



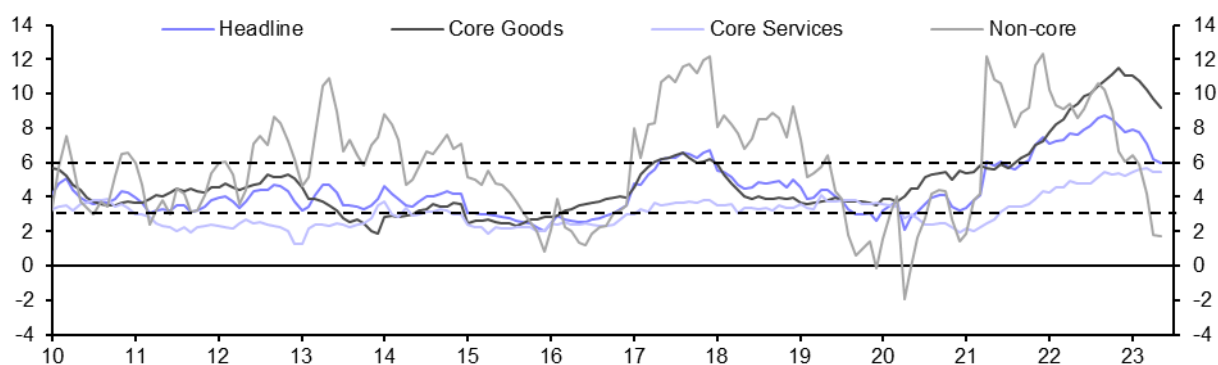
LATIN AMERICA RAPID RESPONSE

Mexico Bi-Weekly CPI (May)

Monetary policy to be kept tight despite falls in inflation

- Mexico’s headline inflation rate fell to a 20-month low of 6.0%y/y in the first half of May and is set to drop further over the coming months. That said, strong wage growth will keep inflation above the central bank’s target range until late-2024. As a result, while Banxico’s tightening cycle has ended, we think that rate cuts will only come onto the cards in late Q4 and that monetary policy will be kept tighter than most expect over the next couple of years.
- The outturn was a touch softer than the Refinitiv consensus forecast for inflation to decline to 6.15% y/y, but slightly above our projection for a drop to 5.90% y/y. The reading was down from 6.2% y/y in the first half of April and marked the lowest inflation print since September 2021.
- **The breakdown of the data showed that the drop in the headline rate was broad-based.** Non-core inflation edged down to 1.7% y/y on the back of a further fall in energy and regulated price inflation. Meanwhile, core inflation eased to 7.5% y/y from 7.7% in April, driven by a decline in core goods inflation. **More worryingly, though, services inflation – which Banxico tends to monitor closely – remained unchanged at 5.4% y/y, having fallen in April.**
- While headline Inflation should continue to trend lower over the coming months, **the strong labour market will prevent inflation from returning to Banxico’s 2-4% tolerance band until late-2024.** This, alongside the increased likelihood of a “higher-for-longer” scenario in the US means that, while Banxico’s tightening cycle **has ended**, monetary policy will be kept tight for a prolonged period. We expect rates to be kept at their current level of 11.25% until late Q4 and once Banxico starts lowering its policy rate, it is likely to do so more gradually than most are expecting.

Chart 1: Mexico Mid-Month Consumer Prices (% y/y)



Sources: INEGI, Refinitiv

Table 1: Mexico Mid-Month Consumer Prices* (% y/y)

	Headline	Core	Core Goods	Services	Non-core	Agricultural	Energy & Reg.
Feb-23	7.8	8.4	10.8	5.6	5.9	9.7	2.9
Mar-23	7.1	8.1	10.3	5.7	4.2	8.1	1.0
Apr-23	6.2	7.7	9.7	5.4	1.8	5.6	-1.2
May-23	6.0	7.5	9.2	5.4	1.7	5.6	-1.5

Sources: Refinitiv, INEGI. *Data to the middle of each month.





Disclaimer: While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Capital Economics Limited and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or investments.

Distribution: Subscribers are free to make copies of our publications for their own use, and for the use of members of the subscribing team at their business location. No other form of copying or distribution of our publications is permitted without our explicit permission. This includes but is not limited to internal distribution to non-subscribing employees or teams.

