



March 9, 2026

Alex Borderline , Bank of Mexico building at sunset, in Mexico City, Mexico City

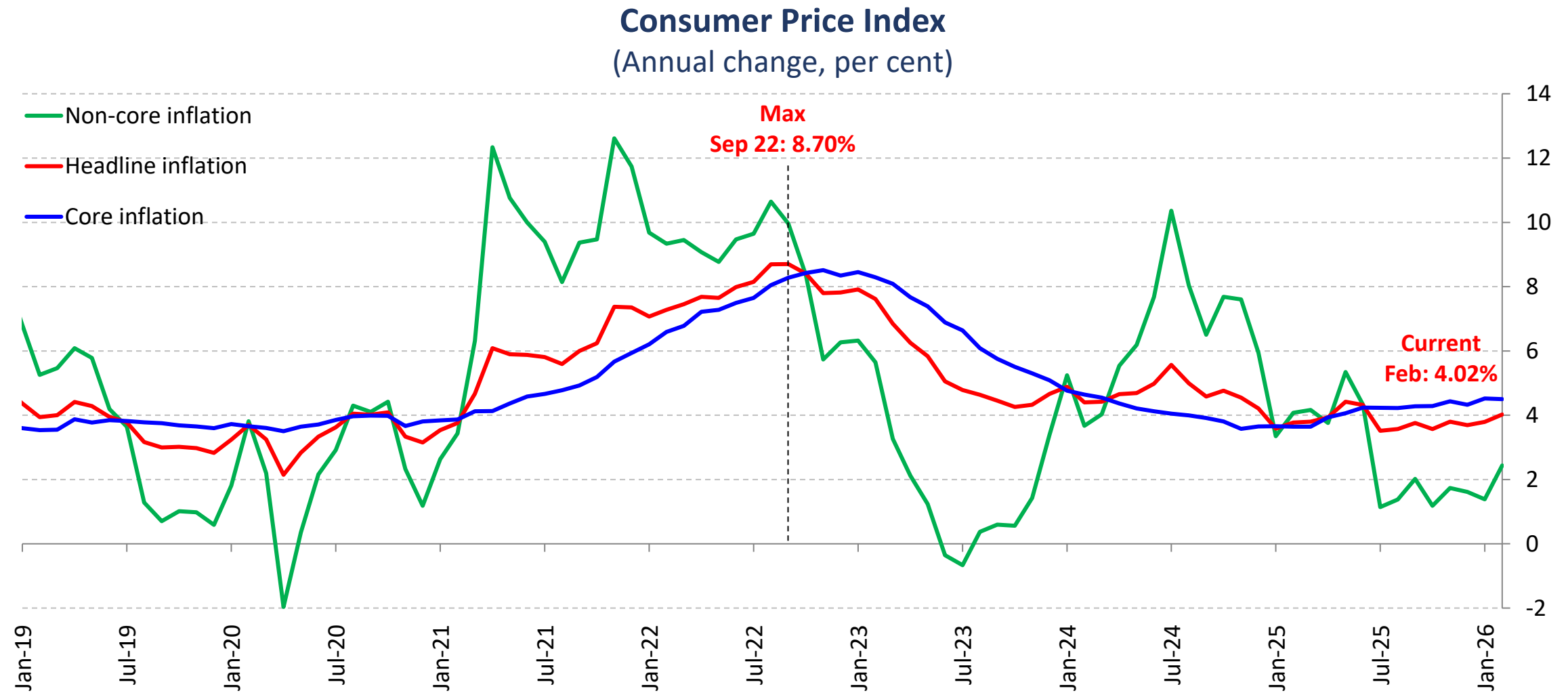
Dr. José Gabriel Cuadra García, Deputy Governor of Banco de México *

BANXICO - YALE MBA



**The opinions expressed are the responsibility of the author and do not necessarily represent the institutional position of Banco de México*

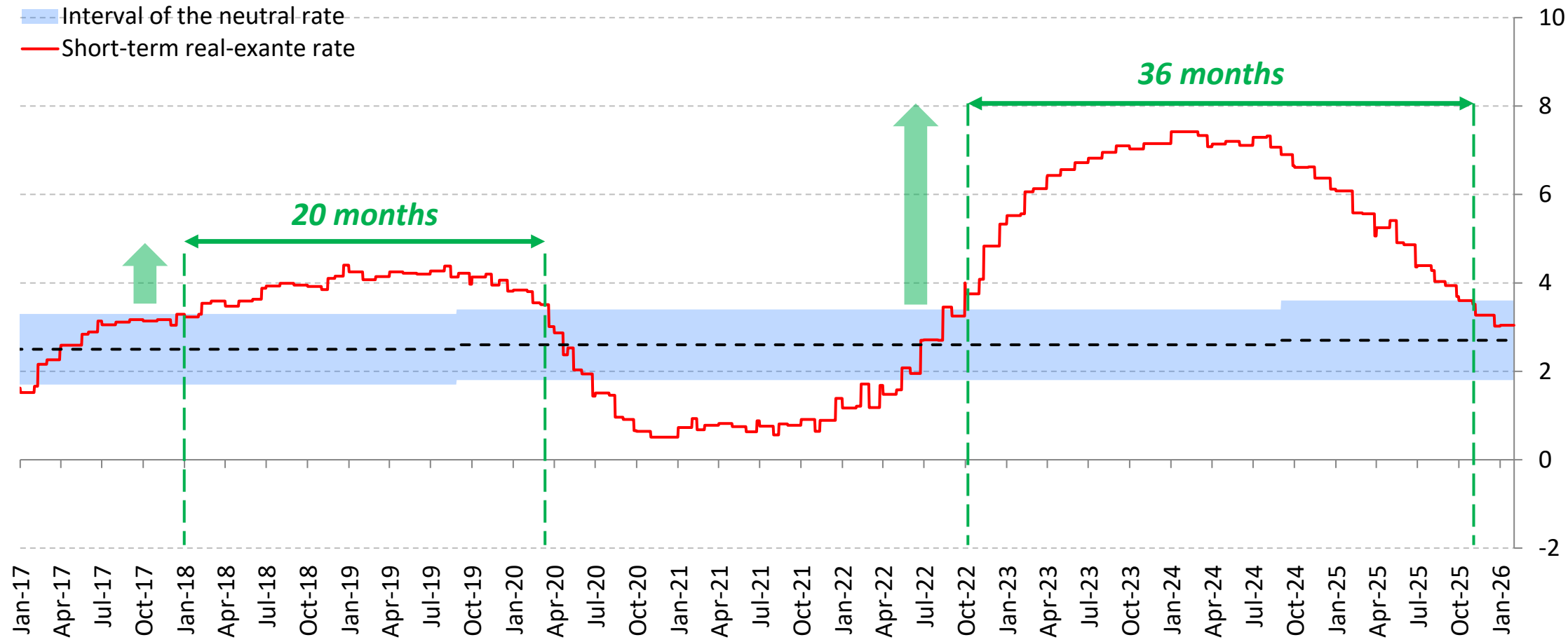
Inflation is currently at levels that are visibly lower than those recorded during the pandemic



Source: INEGI.

The recent restrictive monetary policy episode lasted longer and reached a higher degree of restrictiveness than the previous one

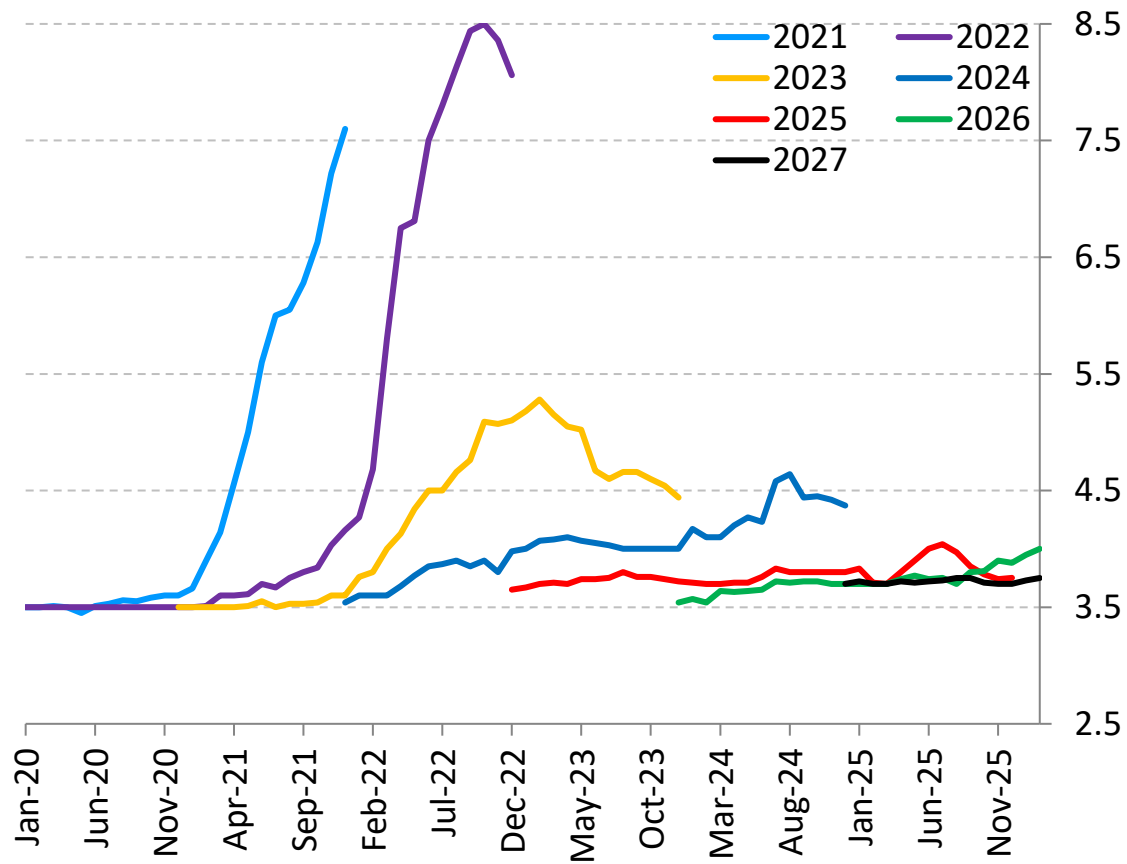
Short-term ex-ante real interest rate
(percent)



Source: Banco de México

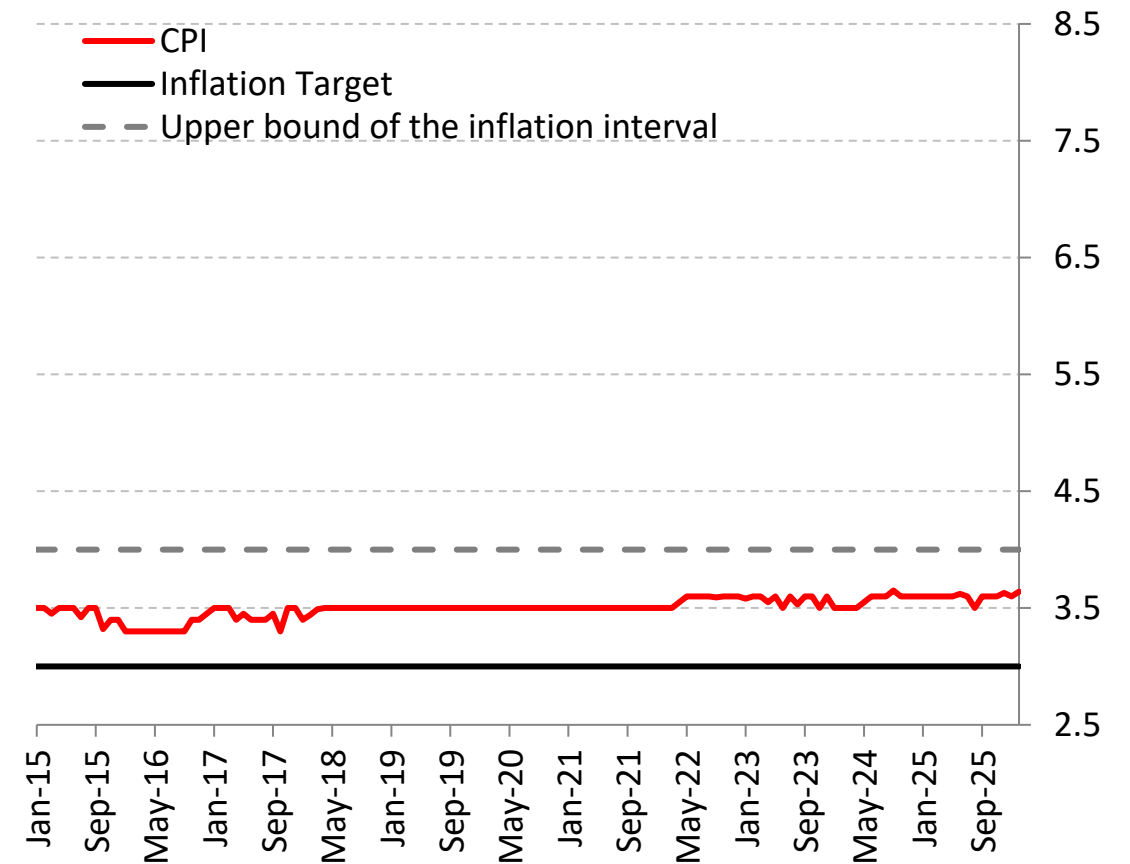
Longer-term inflation expectations remain anchored

Median expectations of headline inflation
at the end of the year
(percent)



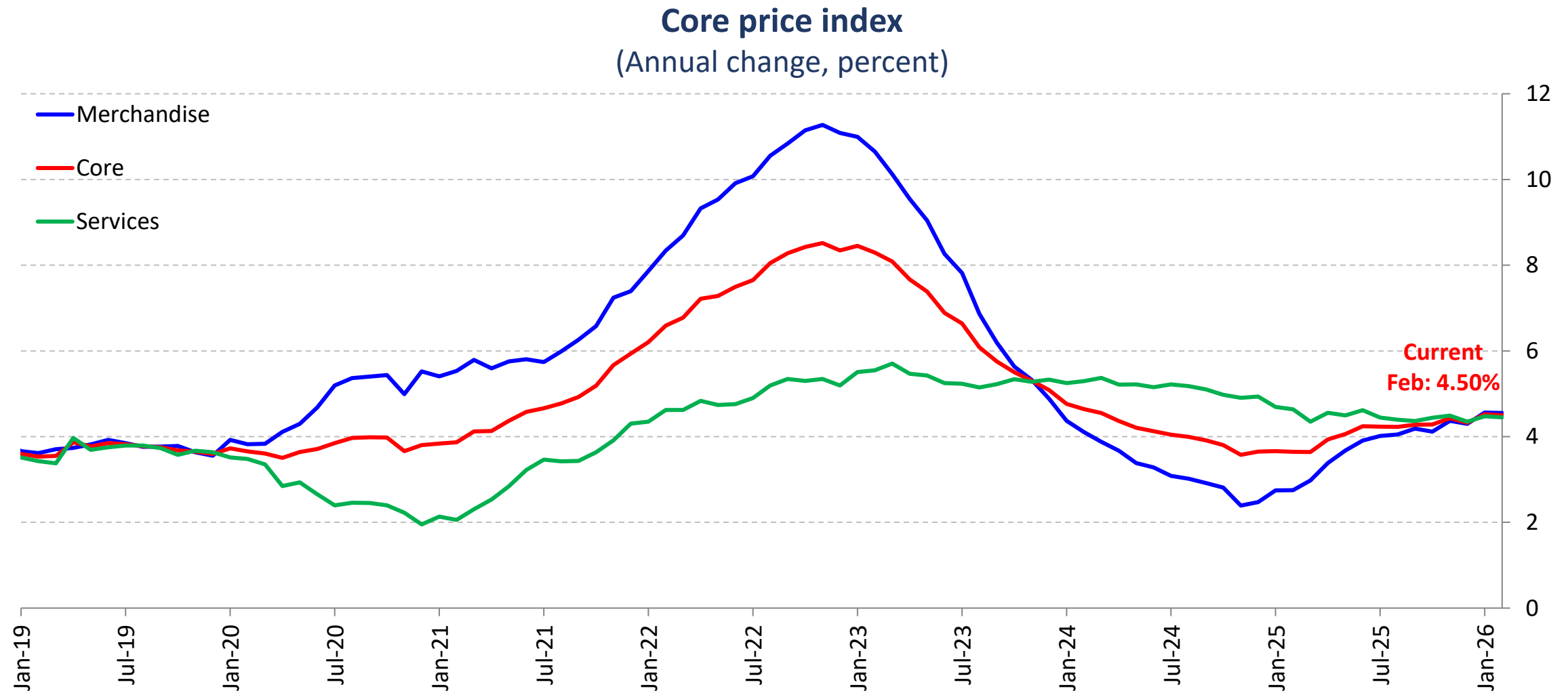
Source: Banco de México

Median expectations for long-term inflation
(percent)



Source: Banco de México

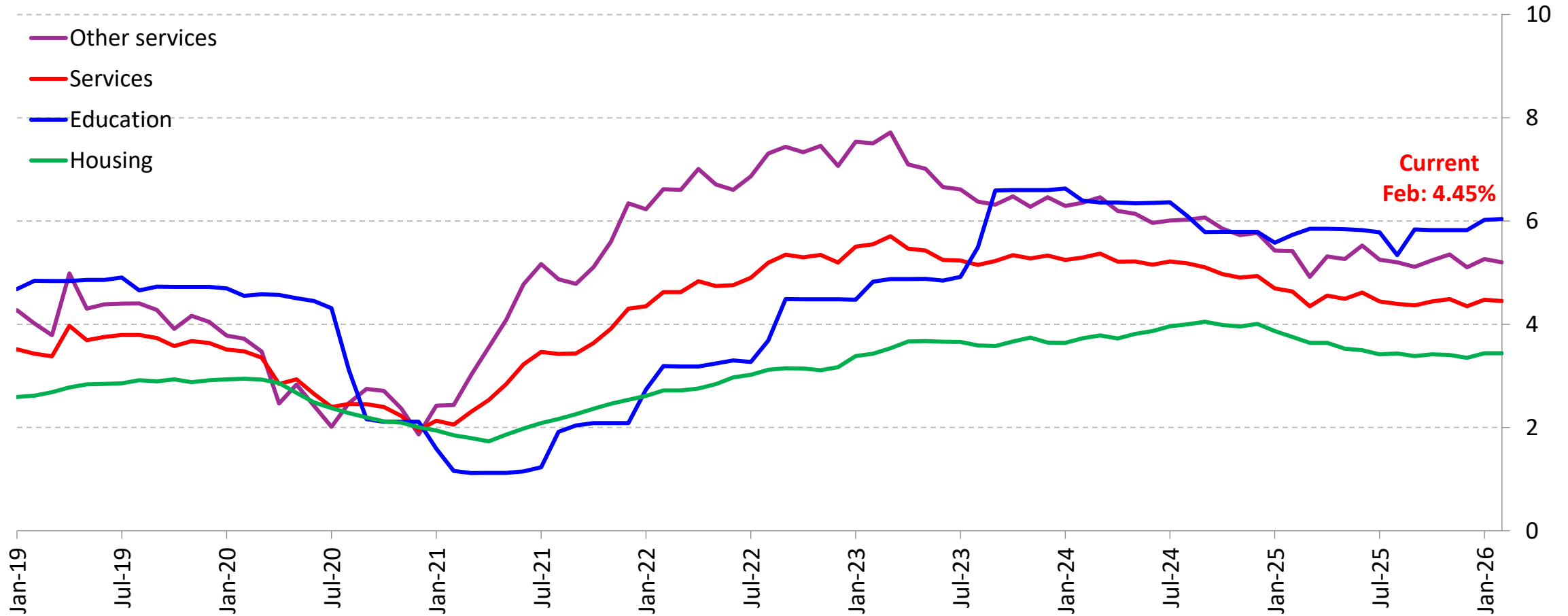
Core inflation increased due to a rebound in merchandise inflation which more than offset the decrease in services inflation



Source: INEGI.

