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## Latam Daily: Mexico CPI and Economic Activity Recap

- Mexico: Inflation in the first half of March exceeded expectations, highlighting the increase in services; IGAE for January showed sharp declines in primary activities, and a recovery in industry**

### MEXICO: INFLATION IN THE FIRST HALF OF MARCH EXCEEDED EXPECTATIONS, HIGHLIGHTING THE INCREASE IN SERVICES

In the first half of March, inflation rose to 4.48% from 4.35% (vs. 4.45% consensus), core inflation also increased from 4.69% to 4.66% (vs. 4.62% consensus). Merchandise declined to 3.96% (4.12% previously), and services rose 5.57% (5.31% previously). On the other hand, non-core inflation increased 3.84% (3.42% previously), highlighting agriculture, which rose 4.69% (3.86% previously). In its biweekly comparison, general inflation increased 0.27% (0.06% previously, 0.24% consensus), the underlying component 0.33% (0.19% previously, 0.25% consensus) and non-core rose 0.09% from -0.31%.

Now, inflation has been above 4.0% for 18 fortnights, affected by the rebound in the non-core component in agriculture, which can be affected by climatic effects. Now added to this complicated environment is the increase in the pace of energy prices and government rates (+3.12% y/y), which seemed not to change its trend since it presented negative annual change. On the other hand, we must not forget that much of this inflation resistance is attributed to the underlying component, which has barely been below 5.0% for 6 fortnights, with services leading these increases.

We expect that general inflation will continue to show irregular behaviour, with variations greater than 4.0%, in accordance with our forecasts, as long as climatic phenomena continue to affect agriculture and economic activity in Mexico remains strong, due to the expected increase in public spending, and pending any disruption in the global supply chain.

### IGAE FOR JANUARY SHOWED SHARP DECLINES IN PRIMARY ACTIVITIES, AND A RECOVERY IN INDUSTRY

In January, the Global Indicator of Economic Activity (IGAE) recorded a monthly decline of -0.6% m/m from 0.0% previously, the consensus expected an increase of 0.3%. Industry had a slower pace of 0.4% (-0.7% previously), services rebounded -0.5% (0.0% previously), and primary activities decreased -12.9% (6.8% previously). In its annual comparison, the index rose 2.0% y/y from 1.1% previously, although below the consensus

Chart 1

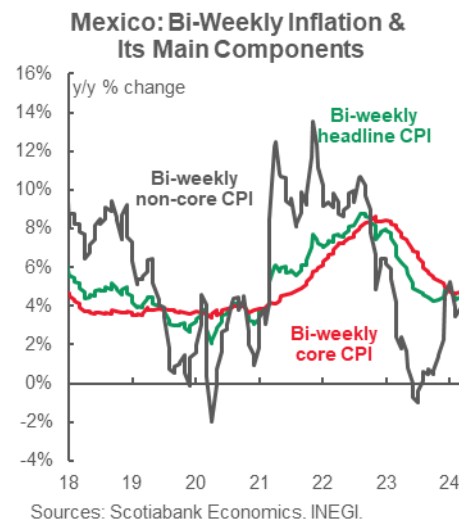
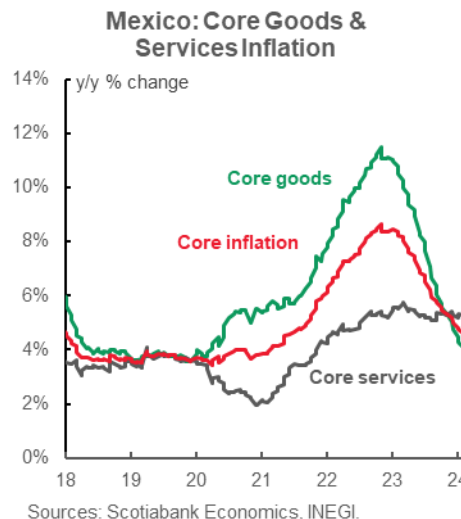


Chart 2



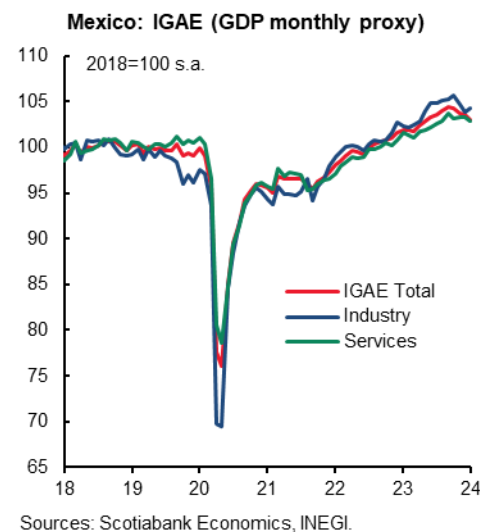
March 25, 2024

of 2.6%. By sector, industry increased 2.9% (0.0% previously), with manufacturing rising 0.1% (-4.0% previously), and construction showed higher growth of 17.9% (14.8% previously). Services rose 2.2% (1.5% previously), with retail increasing 3.1% (0.7% previously), and wholesale at a pace of 3.2% (4.0% previously). Finally, primary activities had a sharp drop of -9.1% (3.5% previously).

The increases in the industry have come from the construction side, which has maintained double-digit increases for nine months, as seen in the industrial production data. This strength will continue until the most emblematic government projects come to an end; at which time the increases will be smaller. On the other hand, manufacturing should regain its strength as nearshoring investments are made.

On the services side, despite its annual increase, the monthly data showed a contraction, affected by wholesale trade (-2.3% m/m), business support (-14.4%), recreation (-5.7 %), among others. However, we hope that the sector can recover in line with the expected strength of economic activity expected in 2024, which has been revised upwards in surveys, so analysts are now forecasting growth of 2.4% in 2024.

Chart 3



—Brian Pérez

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