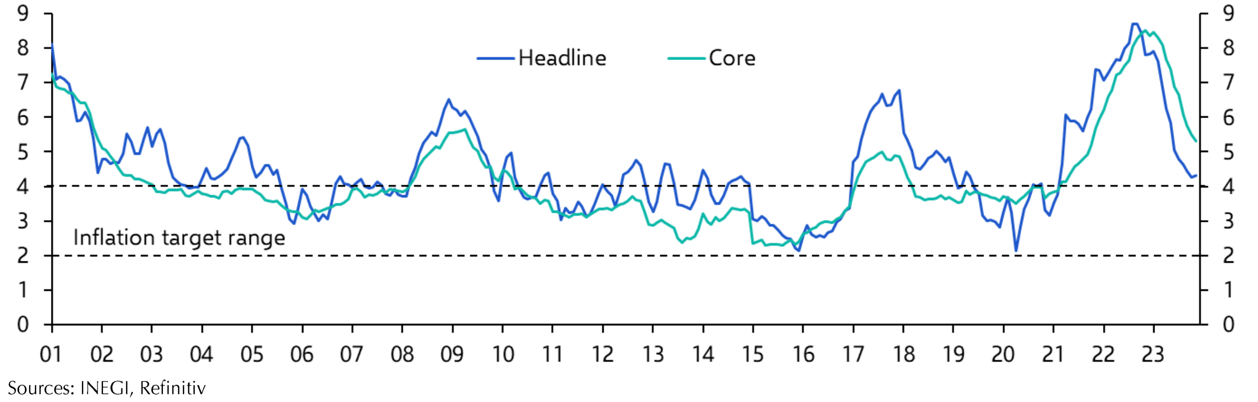
LATIN AMERICA RAPID RESPONSE

Mexico & Chile Consumer Prices (Nov.)

Stubborn services inflation means Banxico to tread slowly with cuts

- **Although Mexico's headline inflation rate was weaker than expected last month (at 4.3% y/y), uncomfortably strong services inflation supports our view that Banxico's easing cycle (likely to start early next year) will proceed more gradually than most expect. Elsewhere, inflation in Chile came in above expectations (at 4.8%) in November, but we still think a 75bp interest rate cut at the central bank meeting later this month is more likely than not.**
- The outturn in Mexico was a touch weaker than the Refinitiv consensus and our own projection for the headline rate to tick up to 4.4% y/y. Inflation remains slightly above the upper bound of Banxico's 2-4% tolerance band. (See Chart 1.)
- The breakdown showed that core goods inflation fell to a three-year low of 5.3% y/y. (See Table 1.) But this was offset by a pick-up in non-core inflation. **Core services inflation – which Banxico is paying close attention to – was unchanged relative to October but remained uncomfortably high at 5.3% y/y.**
- Strong services inflation is reflective of rapid wage growth. Banxico is still likely to begin an easing cycle in early 2024 but we think that rates will come down slowly. Our forecast is for the policy rate to be lowered to 9.25% by end-2024, from 11.25% now.
- **Elsewhere, inflation in Chile fell by less than expected, to 4.8% y/y, in November (from 5.0% y/y in October)**. The expenditure breakdown showed that inflation fell in most categories apart from recreation and culture. The stats office's press release noted that some non-core categories, in particular food and transportation, were the largest contributors to the headline rate.
- **This CPI print poses an upside risk to our interest rate forecasts, but we still think that it's most likely that the central bank (BCCh) will deliver a 75bp cut, to 8.25%, at its next meeting on 19th December**. After all, the factors that prompted policymakers to deliver a smaller-than-expected 50bp cut in October – the fall in the peso and the rise in US Treasury yields – have reversed.

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



Sources: INEGI, Refinitiv

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

	Headline	Core	Core Goods	Services	Non-core	Agricultural	Energy & Reg.
Aug.	4.6	6.1	6.9	5.1	0.4	3.9	-2.7
Sep.	4.5	5.8	6.2	5.2	0.6	3.2	-1.7
Oct.	4.3	5.5	5.6	5.3	0.6	1.6	-0.3
Nov.	**4.3**	**5.3**	**5.3**	**5.3**	**1.4**	**2.9**	**0.2**

Sources: Refinitiv, INEGI.

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