Services inflation has moderated, although gradually

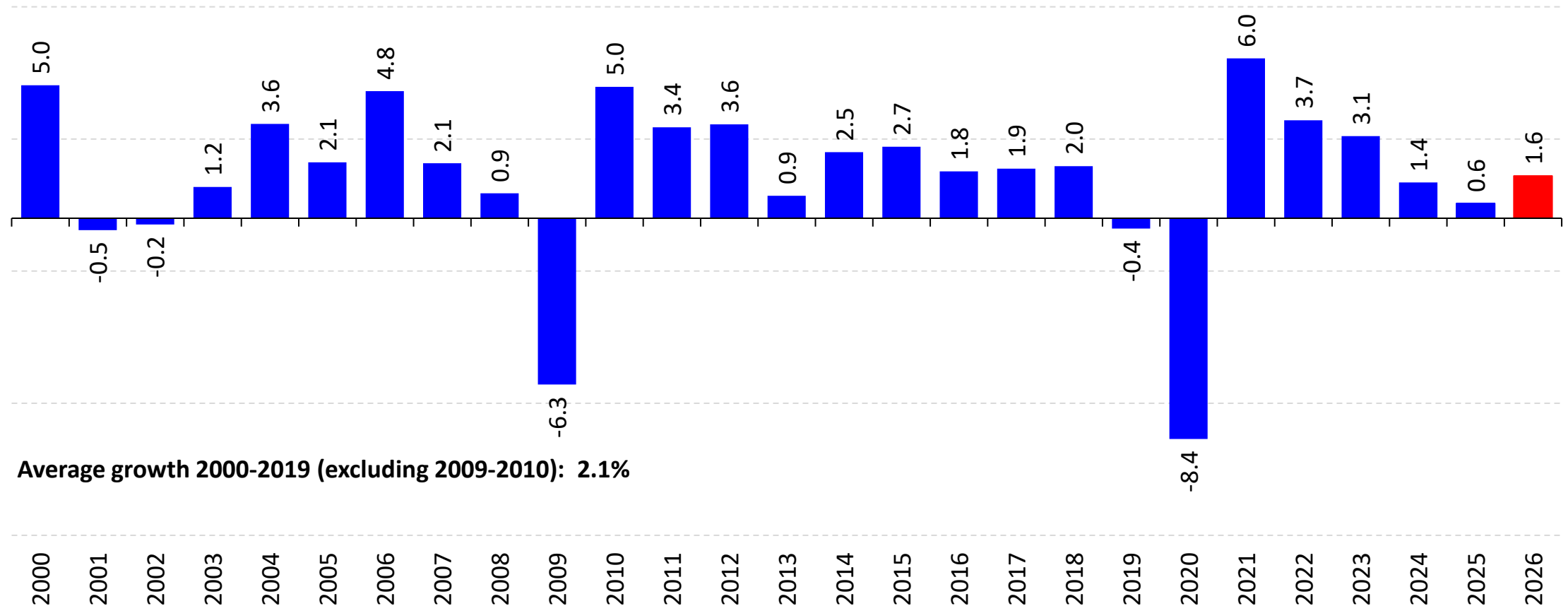
Services price index
(Annual change, per cent)



Source: INEGI.

Economic activity, a key driver of services inflation, has moderated

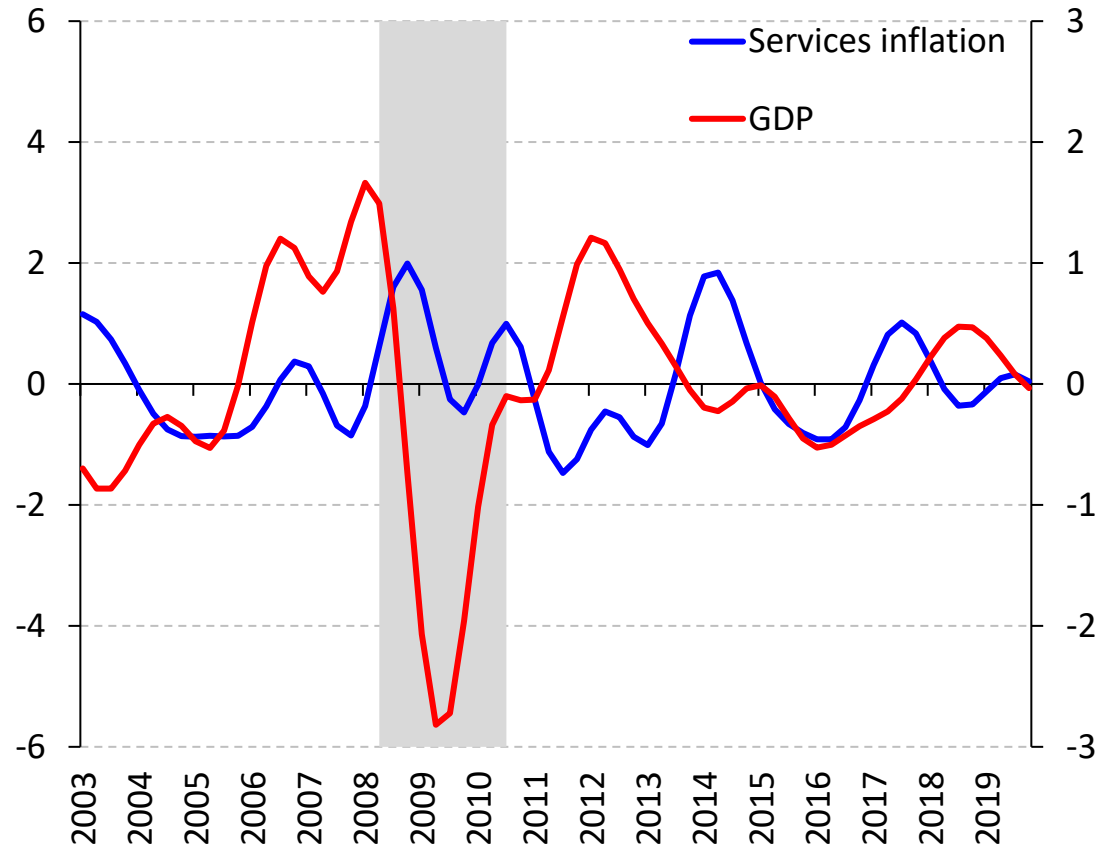
Gross Domestic Product (Annual growth rate)



Note: Non-seasonally adjusted data. Values for 2025 and 2026 represent Banco de México's point estimates, as presented in the July-September 2025 Quarterly Report.
Source: INEGI and Banco de México.

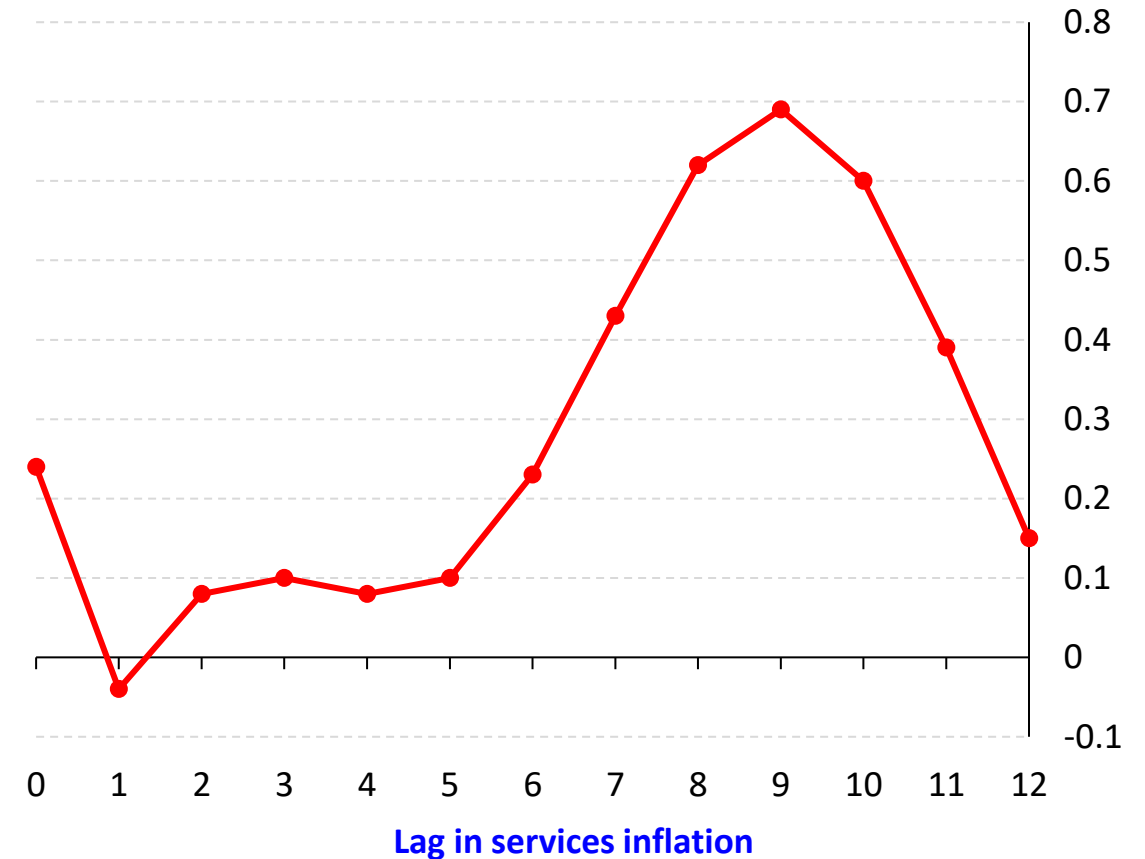
Cyclical co-movement between GDP and services inflation

Cyclical components
(Frequencies from 6-32 quarters)



Source: Authors' calculations using INEGI data. Cyclical components are estimated using the Christiano-Fitzgerald filter for frequencies between 6 and 32 quarters.

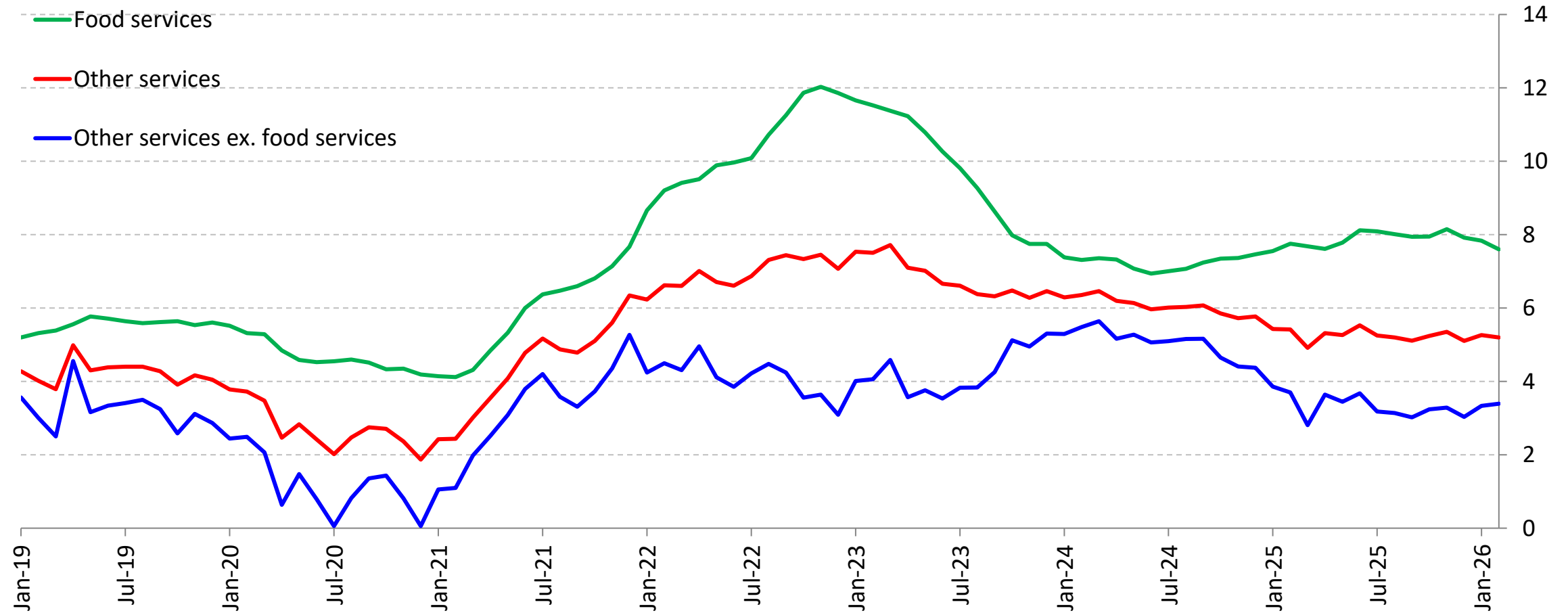
Dynamic correlation between cyclical components



Source: Authors' calculations using INEGI data.

Other services inflation

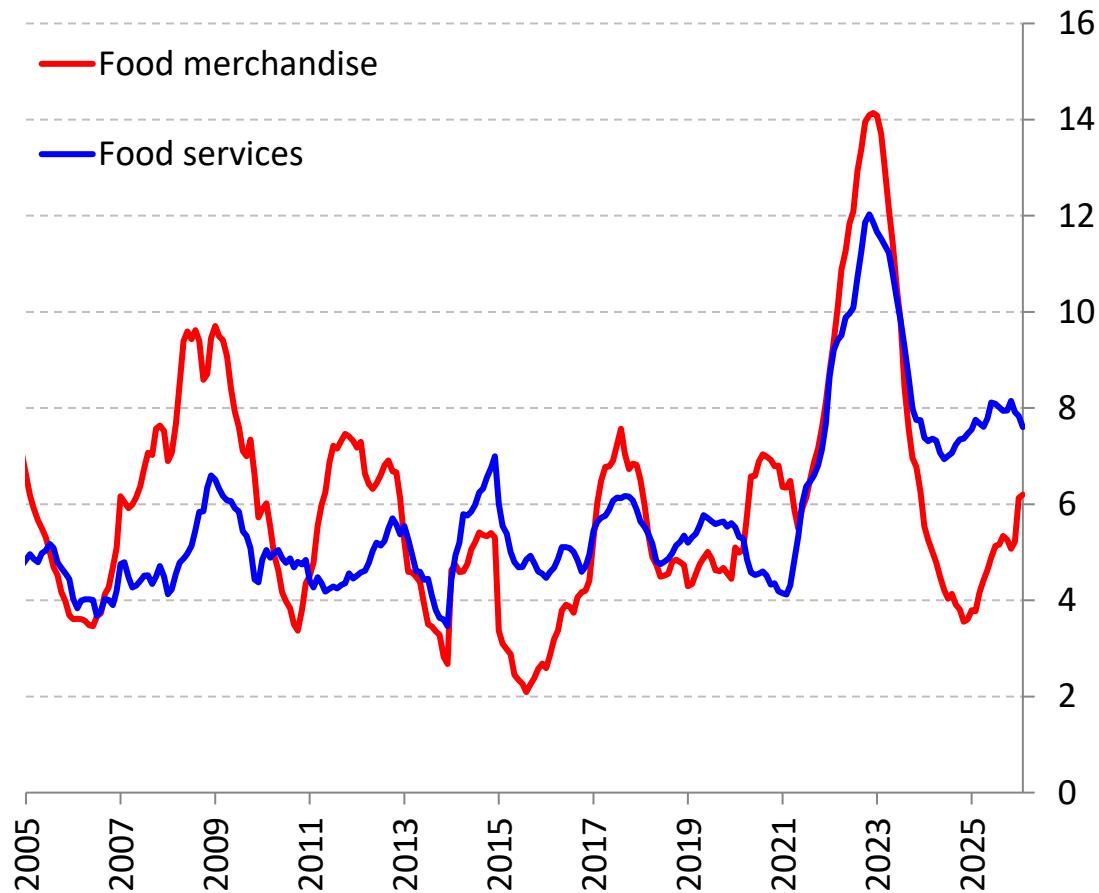
Other services price index
(Annual change, per cent)



Source: Authors' calculations using data from INEGI.

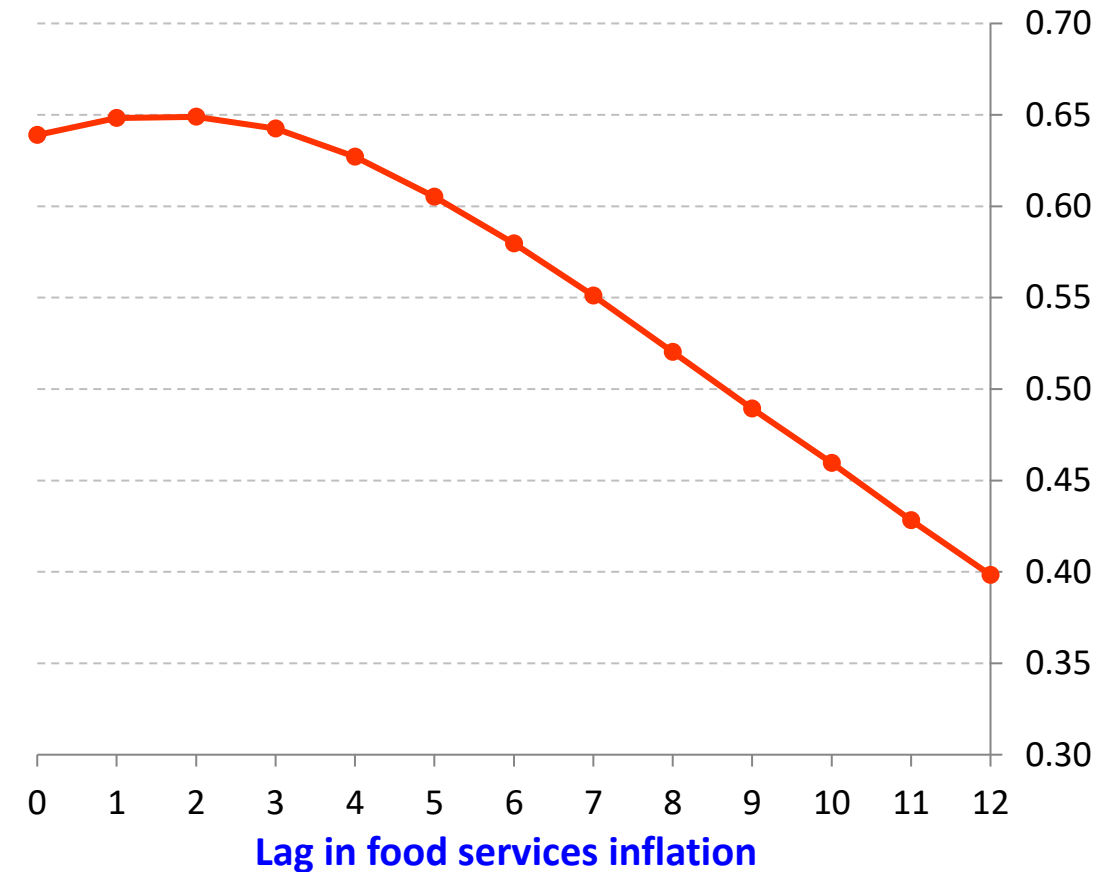
Inflation dynamics in food services and food merchandise

Price index for food merchandise and food services
(Annual change, per cent)



Source: INEGI.

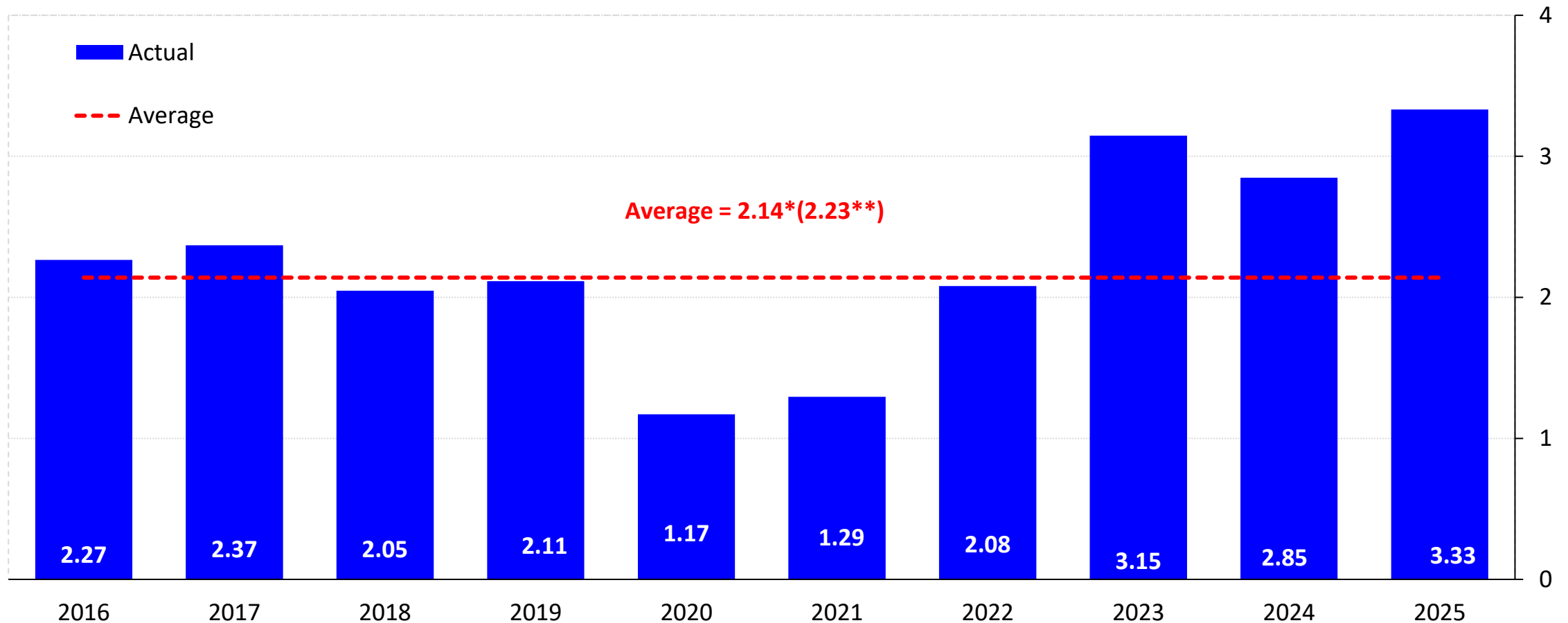
Dynamic correlation between
food merchandise and food services inflation



Source: Authors' calculations using data from INEGI.

