



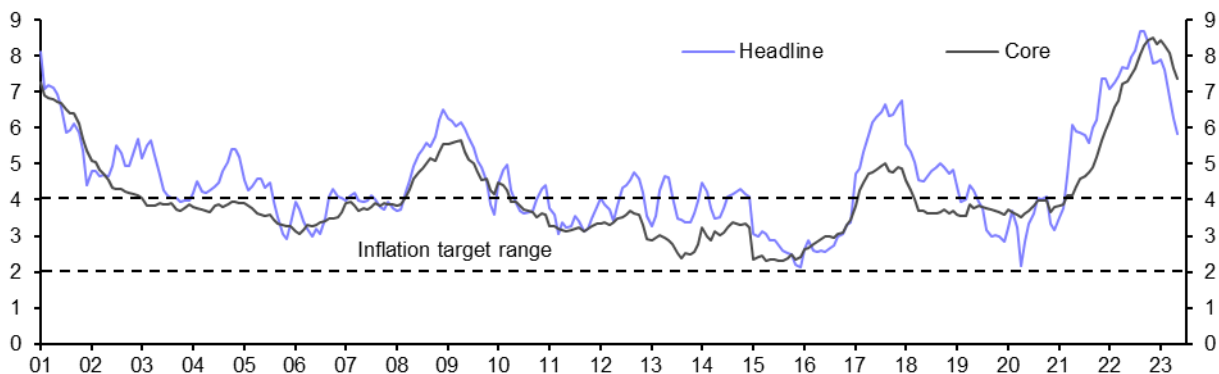
LATIN AMERICA RAPID RESPONSE

Mexico Consumer Prices (May)

Inflation drops, but rate cuts still some time away

- **Headline inflation in Mexico dropped to a 21-month low of 5.8% y/y in May and will continue to decline over the coming months. That said, the strong labour market and rapid wage growth mean that inflation is likely to stay above the central bank's target range until at least late-2024. As a result, while the tightening cycle has ended, rate cuts are likely to come later and be more gradual than most anticipate.**
- The outturn was down from 6.3% y/y in April and in line with the figure for the first half of May. In seasonally-adjusted m/m terms, which gives a better gauge of the latest developments, prices rose at an annualised pace of 3.0%, leaving it within Banxico's 2-4% tolerance band for a third consecutive month.
- **The breakdown of the data showed that the fall in inflation was, once again, broad-based.** Non-core inflation edged down, from 2.1% y/y in April to 1.2% y/y in May. That reflected a combination of weaker agricultural inflation as well as energy and regulated price inflation slipping further into negative territory.
- Meanwhile, core inflation eased, from 7.7% y/y in April to 7.4% y/y last month. In large part, that was due to softer core goods inflation. Services inflation, which Banxico has been following closely amid concerns about the persistence of price pressures, fell marginally from 5.5% y/y to 5.4% y/y.
- **Looking ahead, we expect headline inflation to fall further over the coming months.** But the strong labour market and rapid wage growth – which has remained stuck at around 11% y/y – mean that inflation is likely to stay higher than most anticipate over the next couple of years. **We doubt that it will return to Banxico's target range until late-2024 at the earliest.**
- Banxico has ended its tightening cycle, but it has made clear that a long pause is on the cards. Monetary loosening is unlikely to come on to the agenda until the back end of this year. **And even when an easing cycle does commence, interest rates are likely to fall more gradually than most expect.**

Chart 1: Mexico Consumer Prices (% y/y)



Sources: Refinitiv, INEGI

Table 1: Mexico Consumer Prices (% y/y)

	Headline	Core	Core Goods	Services	Non-core	Agricultural	Energy & Reg.
Feb-23	7.6	8.3	10.6	5.6	5.6	9.3	5.9
Mar-23	6.8	8.1	10.1	5.7	3.3	7.2	6.3
Apr-23	6.3	7.7	9.5	5.5	2.1	6.1	6.8
May-23	5.8	7.4	9.0	5.4	1.2	5.0	6.9

Sources: Refinitiv, INEGI.



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