



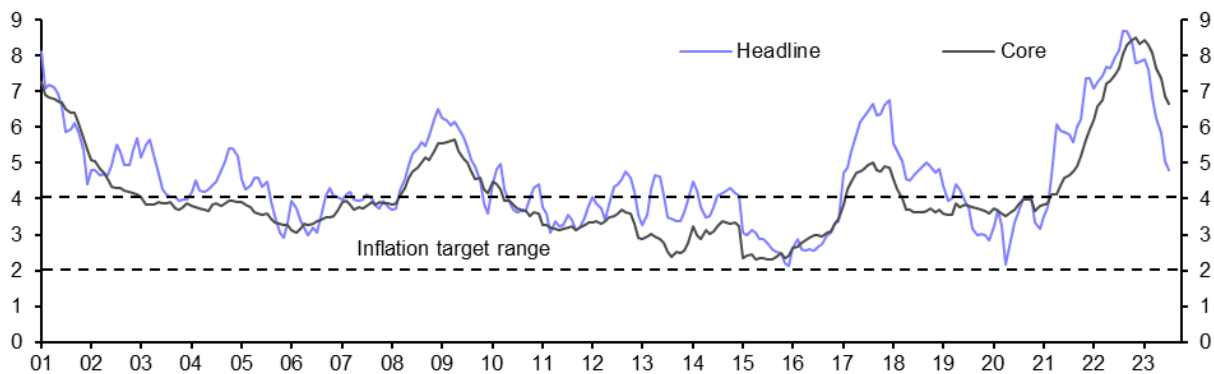
LATIN AMERICA RAPID RESPONSE

Mexico Consumer Prices (Jul.)

Sticky services inflation to keep Banxico in hawkish mood

- **Mexico’s headline inflation rate continued to drop back in July, to 4.8% y/y, but with services inflation proving to be sticky, we doubt that Banxico will turn to interest rate cuts until the turn of the year. Our forecast is for rates to come down a lot slower than most currently anticipate.**
- The outturn was in line with the Refinitiv consensus as well as the mid-month inflation figures released a couple of weeks ago. The reading was down from 5.1% y/y in June and marked the sixth consecutive decline in the headline rate. That said, inflation remains above the central bank’s 2-4% tolerance band.
- **The breakdown of the data showed that the drop in the headline rate was broad-based.** Non-core inflation fell deeper into negative territory, from -0.4% y/y in June to -0.7% y/y last month. Agricultural price inflation picked up but energy and regulated prices fell at a faster pace.
- Meanwhile, there was further encouraging news on core inflation, which dropped to a 17-month low of 6.6% y/y. However, that was driven entirely by weaker core goods price pressures. **Services inflation – which has been a key focus of Banxico officials – was unchanged at 5.2% y/y.**
- **The stickiness of services inflation reflects the strength of the labour market and rapid wage growth, which is running at 11% y/y.** This is something we’ve warned about for some time and underpin our forecast that inflation won’t return to within Banxico’s 2-4% target range until late-2024. **Against this backdrop, and with the economy continuing to hold up well, 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 Consumer Prices* (% y/y)

	Headline	Core	Core Goods	Services	Non-core	Agricultural	Energy & Reg.
Apr-23	6.3	7.7	9.5	5.5	2.1	6.1	-1.1
May-23	5.8	7.4	9.0	5.4	1.2	5.0	-1.8
Jun-23	5.1	6.9	8.3	5.2	-0.4	2.9	-3.1
Jul-23	4.8	6.6	7.8	5.2	-0.7	3.2	-3.9

Sources: Refinitiv, INEGI.



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