Education inflation in September

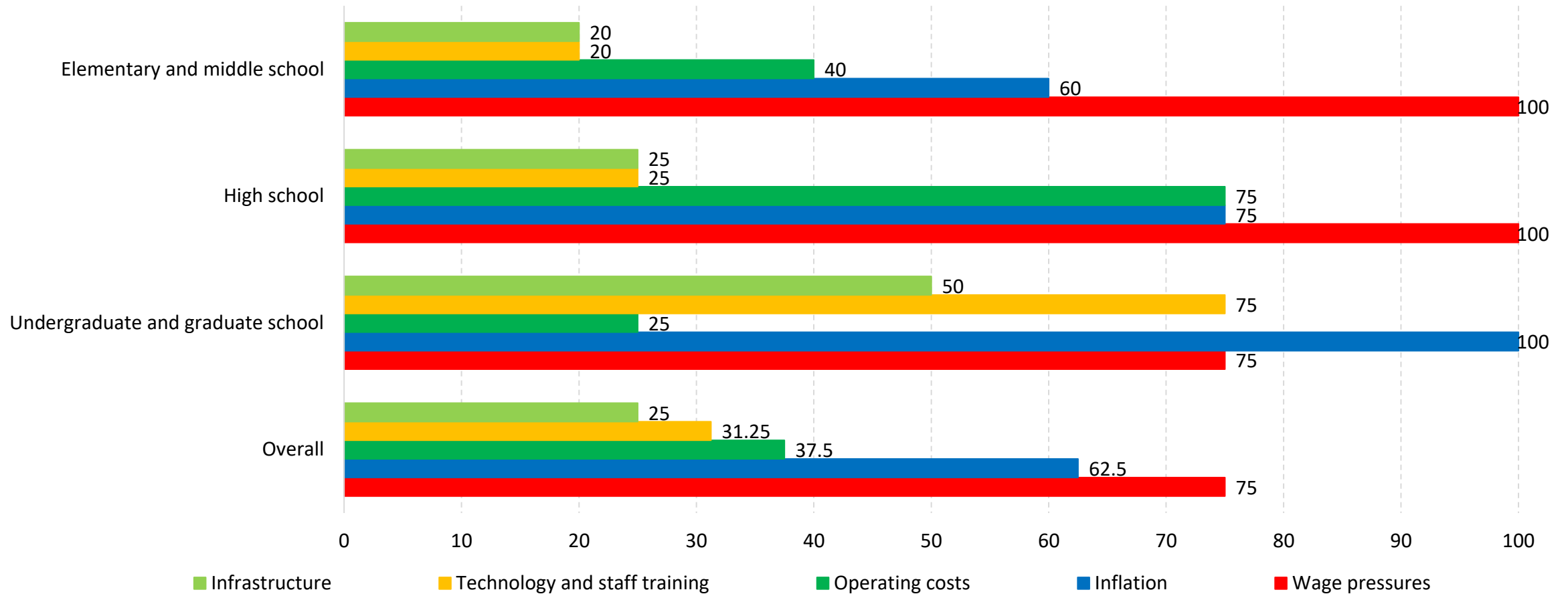
Education price index in September
(Monthly change, percent)



Note: */Red, dashed line represents the average from 2015 to 2024, **/ Average from 2010 to 2019.
Source: INEGI.

Perceived factors behind tuition increases

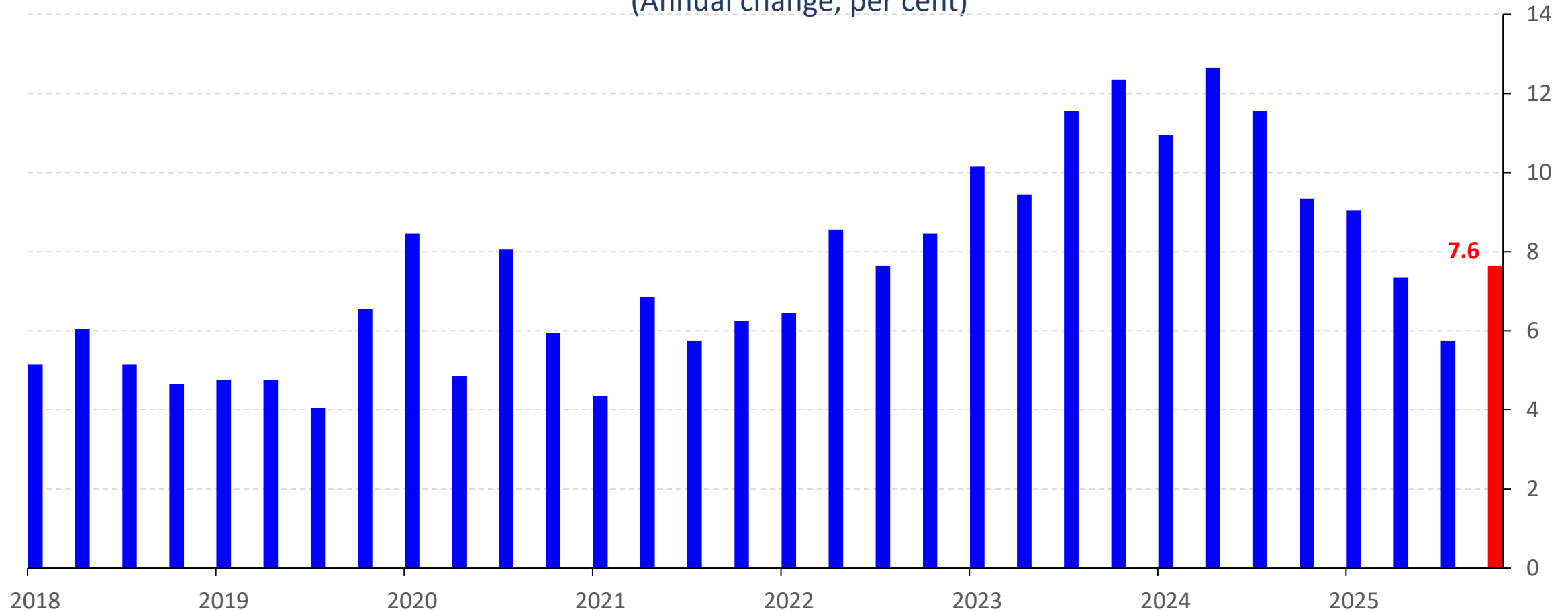
Firms' views on factors behind tuition increases
(Share of firms by response)



Source: Banco de México.

Wage growth is relevant for the services sector, which is labor-intensive

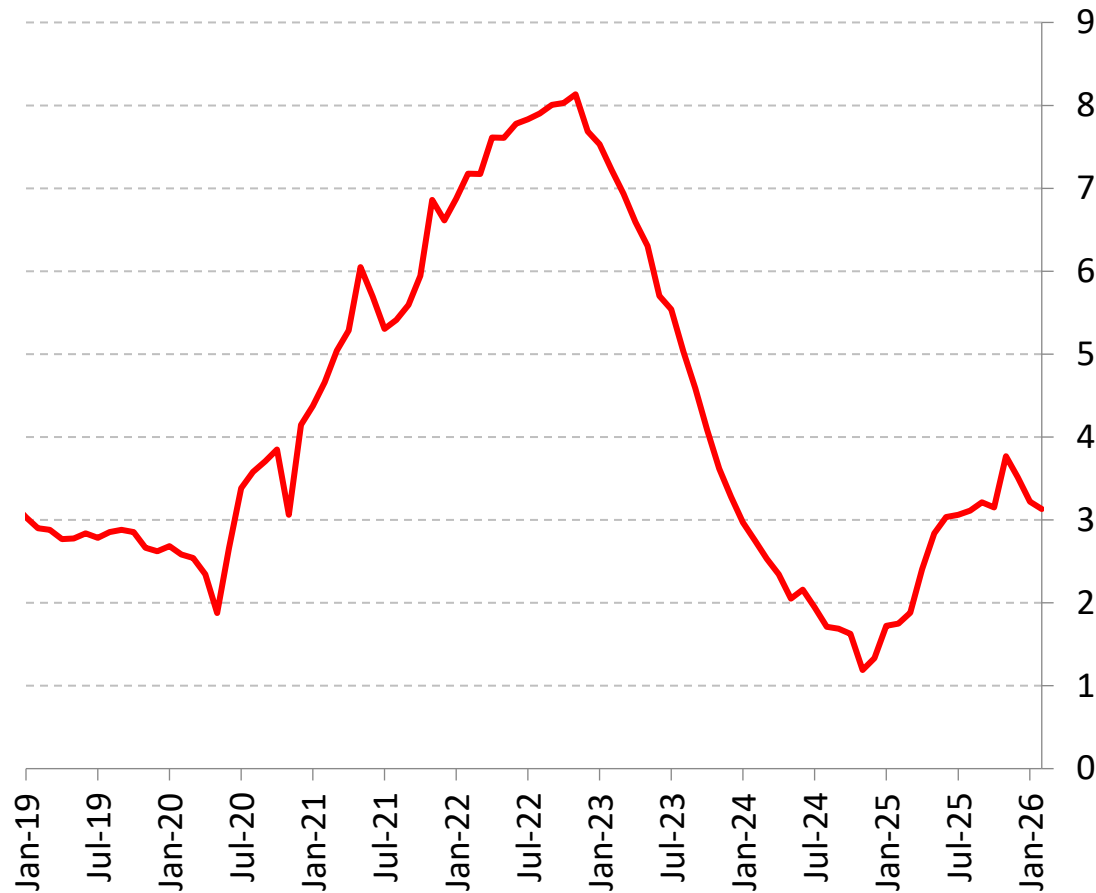
Employees' average wage according to
National Survey of Occupation and Employment
(Annual change, per cent)



Source: INEGI and Banco de México.

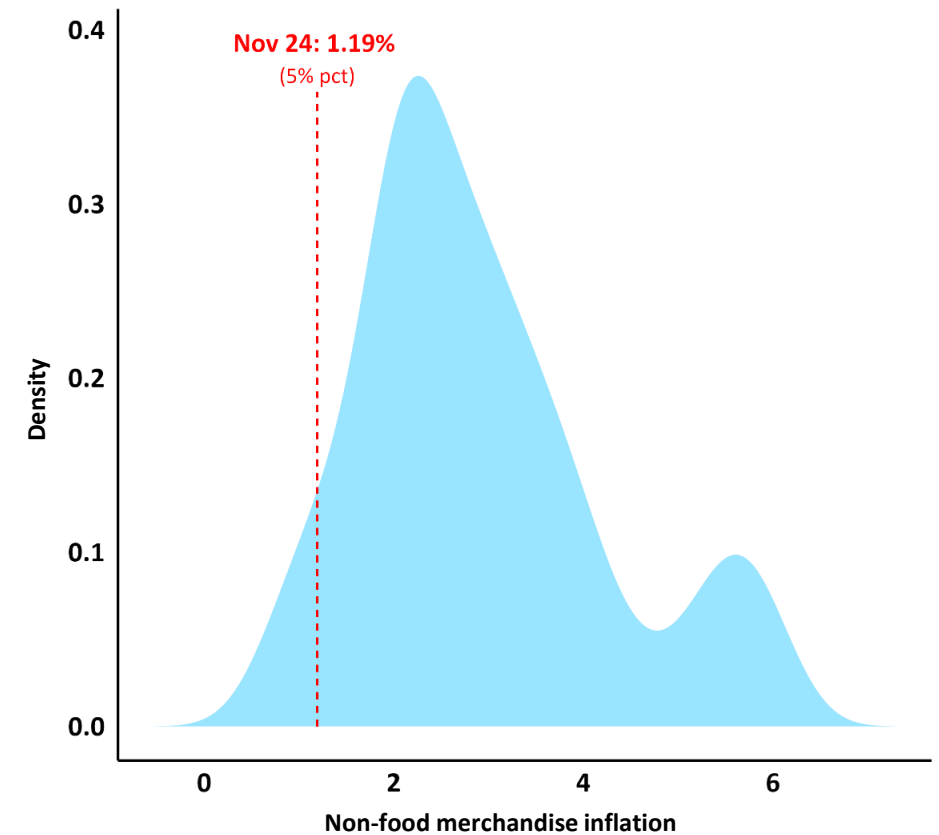
Non-food merchandise inflation

Non-food merchandise price index
(Annual change, percent)



Source: INEGI.

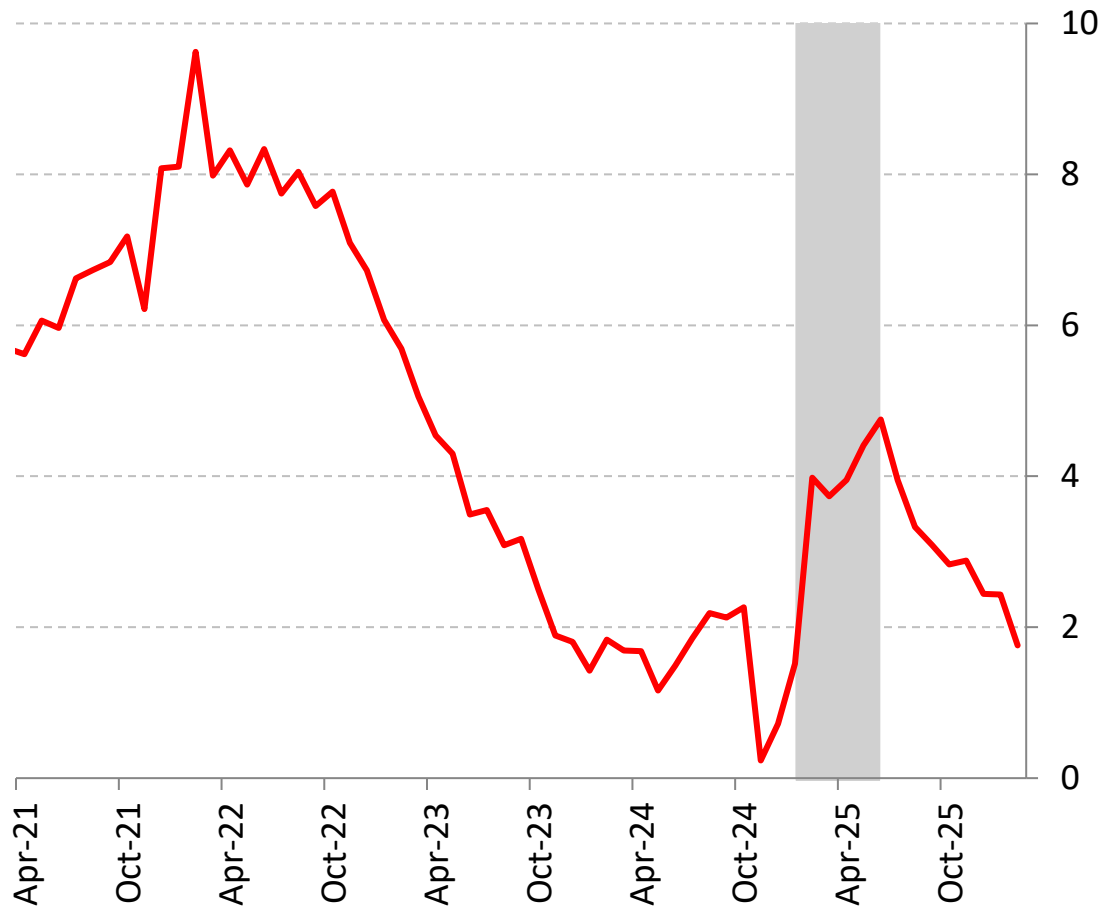
**Historical distribution
non-food merchandise inflation
2003-2019**



Source: Authors' calculations using data from INEGI.

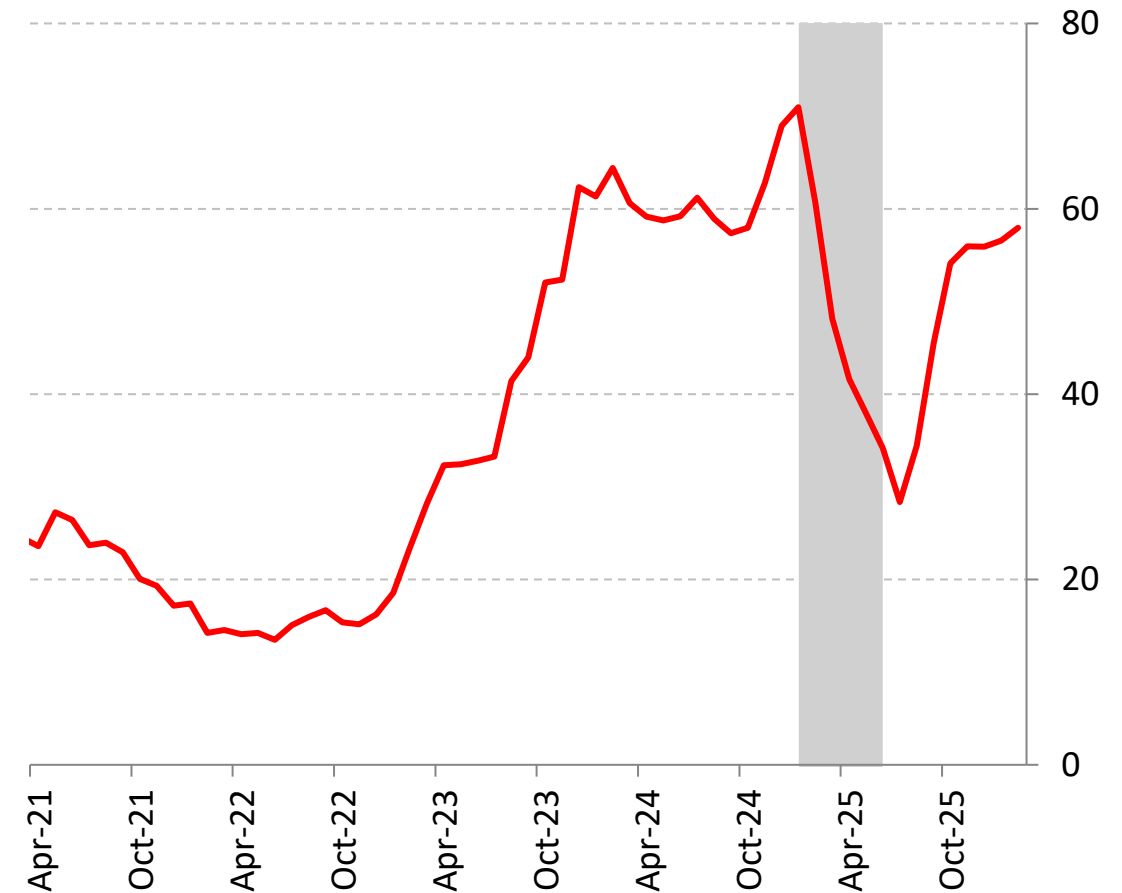
Several metrics, including monthly price changes, suggest that non-food merchandise prices were under pressure during the first half of 2025

Non-food merchandise price index
(Annualized monthly change, per cent)



Note: The three-month moving average over seasonally adjusted data is shown.
Source: Authors' calculations using data from INEGI.

Share of non-food merchandise with monthly inflation less or equal than 3%
(Per cent)

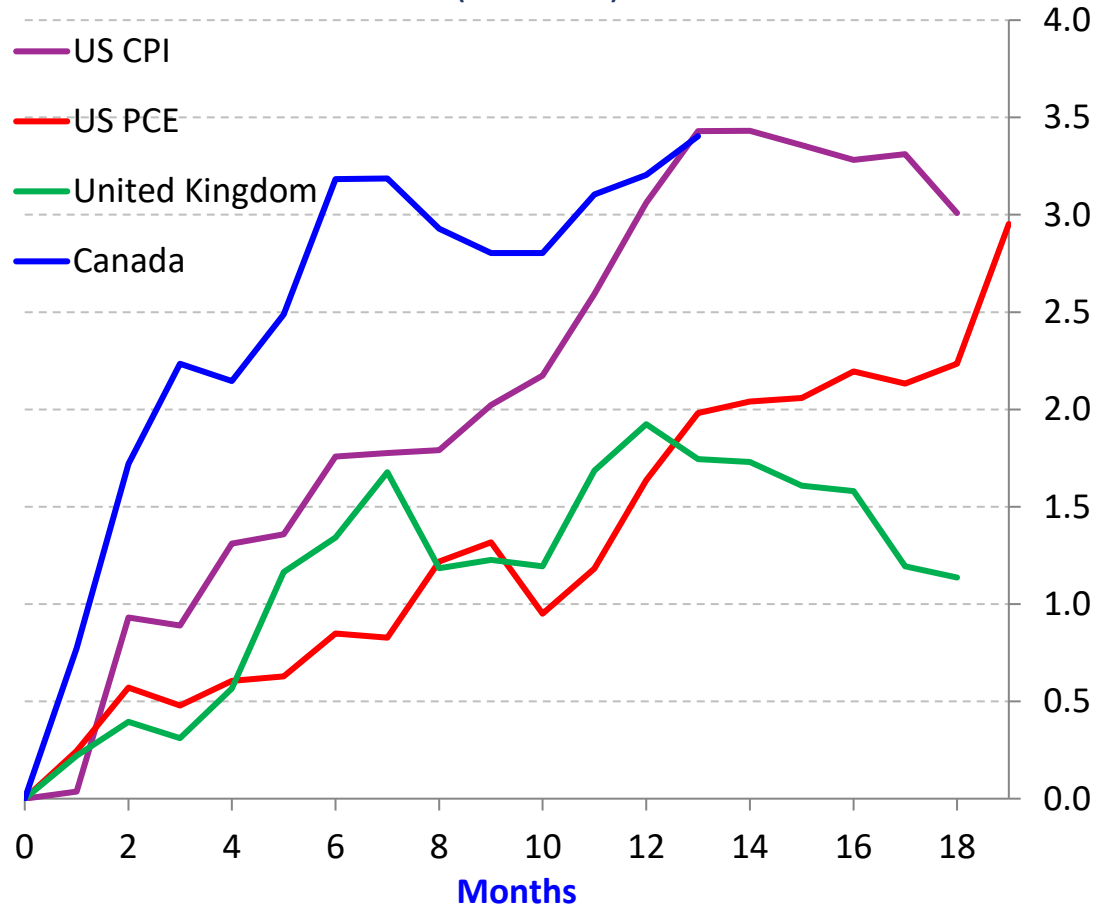


Note: The three-month moving average is shown.
Source: Authors' calculations using data from INEGI.

