECAP

Headline inflation for the first half of August came in below expectations, rising slightly from 3.48% to 3.49% y/y, compared to the 3.63% consensus (chart 1). Similarly, the core component also came in below the 4.26% forecast, at 4.21%, slightly down from the previous 4.22%. Within the core component, goods inflation moderated from 4.03% to 3.97%, after showing an uptrend since November 2024, although services inflation rose from 4.40% to 4.43% (chart 2). On the other hand, non-core inflation increased slightly from 1.04% to 1.10%. Within this category, agricultural prices rose from 0.08% to 0.44%, due to a lesser, yet still notable decline in fruit and vegetable prices (-10.3%), while energy and government-regulated prices moderated to 1.65%, their lowest level since February 2024.

Sequentially, headline inflation fell by -0.2% 2w/2w (vs. 0.07% previous, 0.12% expected), driven by a 0.09% moderation in the core component (0.11% previous, 0.14% expected), and a larger drop in non-core prices of -0.41% (-0.08%), mainly due to a -1.19% decline in fruit and vegetable prices. Looking ahead, we expect core inflation to remain persistent in upcoming readings, which will be key for Banxico's monetary policy decisions in the final meetings of the year.

In this context, Banxico published the minutes from its August 7<sup>th</sup> meeting, detailing the discussion around inflation and monetary policy. The majority voted to adjust the pace of rate cuts to 25 basis points, bringing the reference rate to 7.75%. Overall, the Governing Board's arguments continue to focus on inflation levels—particularly the increase in the core component—as well as the relative monetary stance and the rate spread between Mexico and the U.S.

Despite the uptrend in goods inflation over recent months, several members suggested that maintaining the current pace of rate cuts could be suitable for upcoming meetings, and today's inflation print may reinforce that view. In contrast, Deputy Governor Heath dissented, arguing that upward revisions to core inflation forecasts suggest its persistence

**Chart 1**

**Chart 2**


August 22, 2025

has been underestimated. He also highlighted the challenges in consolidating a downward inflation path and recommended a more cautious approach until greater progress is made toward the 3.0% target.

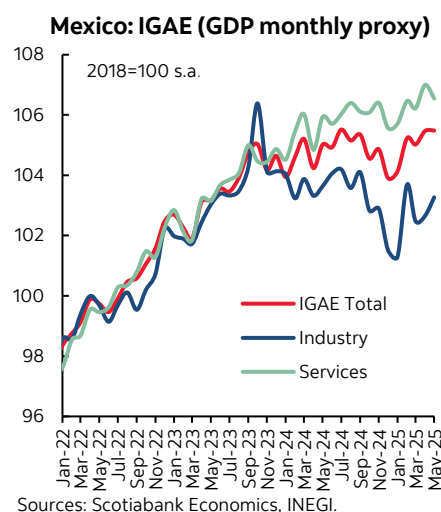
As such, we maintain our year-end policy rate forecast at 7.50% for 2025, but with a downward bias, subject to upcoming inflation data and the Federal Reserve's monetary policy stance.

### ECONOMIC ACTIVITY GREW 0.6% Q/Q IN Q2 AMID RESILIENT SERVICES, BUT WEAK INDUSTRY

According to INEGI, GDP grew 0.6% quarter-over-quarter in Q2-2025 with seasonally adjusted figures, in line with consensus, but slightly below the 0.7% flash estimate. With non-adjusted figures, it remained unchanged (0.0%) year-over-year in real terms, in line with market expectations. By components, services increased 0.8% and industrial activities 0.7%, while primary activities declined by -2.4%. Year-over-year, primary activities expanded 2.0% and services 0.9%, with the largest gains in professional, scientific and technical services (+10.0%), business support services (+13.9%), and cultural, sports and recreational services (+9.0%). Meanwhile, industrial activities contracted for the third consecutive quarter, falling -1.3% y/y, with mining down -8.2%, utilities -3.1%, construction -1.7%, and manufacturing -0.5%.

INEGI also published the Global Indicator of Economic Activity (IGAE) for June (chart 3), which showed a 1.3% annual increase with original figures, slightly below market expectations (1.4%). However, the previous month's figure was revised upward from -0.19% to 0.04%. By component, agriculture grew 4.59%, services 2.0%, while the industrial sector declined by 0.38%. On a monthly basis and with seasonally adjusted figures, the IGAE rose 0.22%, marking three consecutive months in positive territory.

Chart 3



—Rodolfo Mitchell & Miguel Saldaña

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