



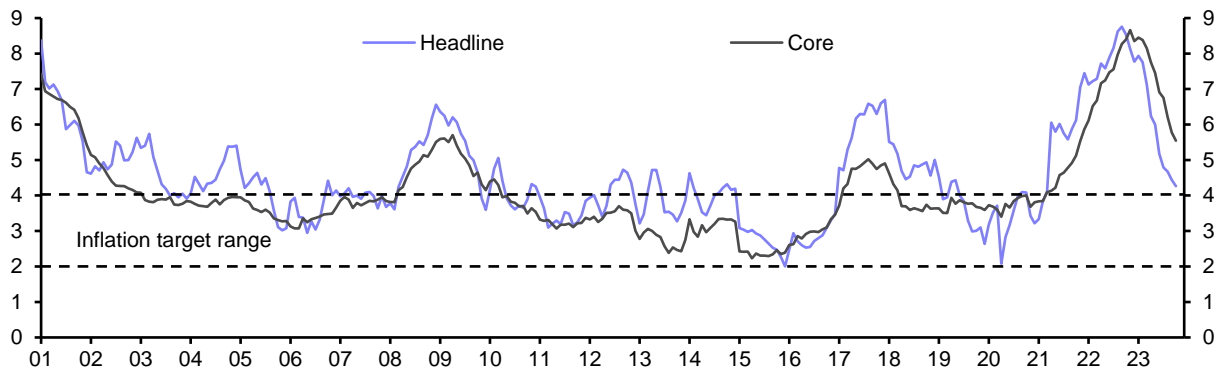
LATIN AMERICA RAPID RESPONSE

Mexico Bi-Weekly CPI (Oct.)

Pick-up in services inflation to keep Banxico in hawkish mood

- **The fall in Mexico’s headline inflation rate to a 31-month low of 4.3% y/y in the first half of October masked a worrying pick-up in services inflation. This, combined with rapid wage growth and robust economic activity, supports our view that Banxico will only shift towards interest rate cuts in early 2024 and that the easing cycle will proceed more gradually than most currently anticipate.**
- The outturn was down from 4.4% y/y in the first half of September. The reading was a touch above the Refinitiv consensus (of 4.4%) but below our own forecast (of 4.2%). Inflation is now at its lowest rate since April 2021, but remains above the central bank’s 2-4% tolerance band.
- **The breakdown of the data showed that the fall in inflation was pretty broad based.** Core goods and agricultural inflation fell sharply and, while energy inflation increased, it remained in negative territory. **Worryingly, though, having edged down for two consecutive months, core services inflation – which Banxico is paying close attention to amid worries about the persistence of inflation – rose to 5.3% y/y in October** (from 5.1% y/y in September).
- This, combined with **strong wage growth** and the resilience in the economy – the monthly IGAE activity index rose by a stronger-than expected 0.4% m/m in August – supports our view that Banxico will be the last major central bank in the region to turn to monetary easing. **We expect the first cut to be delivered in early 2024. And the risks are skewed towards the easing cycle being even more protracted than our above-consensus rate profile implies.**

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.
Jul.	4.8	6.8	8.0	5.3	-1.0	2.5	-3.9
Aug.	4.7	6.2	7.1	5.2	0.1	4.0	-3.1
Sep.	4.4	5.8	6.4	5.1	0.5	3.6	-2.2
Oct.	4.3	5.5	5.7	5.3	0.5	1.6	-0.5

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.