Core goods inflation has increased in several advanced and emerging economies

Advanced economies

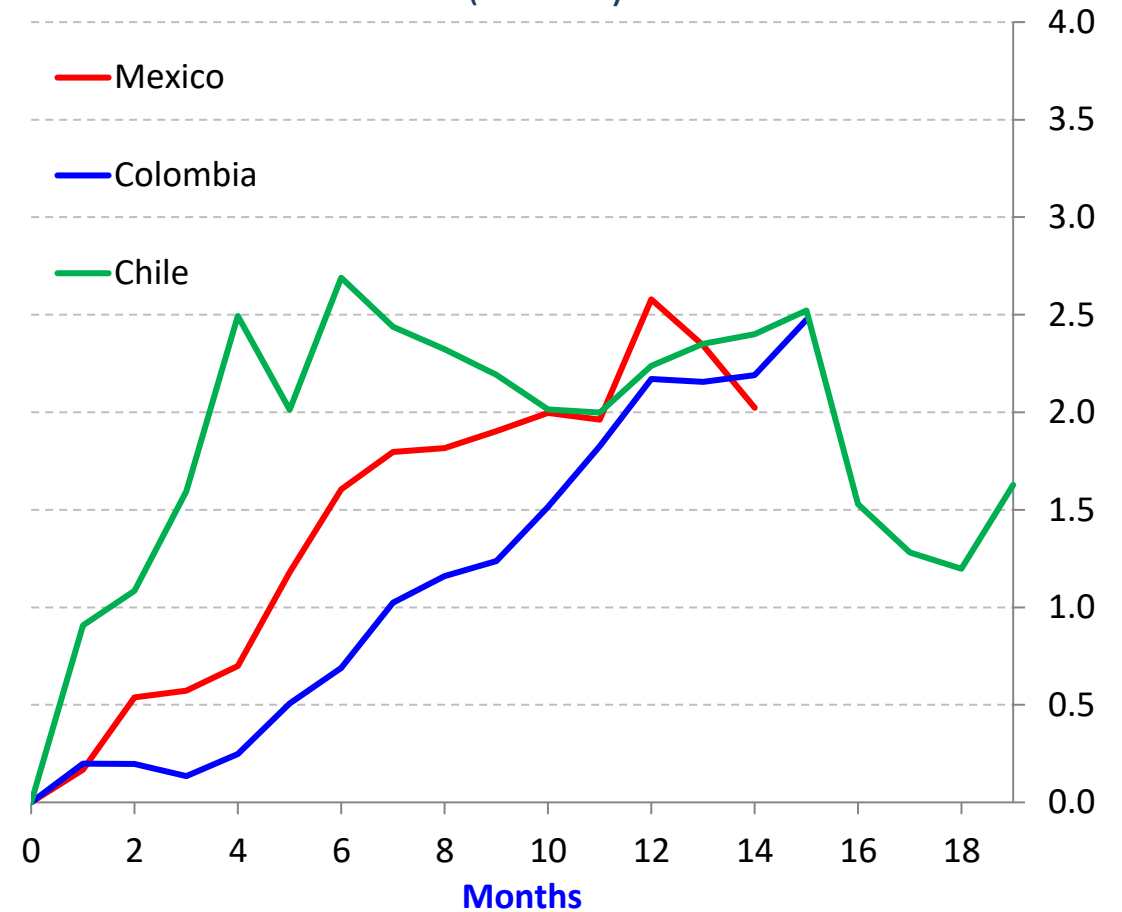
Change with respect to the month with the lowest inflation
Sample beginning in 2023
(Per cent)



Source: Authors' calculations using data from the corresponding central banks' monetary policy reports. Core goods inflation data is used. Data for the US CPI October print is an interpolation between the September and November data.

Emerging economies

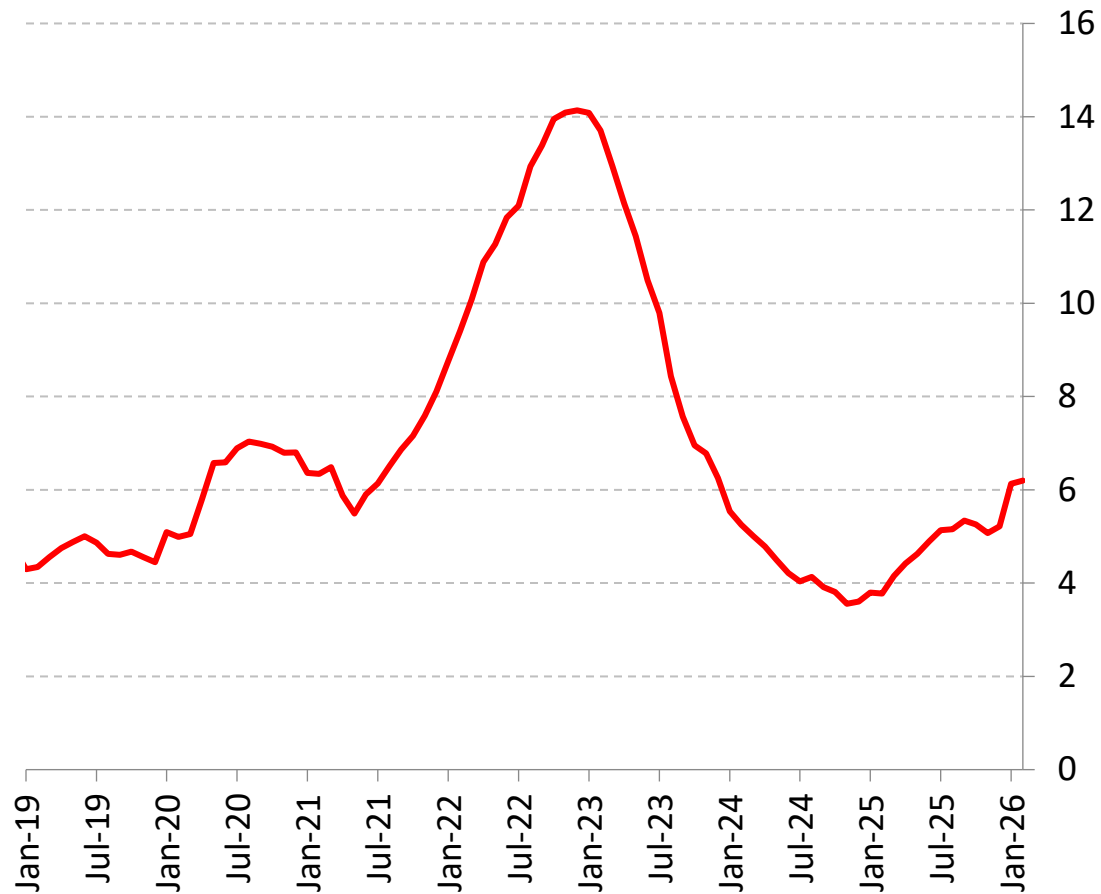
Change with respect to the month with the lowest inflation
Sample beginning in 2023
(Percent)



Source: Authors' calculations using data from the corresponding central banks' monetary policy reports. Core goods inflation data is used. In the case of Mexico, core non-food merchandise inflation is used.

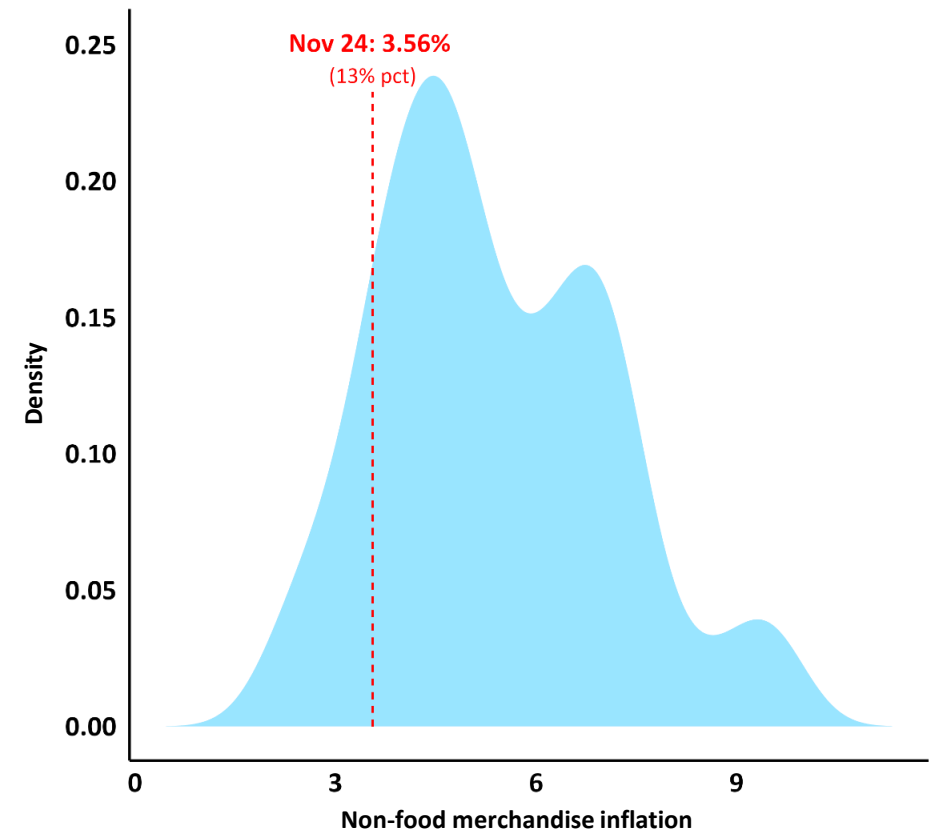
Food merchandise inflation

Food merchandise price index
(Annual variation, per cent)



Source: INEGI.

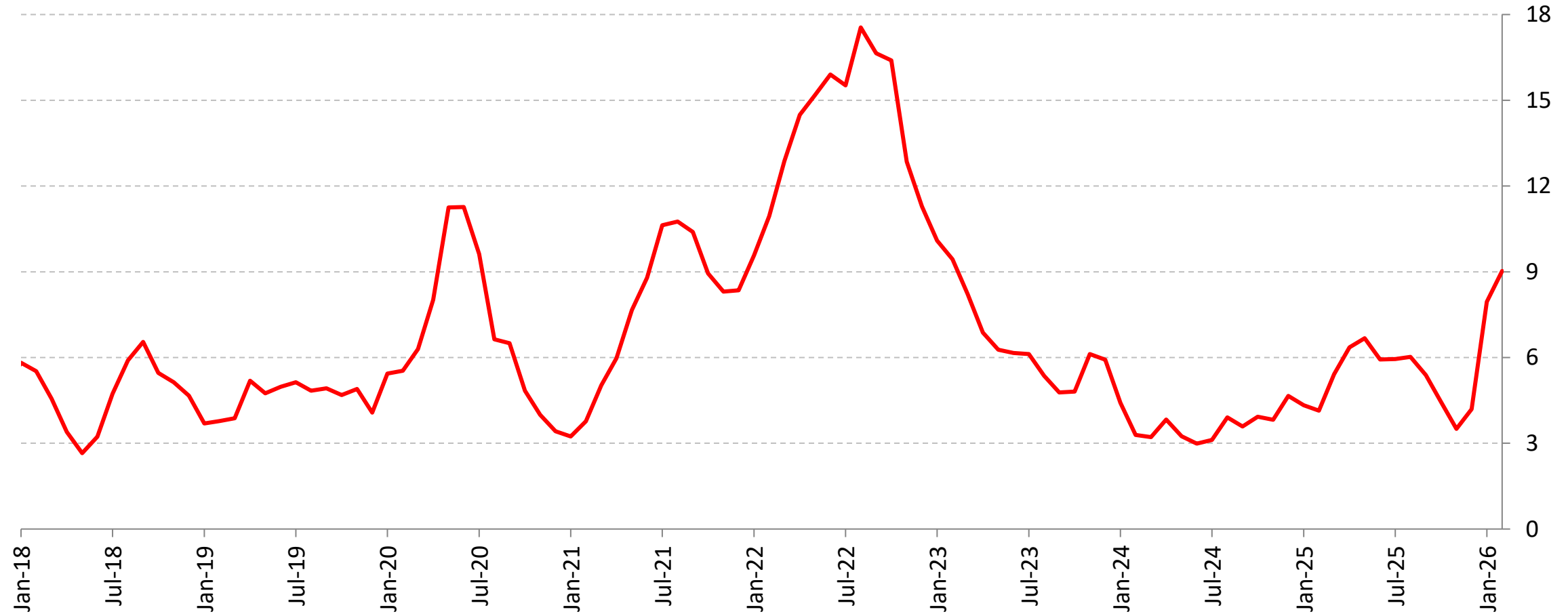
**Historical distribution of
food merchandise inflation
2003-2019**



Source: Authors' calculations using data from INEGI.

Monthly inflation dynamics for food merchandise also showed a moderation in the second half of 2025. It increased again at the beginning of 2026.

Food merchandise price index
(Annualized monthly change, percent)

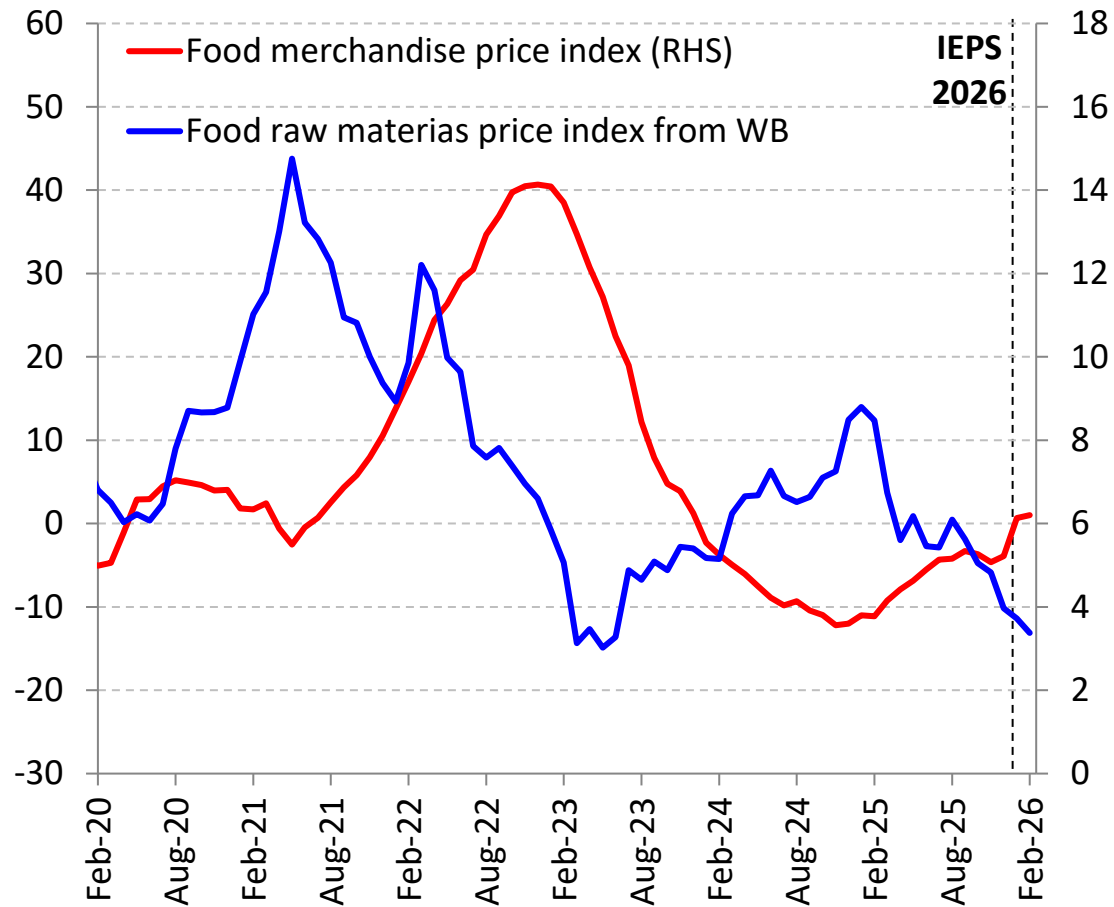


Note: The three-month moving average over seasonally adjusted data is shown.

Source: Authors' calculations using data from INEGI.

Food merchandise inflation dynamics

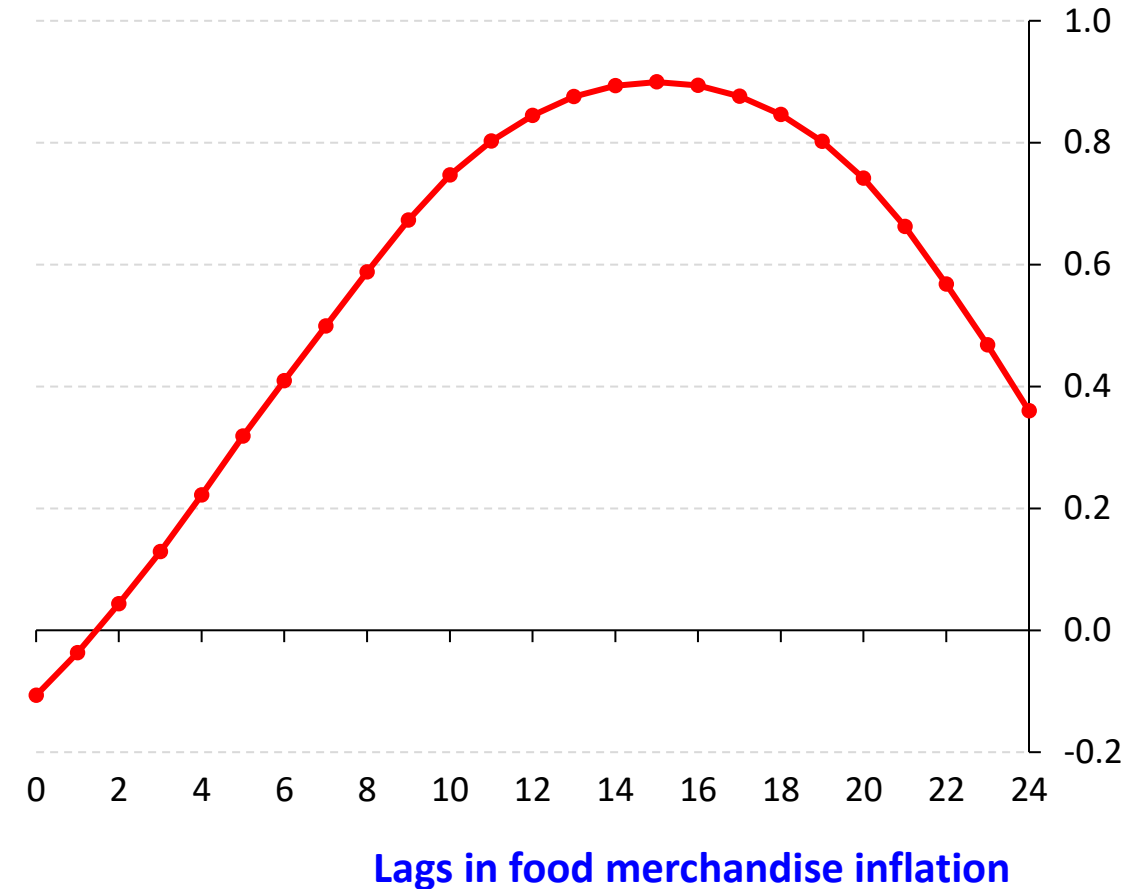
Price indices for food merchandise and food commodities
(Annual variation, per cent)



Note: The food merchandise index is made by INEGI whereas the food commodities index is made by the World Bank.

Source: INEGI and World Bank.

