



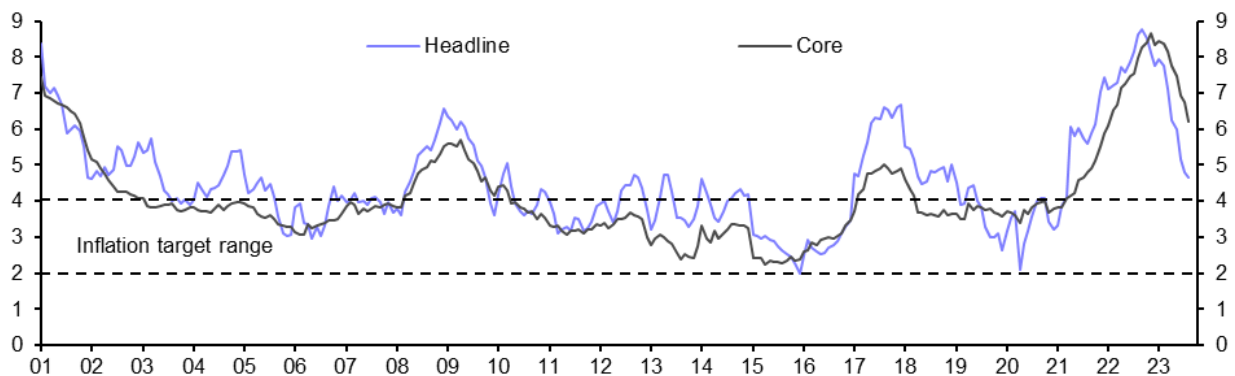
LATIN AMERICA RAPID RESPONSE

Mexico Bi-Weekly CPI (Aug.)

Sticky services inflation to keep Banxico on the sidelines for now

- **Mexico’s headline inflation rate declined further in the first half of August, but sticky services inflation will remain a concern for the central bank. This, alongside hawkish comments from officials, means that Banxico will be the last major central bank in the region to ease monetary policy (around the turn of the year). And interest rate cuts will be more gradual than most currently anticipate.**
- The outturn was in line with the Refinitiv consensus forecast of 4.7% y/y, albeit a touch above our own forecast of 4.5% y/y. The reading was down from 4.8% y/y in the first half of July and marked the lowest inflation reading since March 2021.
- **The breakdown of the data showed that the drop in the headline rate was driven primarily by softer core price pressures, which offset a renewed rise in agricultural inflation.** Core inflation dropped to 6.2% y/y, from 6.8% y/y in the first half of July on the back of a sharp fall in core goods inflation. Services inflation edged down too last month, to 5.2% y/y, but the bigger picture is that services inflation remains sticky – it has hovered around 5% for the past year.
- **The key driver of services inflation is the strength of the labour and rapid wage growth, something that we have warned about for some time. Banxico officials remained in a hawkish mood at their last meeting and we think that Banxico will be the last central bank in the region to embark on a monetary easing cycle, with the first cut likely to materialise around the turn of the year.** And once interest rates are being lowered, easing is likely to progress more gradually 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.
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
Aug-23	4.7	6.2	7.1	5.2	0.1	4.0	-3.1

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



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