



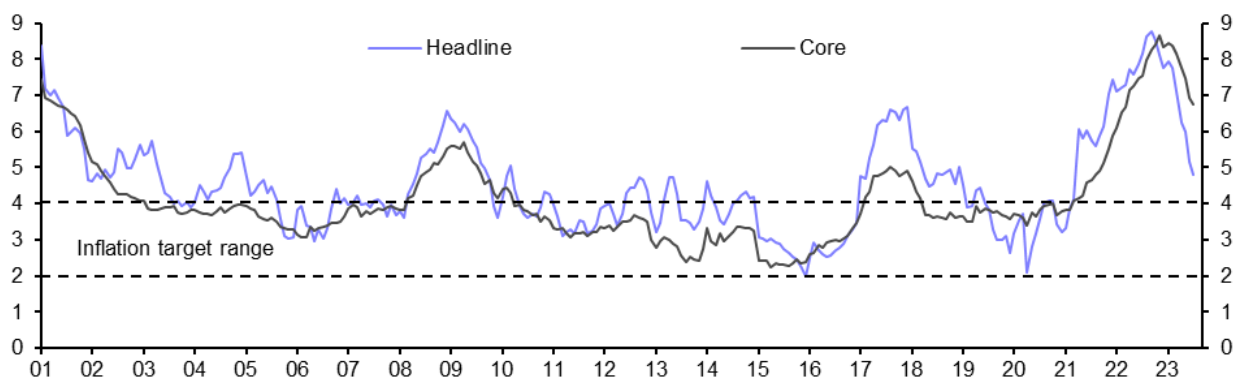
LATIN AMERICA RAPID RESPONSE

Mexico Bi-Weekly CPI (Jul.)

Fresh rise in services inflation likely to raise concerns at Banxico

- **Mexico’s headline inflation rate eased further in the first half of July but the fresh rise in services inflation will be a concern for Banxico officials. The tightening cycle is unlikely to be restarted. But the data reinforce our view inflation and interest rates will be slower to come down than most expect.**
- The outturn was in line with the Refinitiv consensus (as well as our own) forecast of 4.8% y/y. The reading was down from 5.2% y/y in the first half of June and marked the sixth consecutive decline in the headline rate. (See Chart 1.) On a seasonally-adjusted month-on-month basis, prices rose at an annualised pace of 4.2% - the first time it has been above Banxico’s 2-4% tolerance band on this measure in five months.
- **The breakdown of the data showed that the drop in the headline rate was driven primarily by softer non-core price pressures.** Core inflation also eased, from 6.9% y/y in June to 6.8% y/y last month, its lowest in more than a year. But this primarily reflected a further drop in core goods inflation. **In contrast, core services inflation – which has been a key focus of Banxico officials amid concerns about the persistence of price pressures edged up to 5.3% y/y.** (See Table 1.)
- **The fresh rise in services inflation is being driven by the strength of the labour and rapid wage growth. This is something we’ve warned about for some time** and has underpinned our forecast that inflation won’t return to within Banxico’s 2-4% target range until late-2024. Against this backdrop, we think that interest rates will be left unchanged at 11.25% until the turn of the year and rate cuts will be more gradual than most anticipate.

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.
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
Jun-23	5.2	6.9	8.3	5.2	0.0	3.2	-2.6
Jul-23	4.8	6.8	8.0	5.3	-1.0	2.5	-3.9

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



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