Dynamic correlation between food merchandise inflation and food commodities inflation



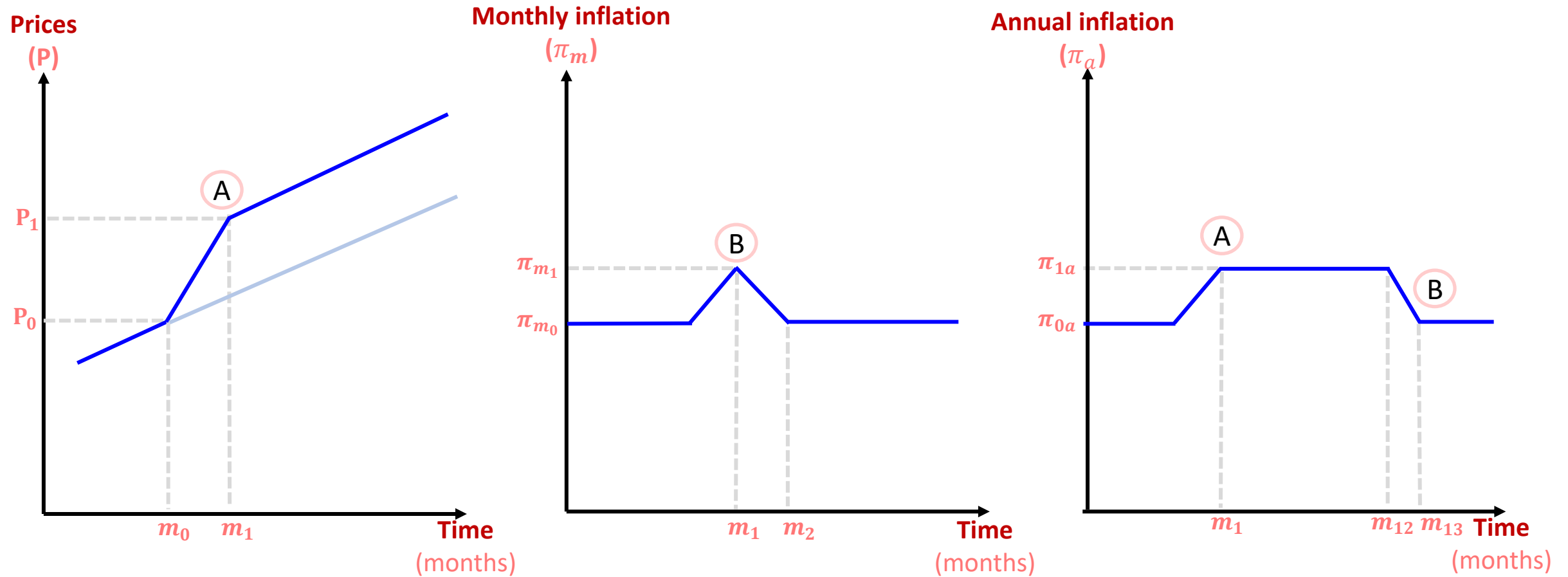
Source: Authors' calculations using data from INEGI.

Changes to the IEPS excise tax act and its implications for inflation

- ***In October 2025, changes to the Special Tax on Production and Services (IEPS) Act were approved.***
 - *The IEPS act includes tax increases on groups of items associated with flavored beverages and tobacco.*
- ***The IEPS-related tax increases are expected to have a temporary effect on inflation, given that:***
 - 1 *Its impact is considered a one-time effect.*
 - 2 *They affect goods representing around 2 percent of the CPI.*

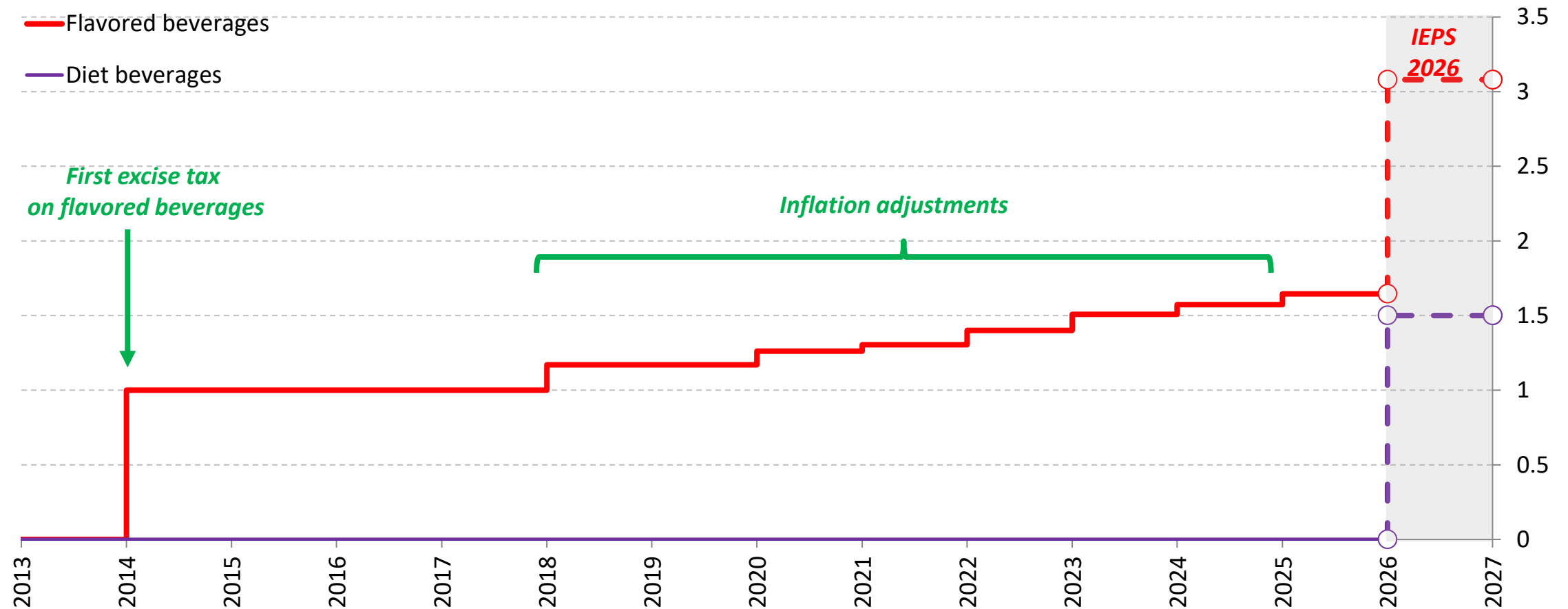
Effect of one-time price increase on inflation

Effect of a change in relative prices



The IEPS tax on flavored beverages will see its first significant upward adjustment since its implementation in 2014

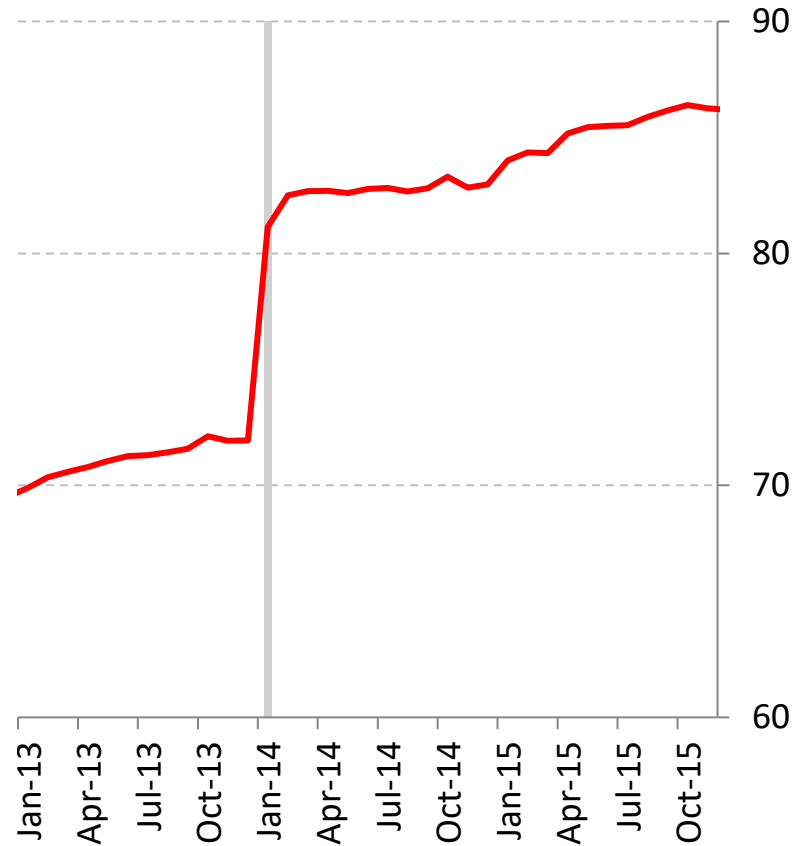
Evolution of the IEPS excise tax on flavored beverages
(Pesos per liter)



Source: Diario Oficial de la Federación

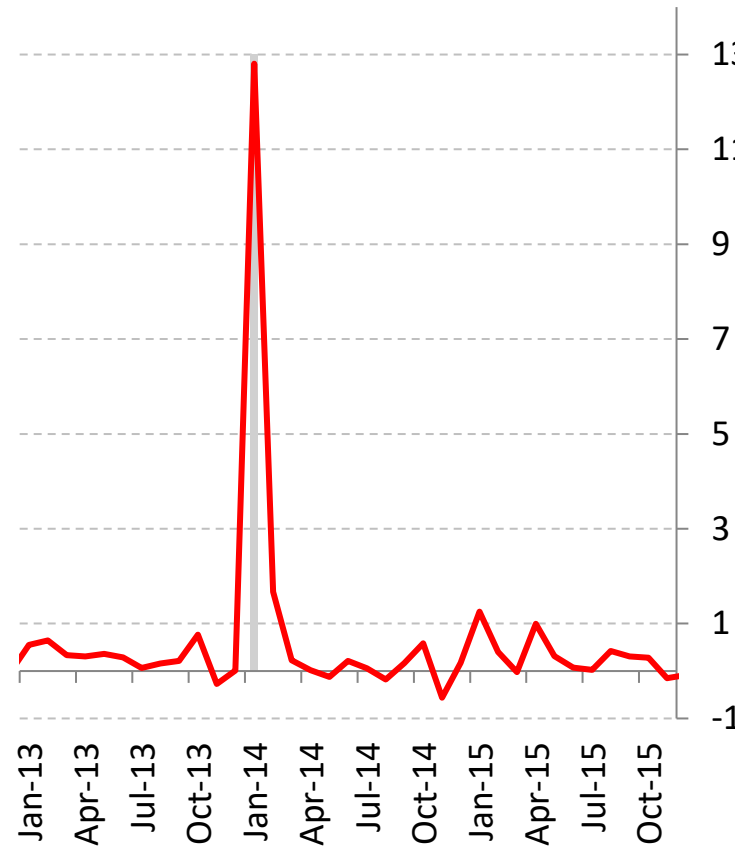
The 1-peso-per-liter tax implemented in 2014 on flavored beverages generated a transitory impact on inflation, as it was a one-time adjustment

Bottled sodas price index
(Index)



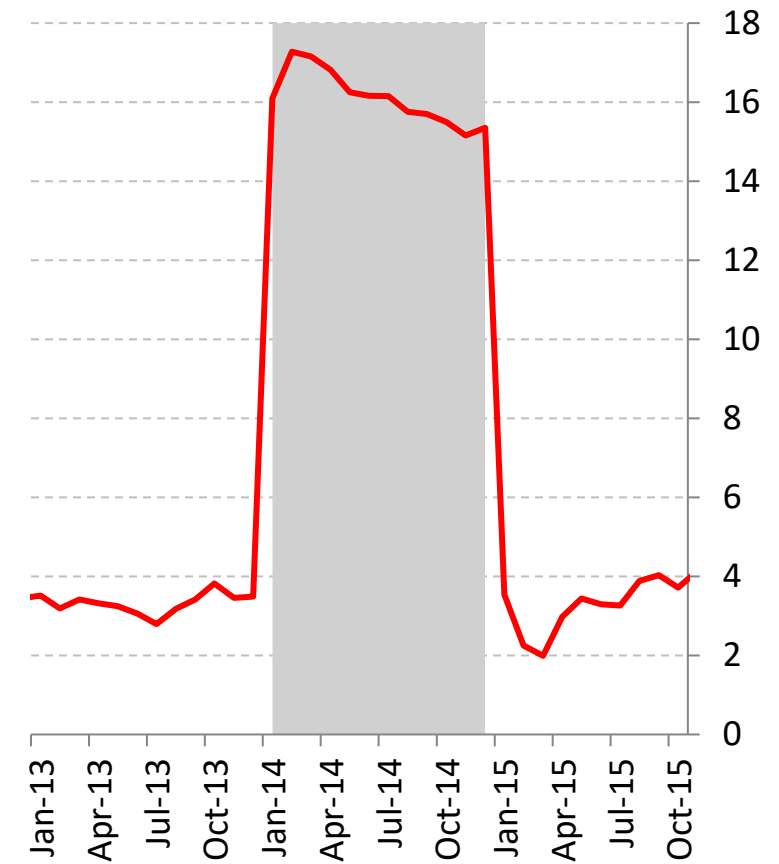
Source: INEGI.

Bottled sodas monthly inflation
(Monthly change, per cent)



Source: INEGI.

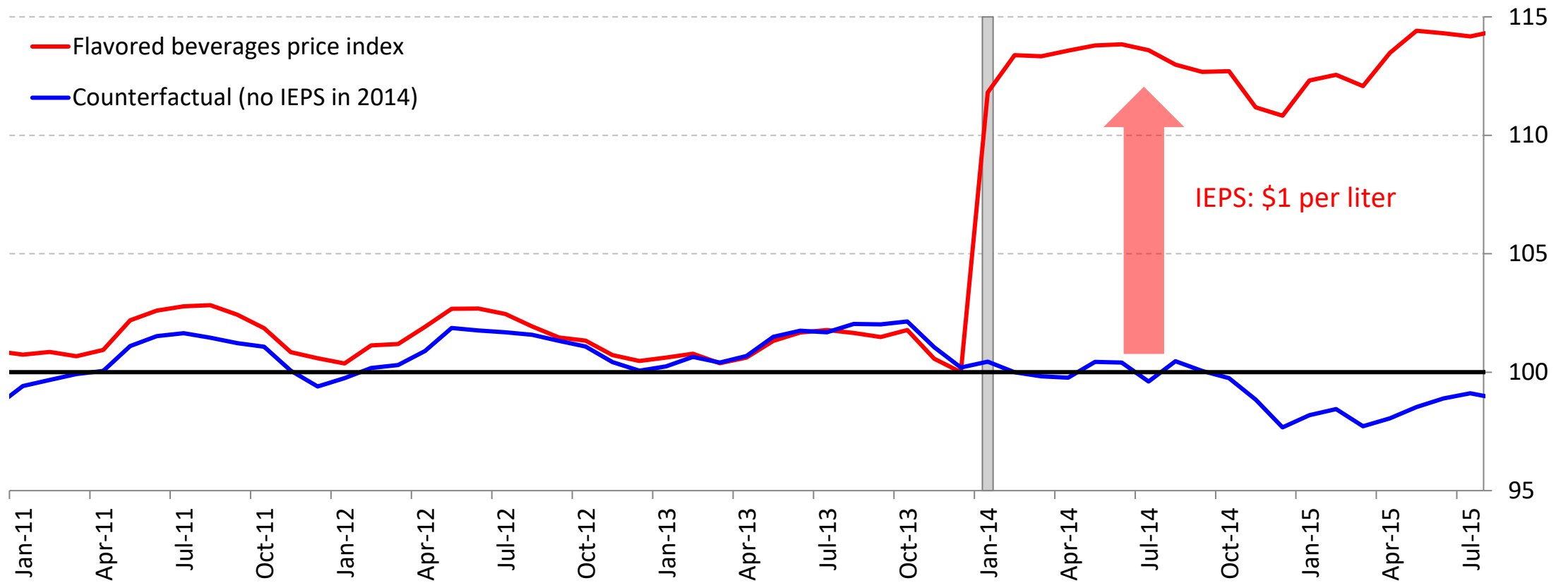
Bottled sodas annual inflation
(Annual change, per cent)



Source: INEGI.

Evidence from 2014 points to full tax pass-through to prices

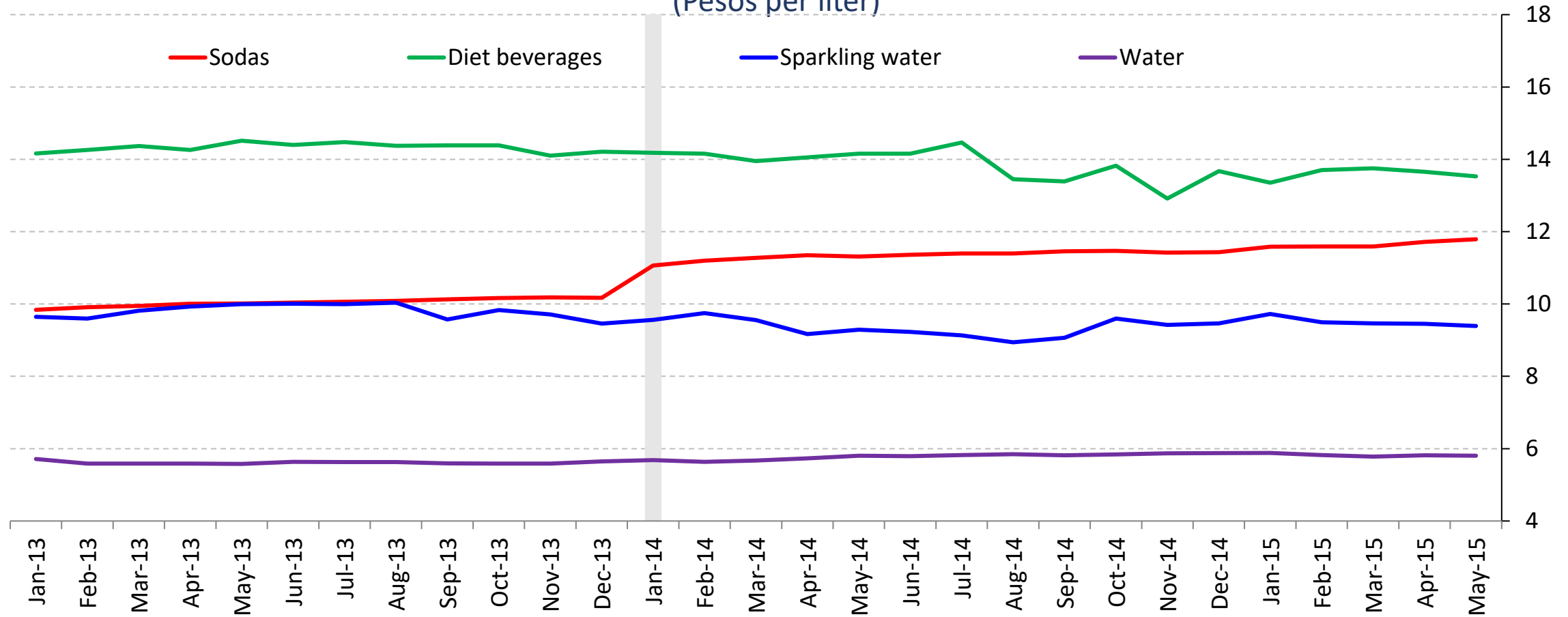
Real price index of flavored beverages
during the 2014 IEPS implementation
(Dec. 2013 = 100)



Source: Authors' calculations using data from INEGI, following the methodology in Grogger (2017), *Soda Taxes and the Prices of Sodas and Other Drinks: Evidence from Mexico*, *American Journal of Agricultural Economics*, 99(2), 481–498.

In 2014, the flavored beverage tax remained contained and did not spill over into related markets

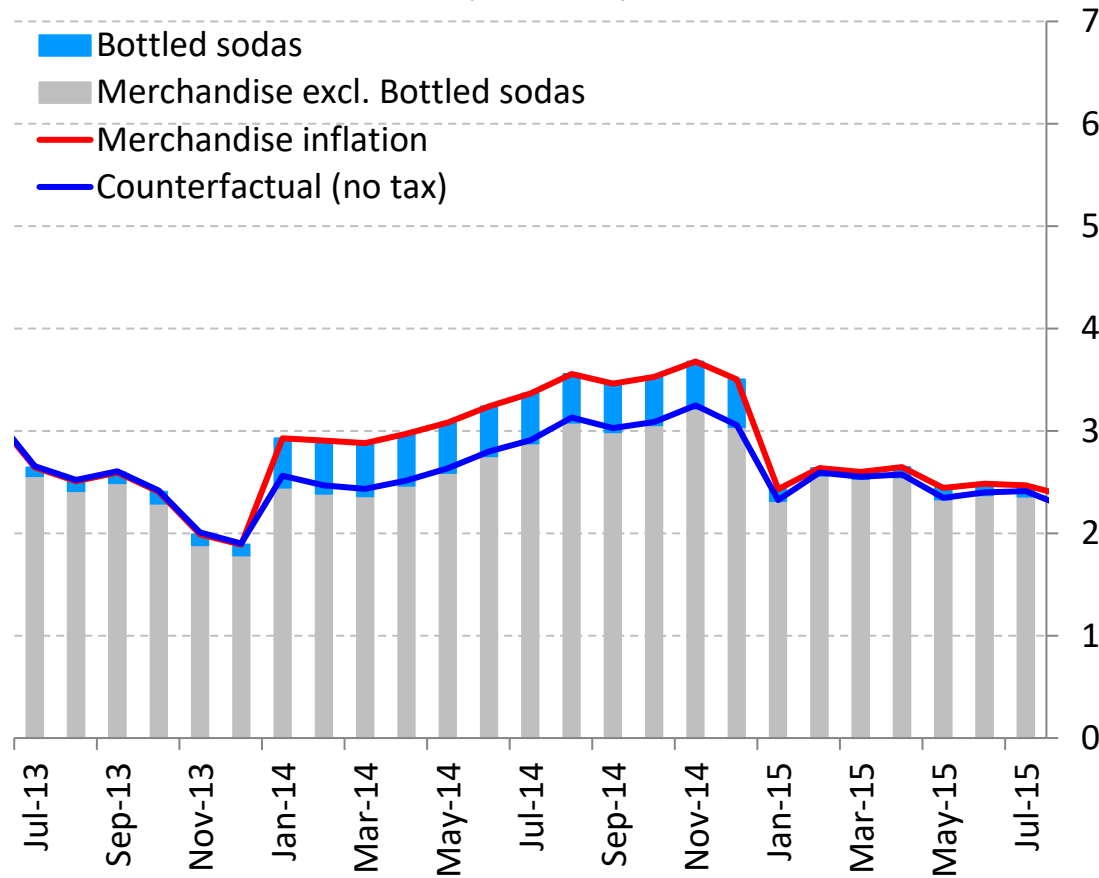
Average price of bottled beverages
during the 2014 IEPS implementation
(Pesos per liter)



Source: Authors' calculations using data from INEGI.

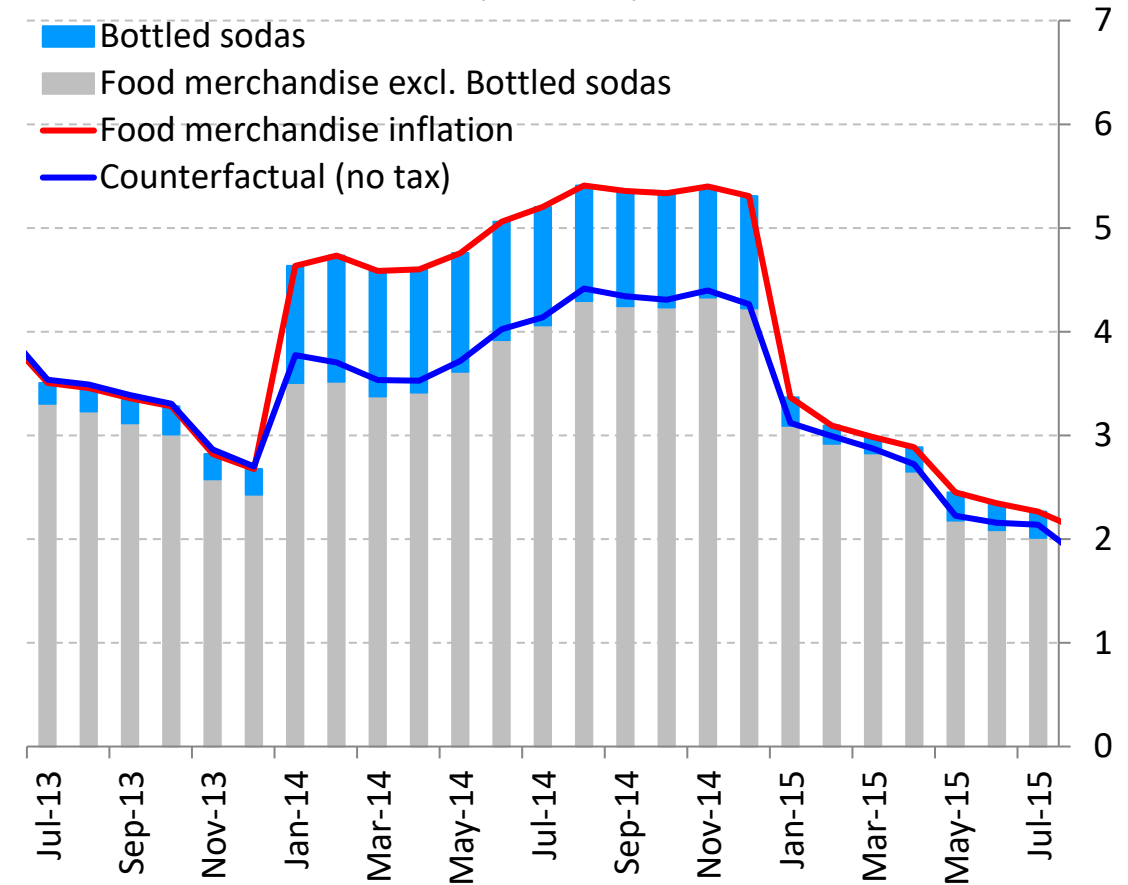
The tax on flavored beverages influenced the dynamics of merchandise inflation through the food merchandise component

Bottled sodas' contribution to merchandise inflation
(Per cent)



Source: Authors' calculations using data from INEGI.

Bottled sodas' contribution to food merchandise inflation
(Per cent)



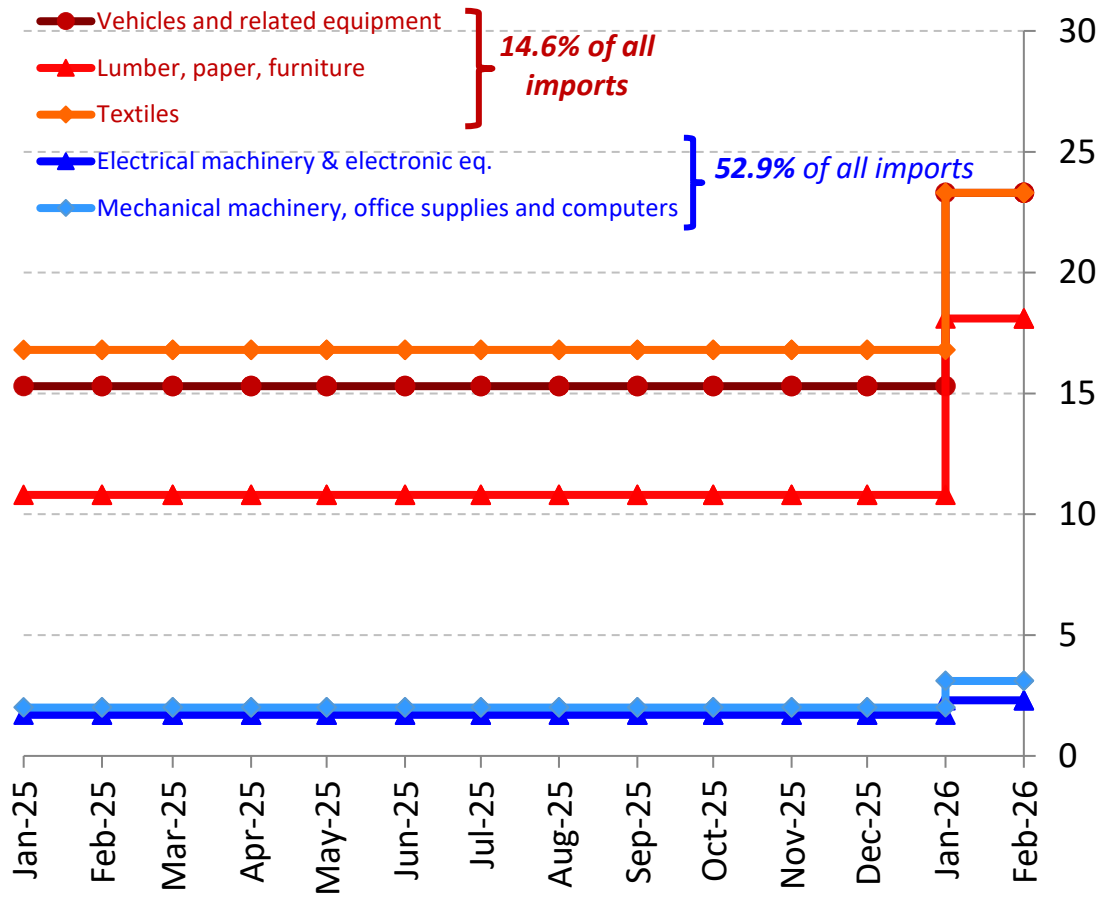
Source: Authors' calculations using data from INEGI.

Perspectives on changes in trade policy and their implications for the inflation outlook

- ***Regarding changes in tariffs, pass-through will depend on the specific conditions of the exposed sectors and the degree of slack in the economy.***
 - ① *Sectoral exposure to tariffs is heterogeneous and depends on each industry's ability to substitute inputs and adjust margins, which in turn determines its capacity to absorb the impact.*
 - ② *In a weak economic environment, subdued import demand constrains importers' ability to pass through costs and maintain margins.*
- ***As in 2018–2019, exporters may absorb part of the tariff burden.***
- ***Imports directly affected by tariffs account for 6.3% of total imports.***

The largest tariff changes are concentrated in sectors with low import shares

**Average industry-weighted tariff:
highest and lowest variations**
(Per cent)



Source: Authors' calculations using data from the World Trade Organization.

**Sectoral composition of imports from China and tariff
changes in Mexico**

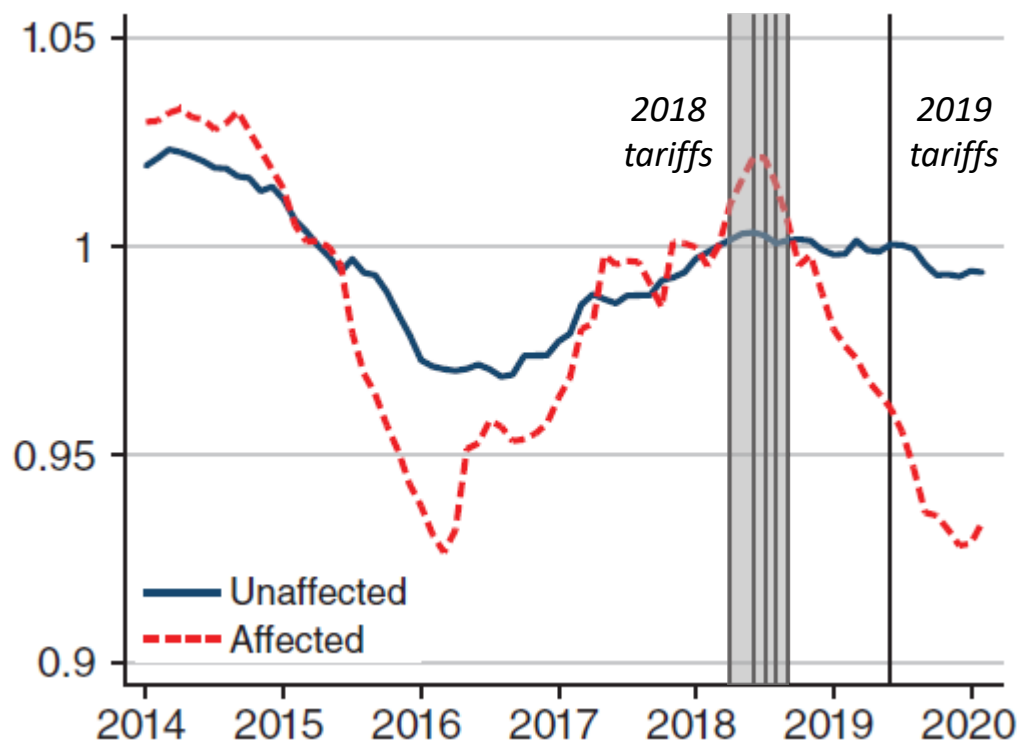
Industry	Share of of imports in 2024	Average weighted tariff (%)		Change in p.p.
		2025	2026	
Electrical machinery & electronic eq.	34.0	1.7	2.3	0.6
Clothing items	2.2	32.6	33.4	0.8
Mechanical machinery, office supplies and computers	18.9	2.0	3.1	1.1
Other manufactured items	4.8	6.0	8.3	2.3
Chemicals	6.0	6.7	10.2	3.5
Minerals and metals	7.1	12.5	16.4	3.9
Rubber, leather and footwear	2.3	19.6	24.2	4.6
Textiles	2.6	16.8	23.3	6.5
Lumber, paper, furniture	2.1	10.8	18.1	7.3
Vehicles and related equipment	9.9	15.3	23.3	8.0
Not specified	9.4	n.a.	n.a.	n.a.
Fish products	0.2	n.a.	n.a.	n.a.
Agricultural products & other	0.6	n.a.	n.a.	n.a.
Total	100.0	6.6	9.1	2.5

Note: n.a. Implies that the data are not available. Industry categories corresponds to WTO MTN categories.

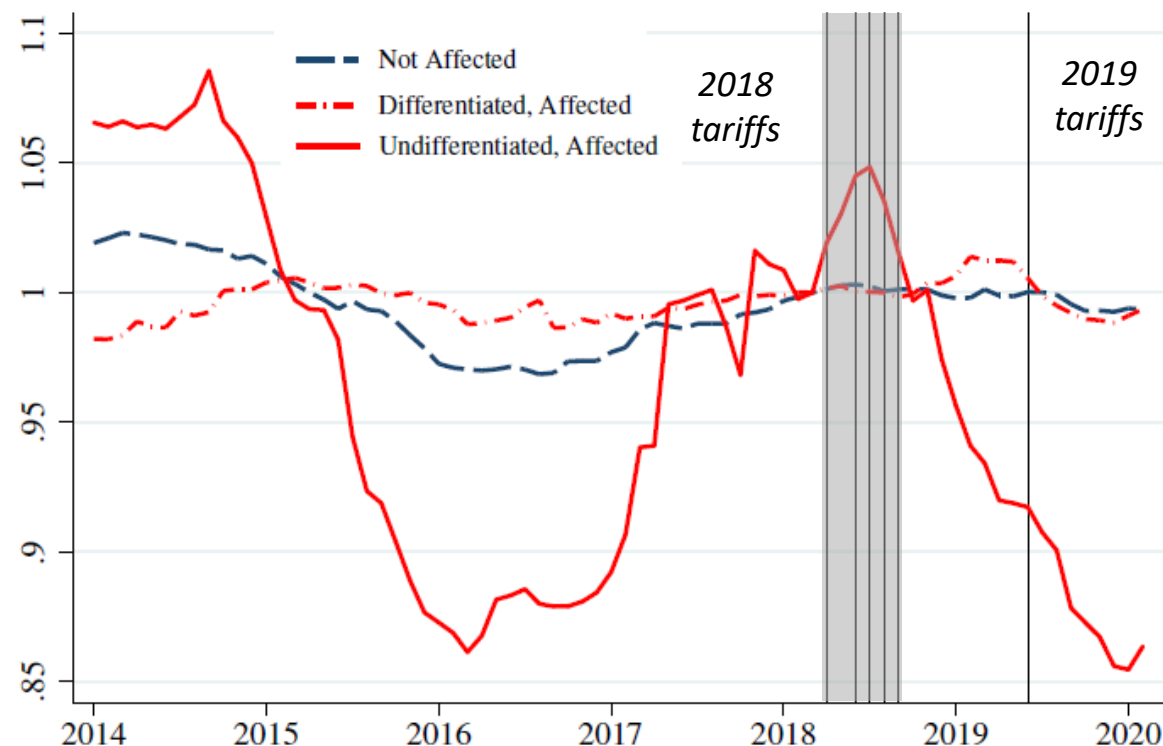
Source: Authors' calculations using data from the World Trade Organization and International Monetary Fund Tariff Tracker.

Export Price and Tariff Incidence: evidence from the 2018–2019 trade tensions

Export prices
(Index June 2018 = 100)



Export prices by product type:
Differentiated and Non-Differentiated goods
(Index June 2018 = 100)

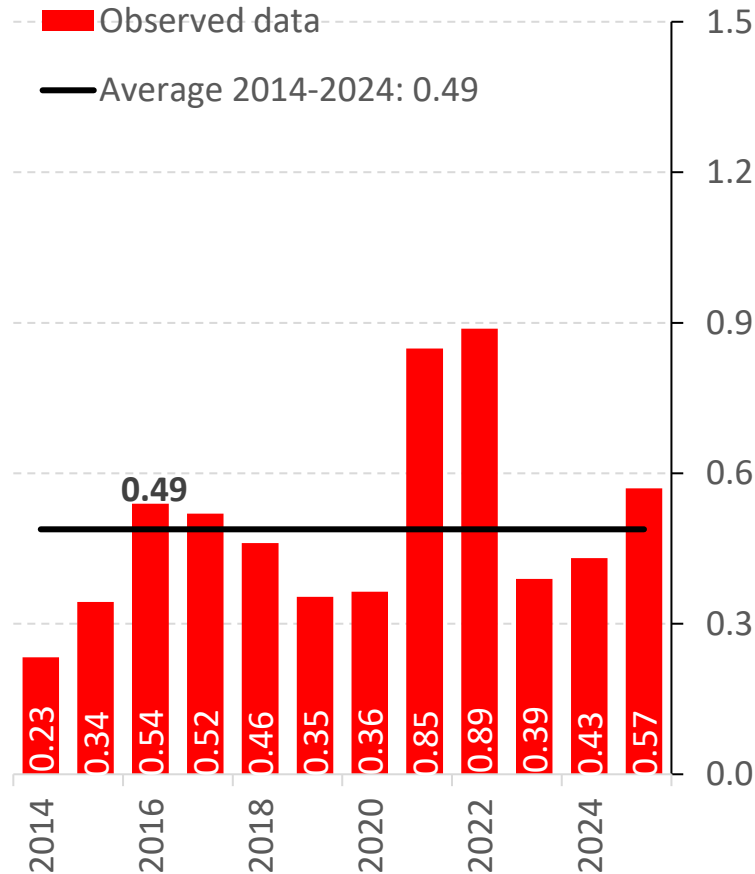


Note: The chart on export prices corresponds to Figure 1, panel B, in the article, while export prices by product correspond to Figure A3, panel A. Figures are adapted from the original study, which relies on administrative data that are not publicly available.

Source: Cavallo, Alberto, Gita Gopinath, Brent Neiman, and Jenny Tang (2021), *Tariff Pass-Through at the Border and at the Store: Evidence from U.S. Trade Policy*. *American Economic Review: Insights* 3(1), 19–34. Export prices

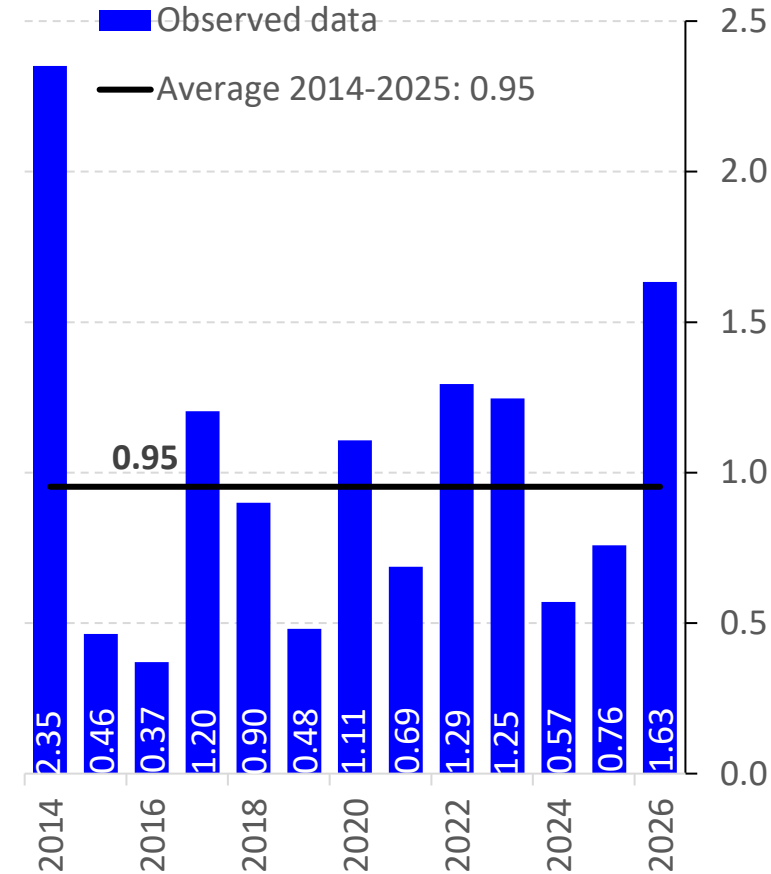
Historical food merchandise inflation

December
(Monthly change, per cent)



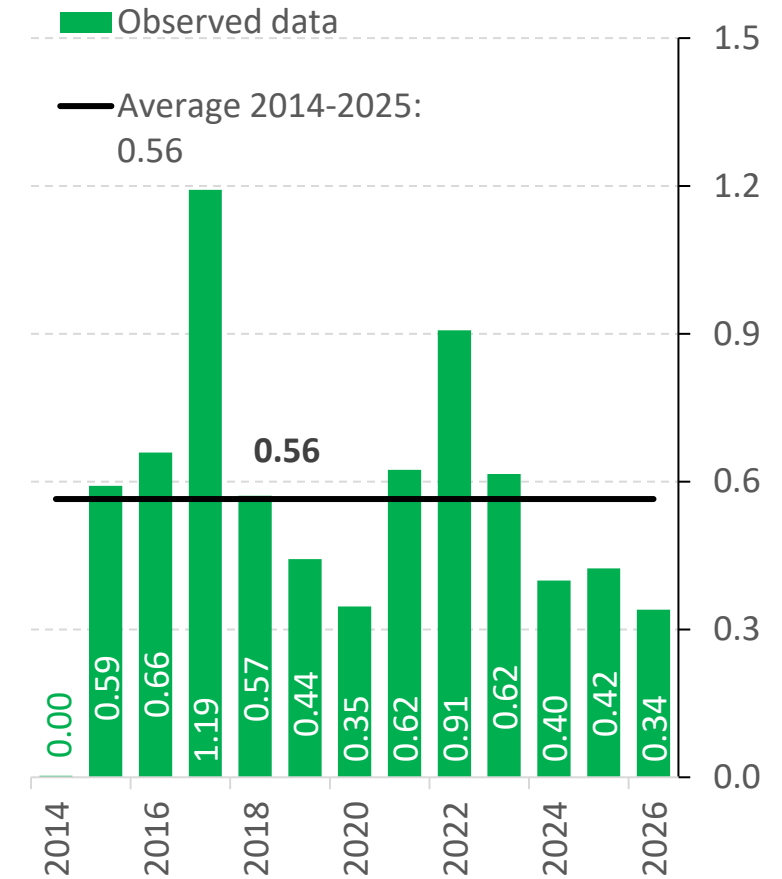
Source: INEGI.

January
(Monthly change, per cent)



Source: INEGI.

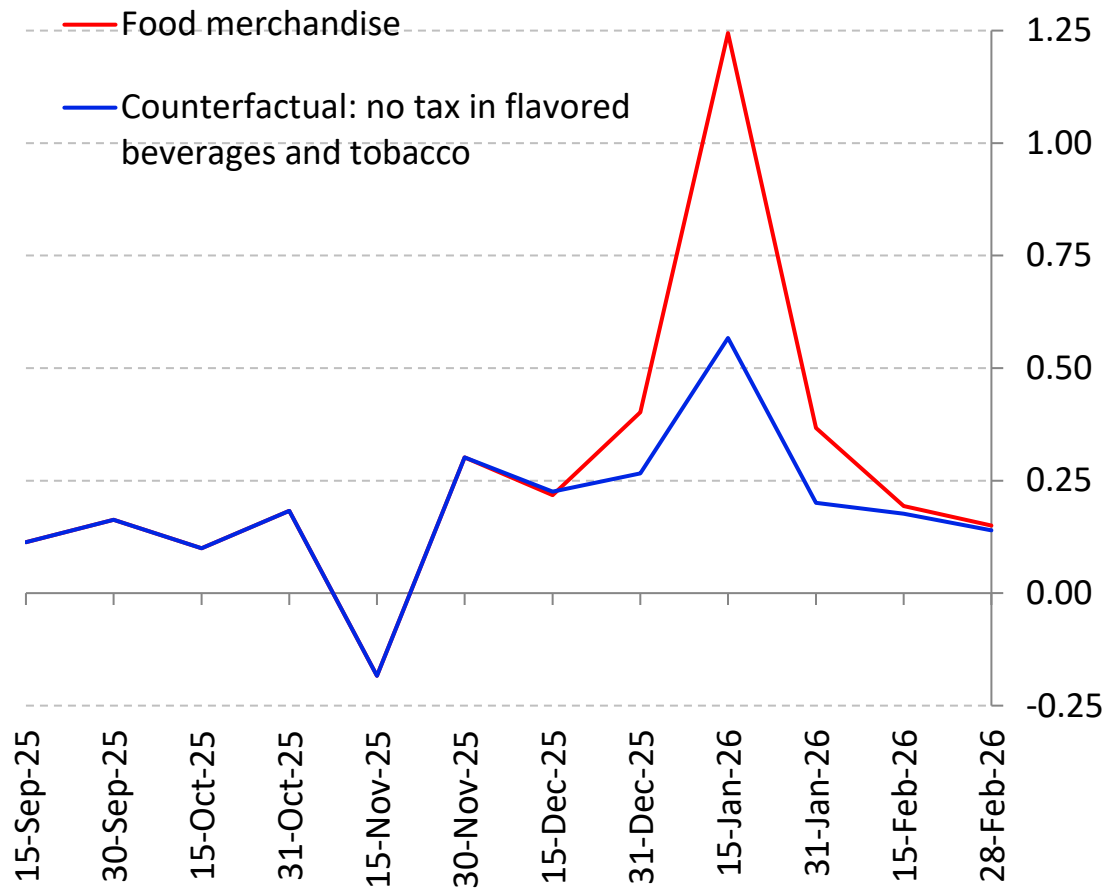
February
(Monthly change, per cent)



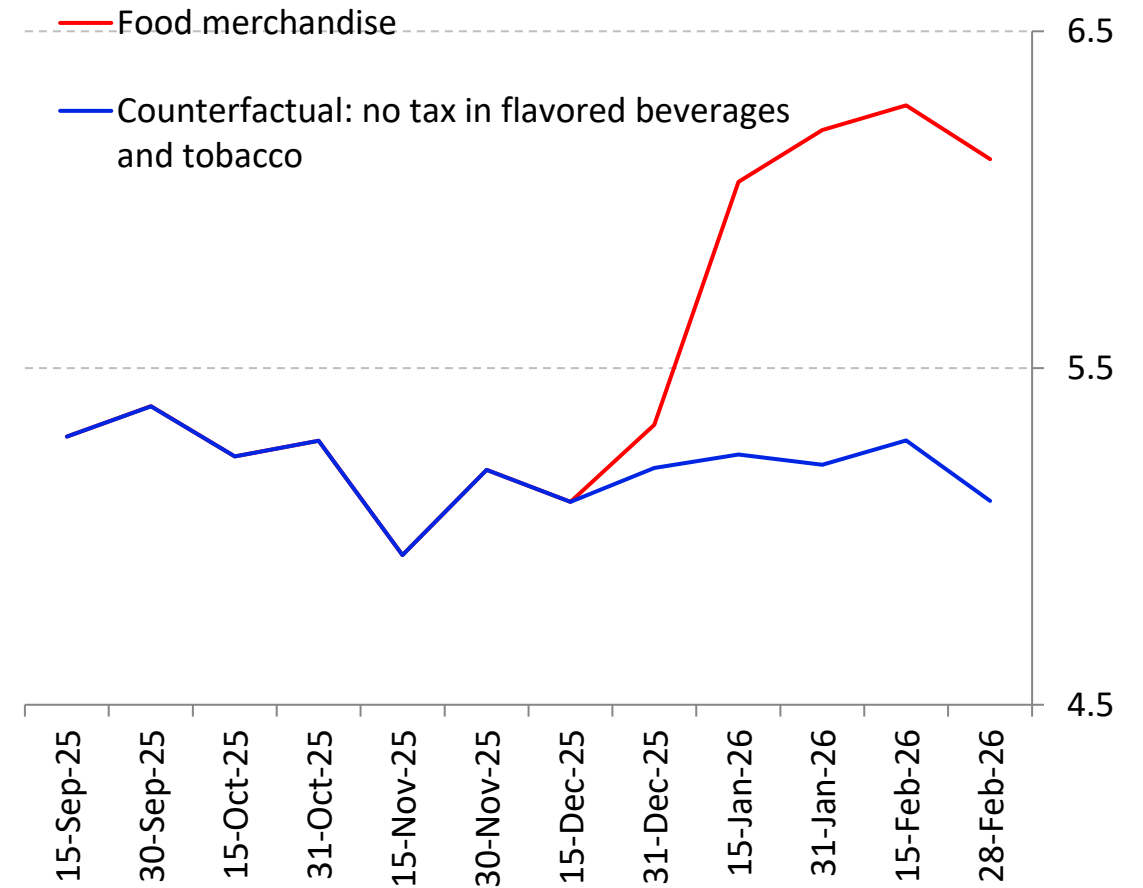
Source: INEGI.

As expected, recent bi-weekly readings are consistent with a transitory shock

Food merchandise annual inflation
(Bi-weekly change, per cent)



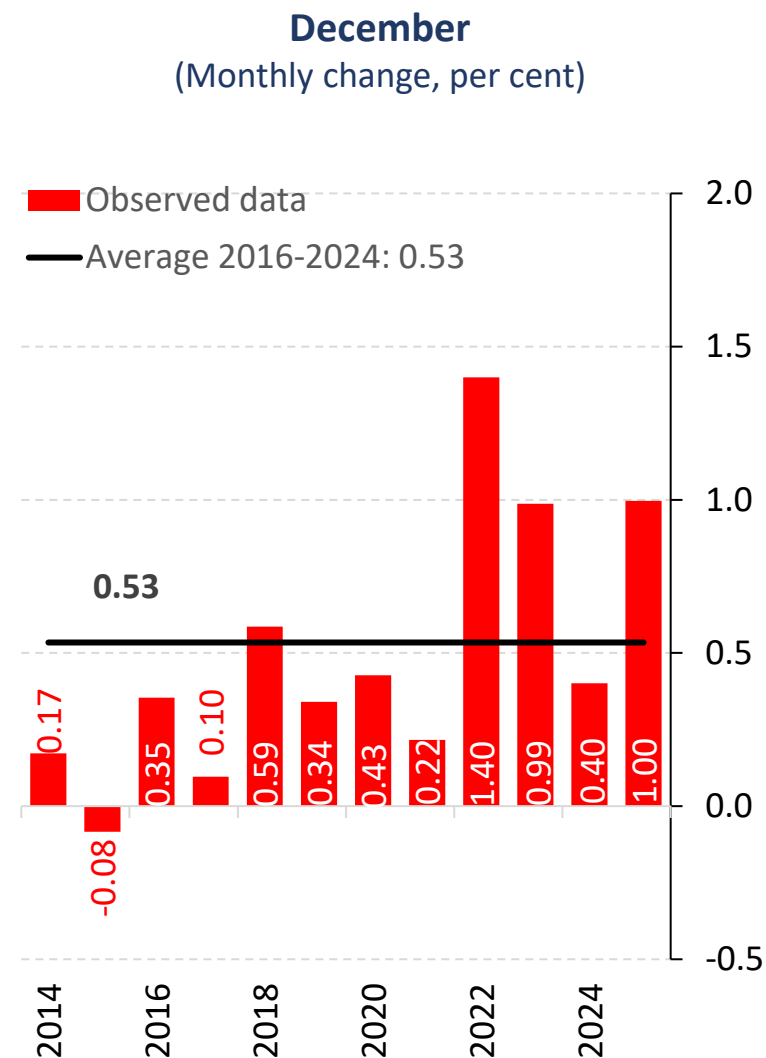
Food merchandise annual inflation
(Annual change, per cent)



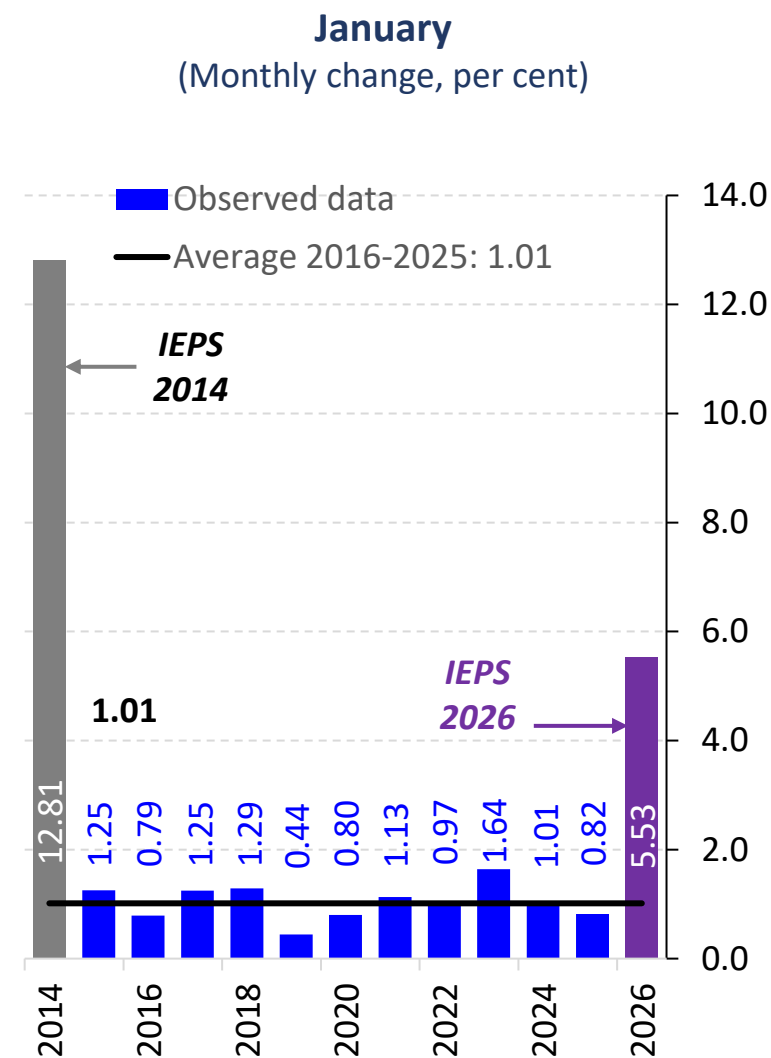
Note: Counterfactual price paths are constructed using synthetic control price indices for energy drinks, soda syrup, bottled juices, bottled sodas, and cigarettes, each estimated separately.

Source: Authors' calculations using data from INEGI, following the methodology in Grogger (2017), *Soda Taxes and the Prices of Sodas and Other Drinks: Evidence from Mexico*, American Journal of Agricultural Economics, 99(2), 481–498.

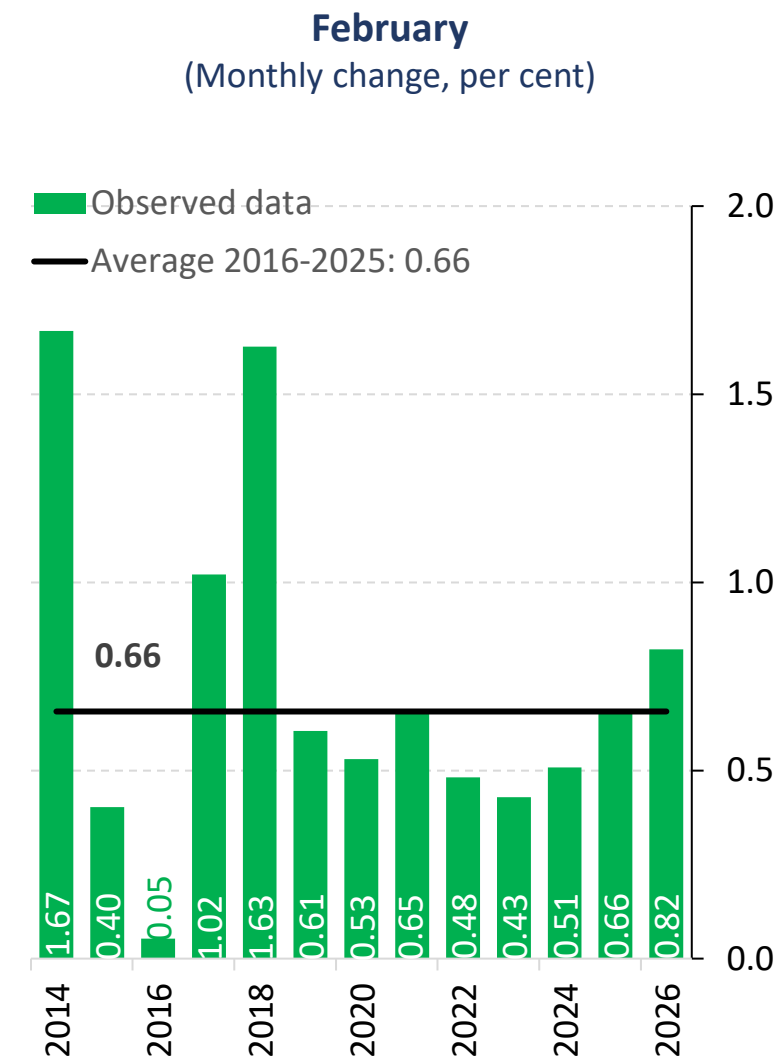
Historical bottled sodas inflation



Source: INEGI.



Source: INEGI.

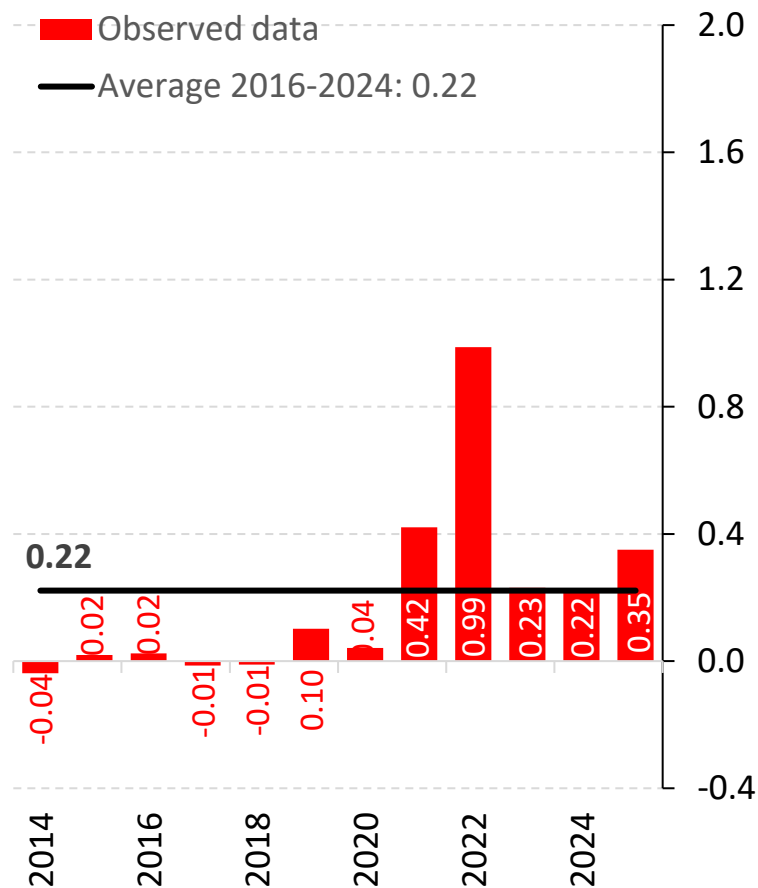


Source: INEGI.

Historical cigarettes inflation

December

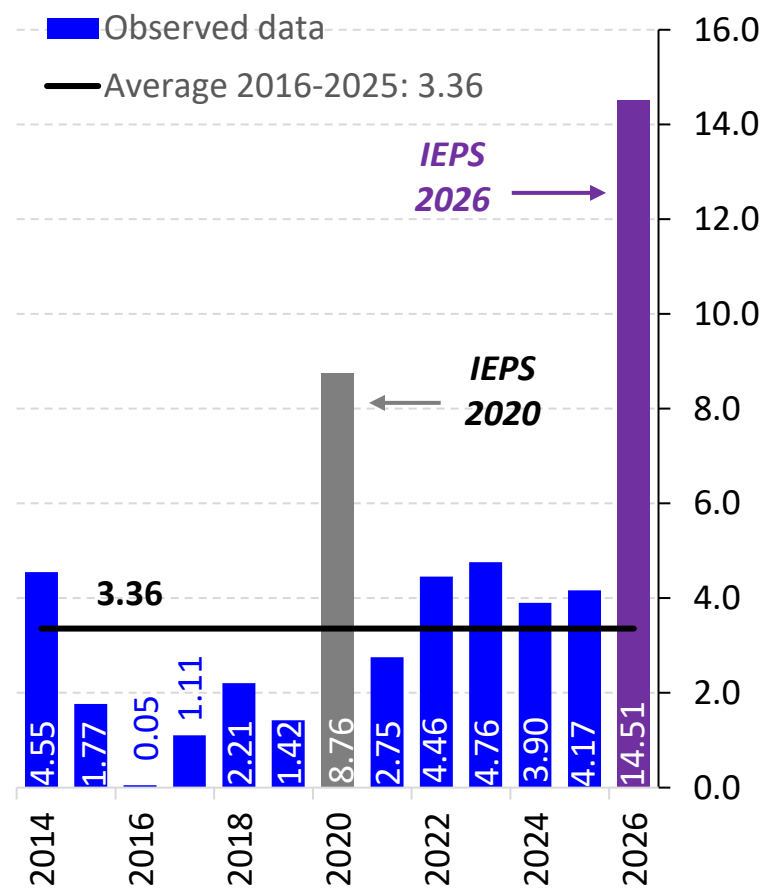
(Monthly change, per cent)



Source: INEGI.

January

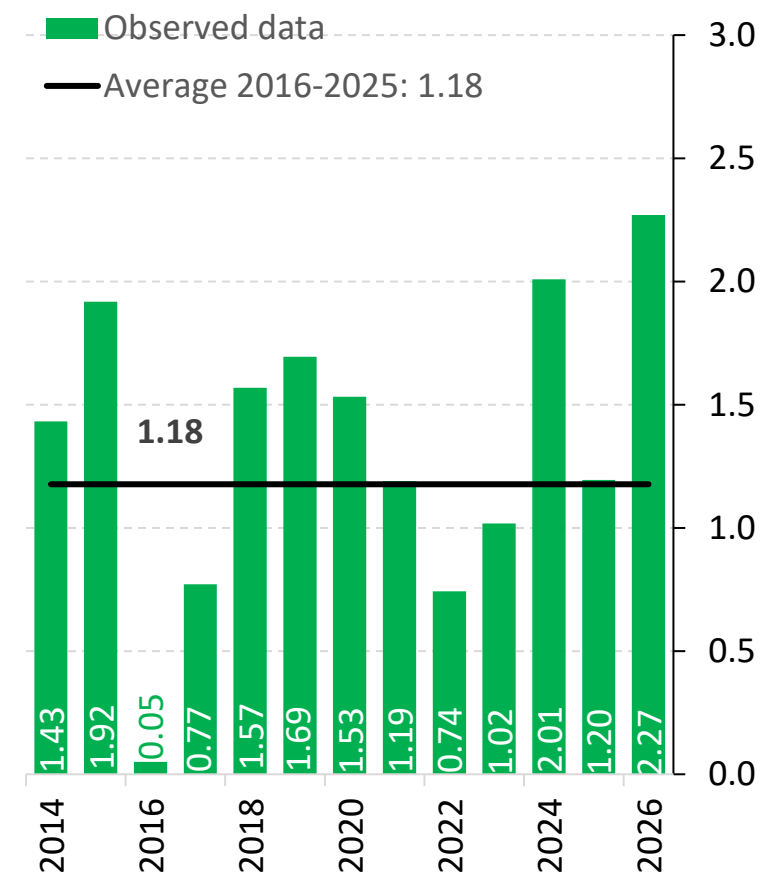
(Monthly change, per cent)



Source: INEGI.

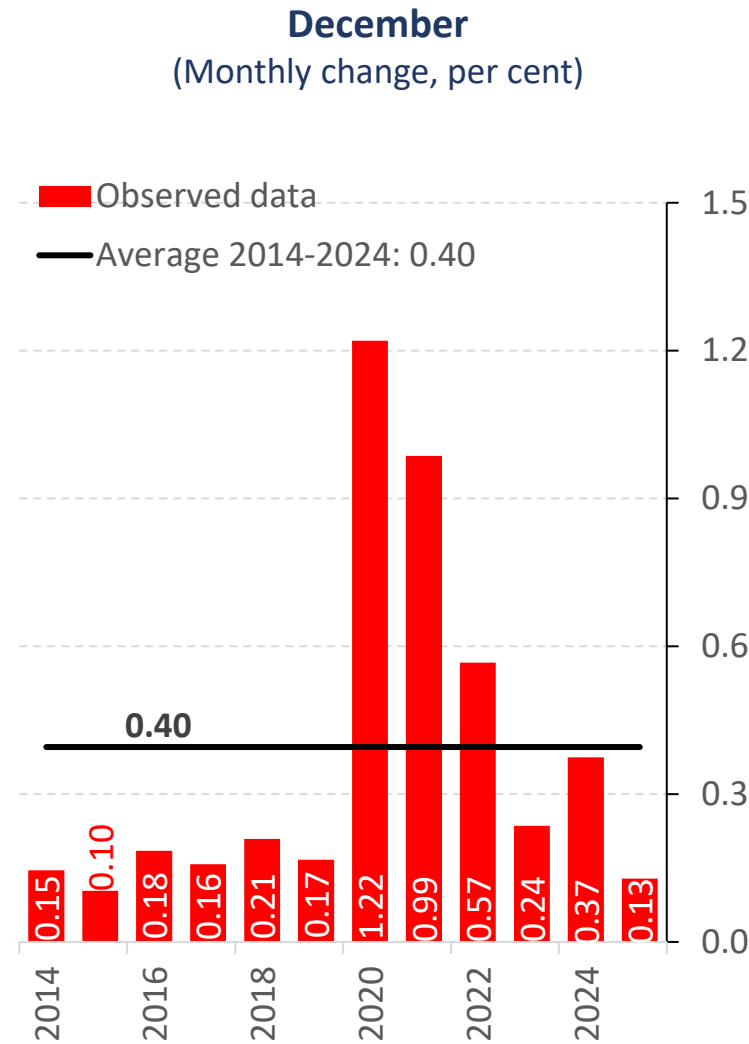
February

(Monthly change, per cent)

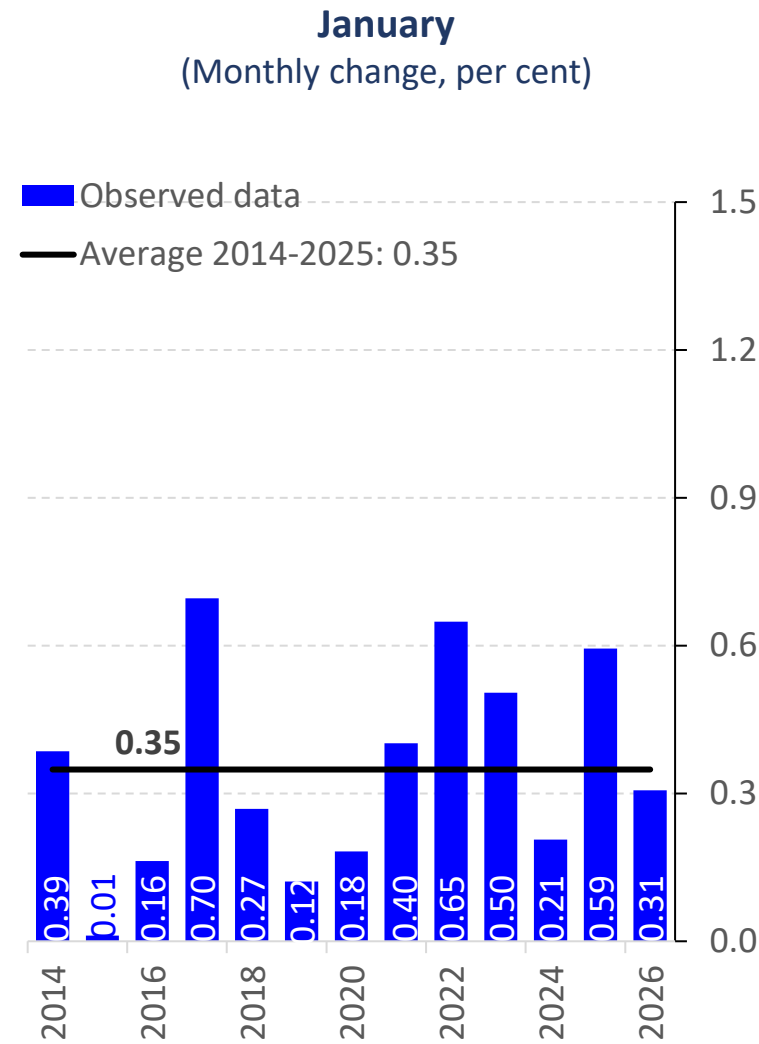


Source: INEGI.

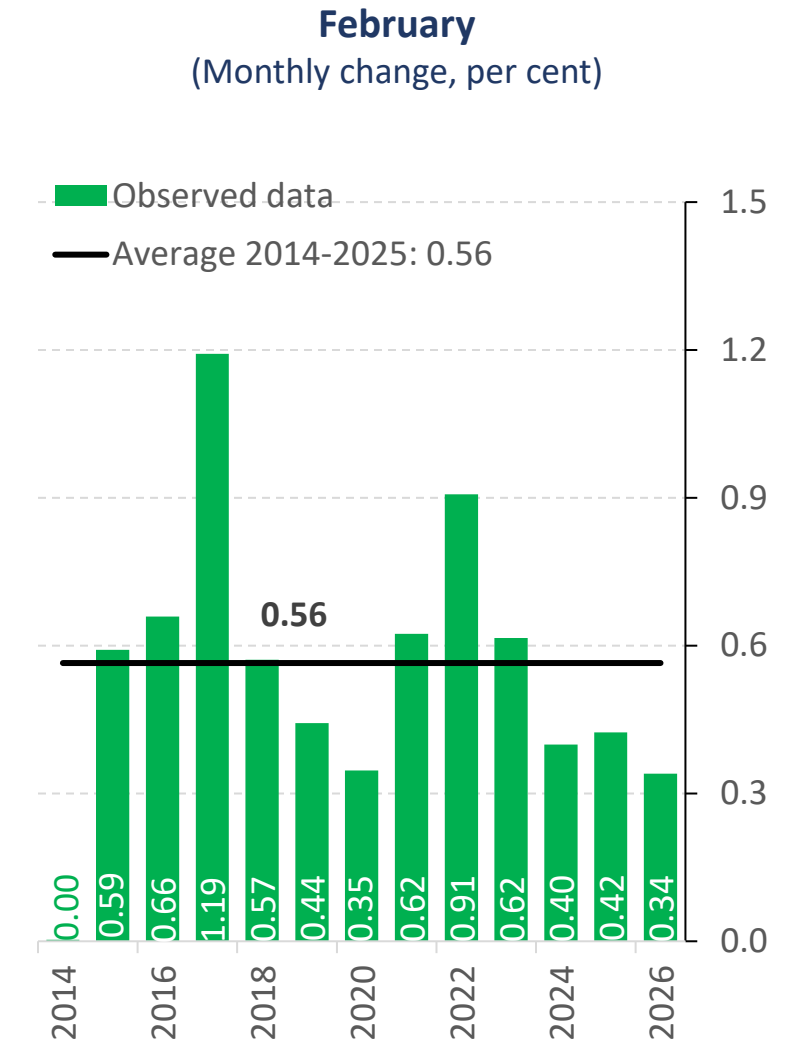
Historical non-food merchandise inflation



Source: INEGI.

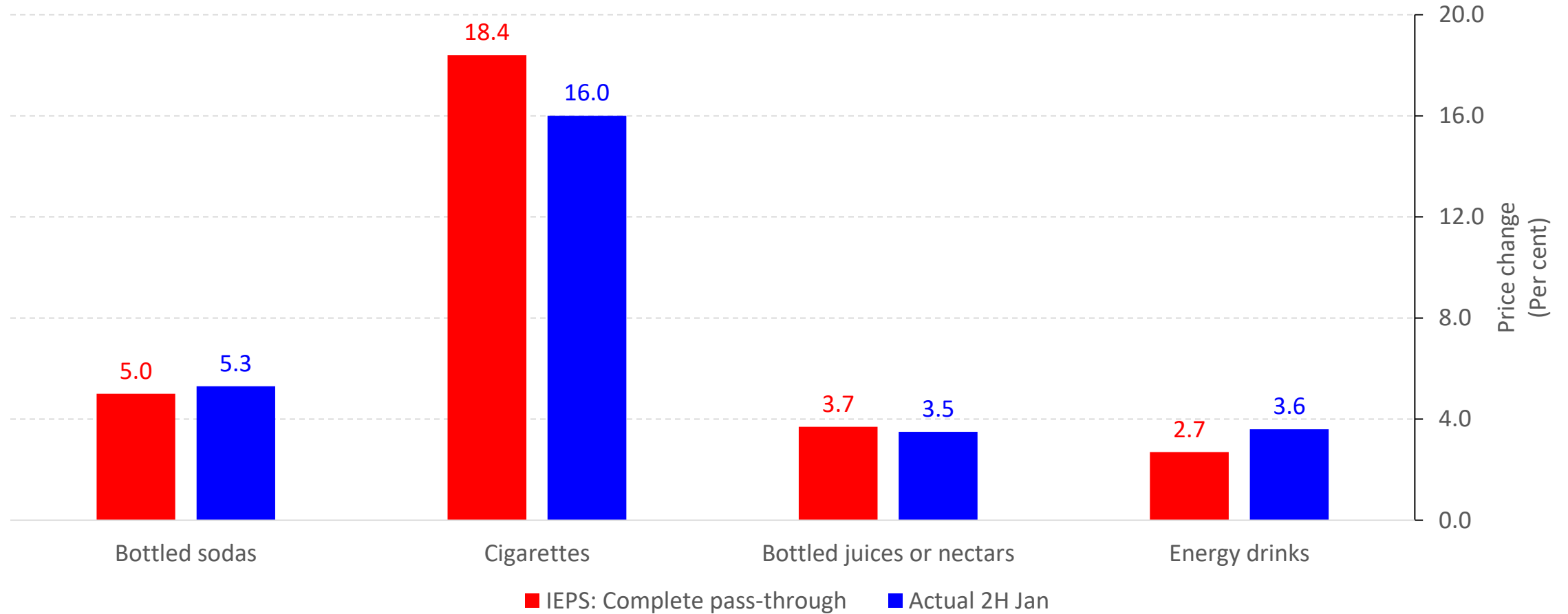


Source: INEGI.



Source: INEGI.

Price increases in IEPS-affected products



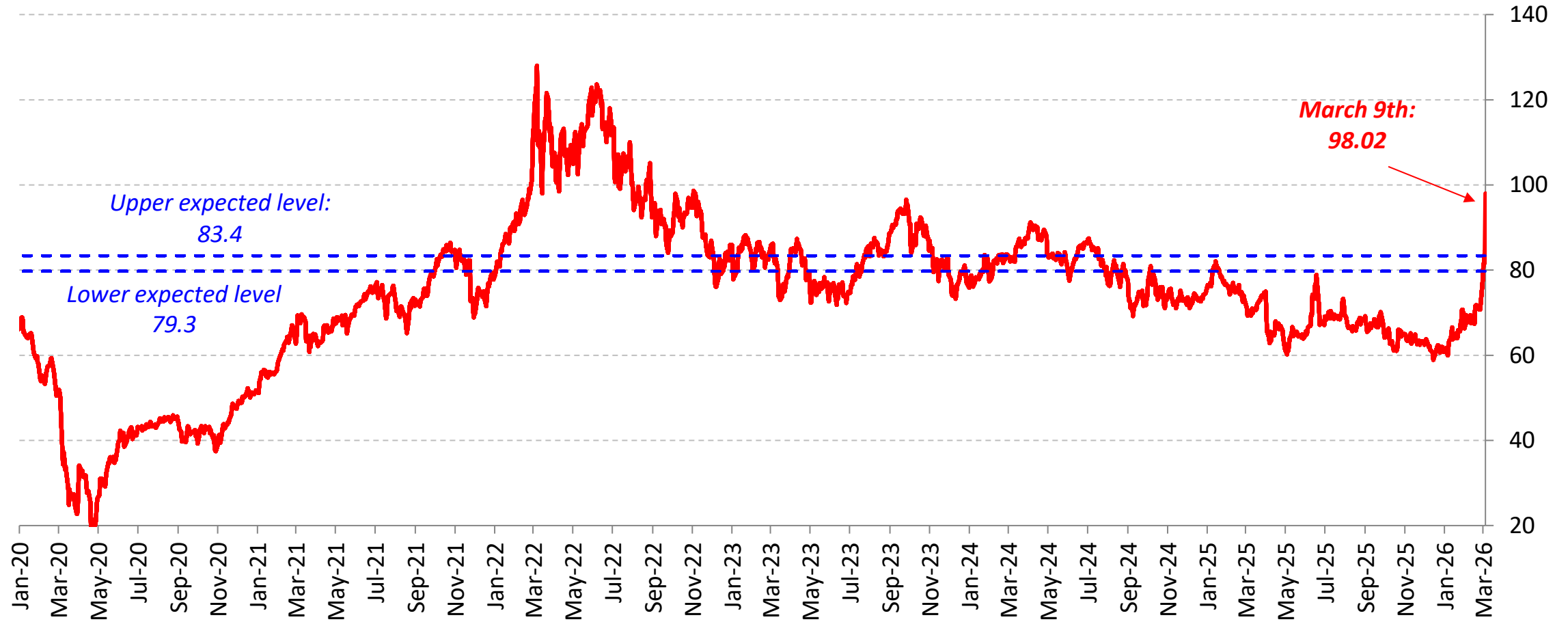
Note: The estimation is based on average prices observed in December 2025, taking into account the IEPS increase published in Diario Oficial de la Federación on December 22, 2025.
Source: Authors' calculations using data from INEGI.

Annex: Strait of Hormuz



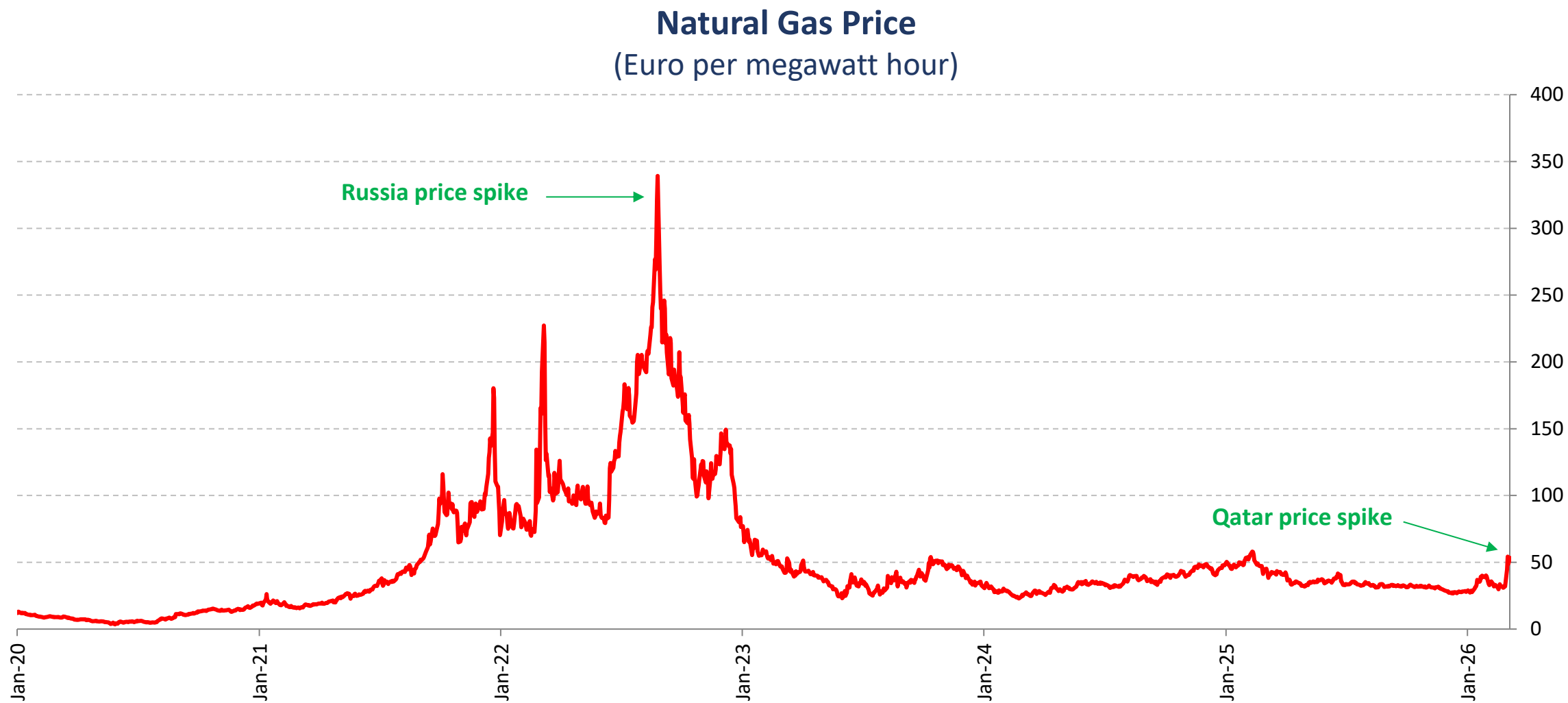
Annex: Crude Oil Price

Brent Crude Oil Price
(US dollars per barrel)



Source: Bloomberg

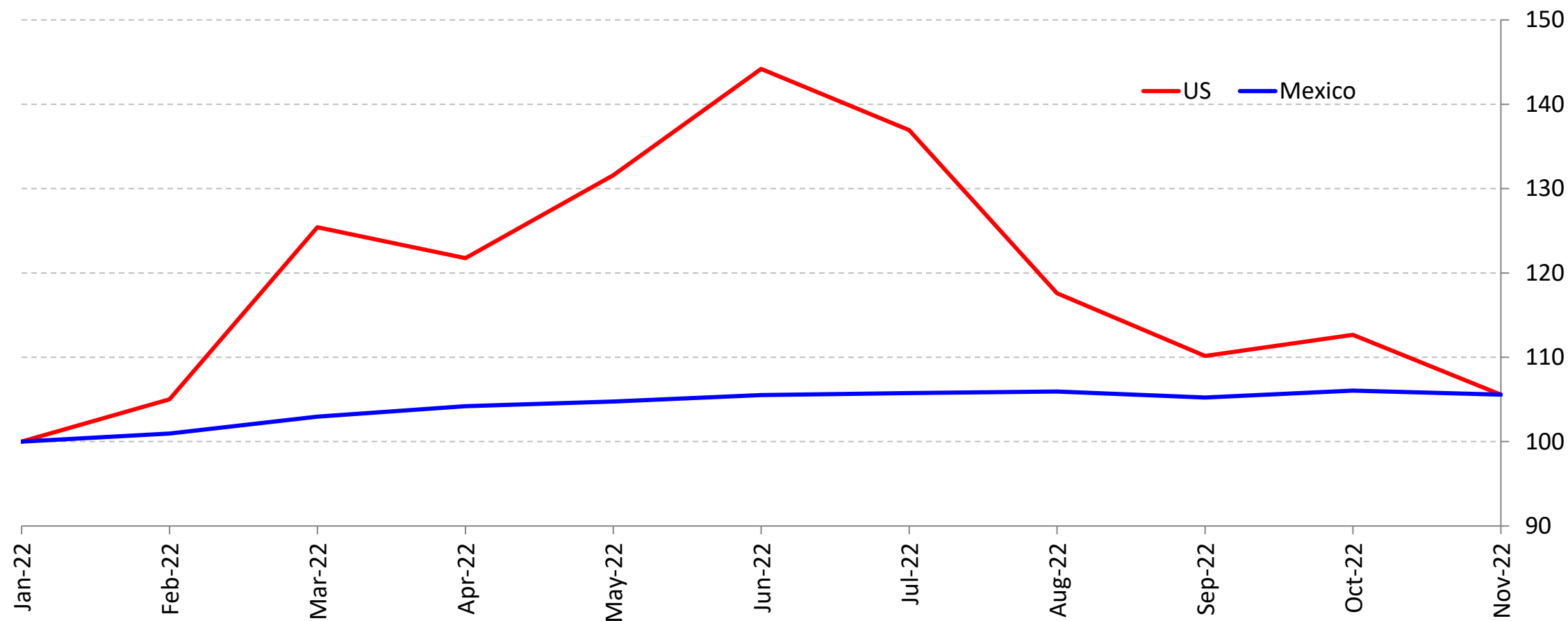
Annex: Natural Gas Price



Source: Bloomberg

Annex: Gasoline prices

Gasoline prices in the US and Mexico
(index jan 2022=100)



Source: Bloomberg