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GLOBAL ECONOMICS

LATAM DAILY

November 24, 2023

Latam Daily: Mexico Releases Banxico Minutes and Inflation Data

- **Mexico: Banxico minutes stands for a first cut in 2024Q1, but Deputy Governor Espinosa calls for caution; Inflation rebounded in the first half of November; services continue to persist**

MEXICO: BANXICO MINUTES STANDS FOR A FIRST CUT IN 2024Q1, BUT DEPUTY GOVERNOR ESPINOSA CALLS FOR CAUTION

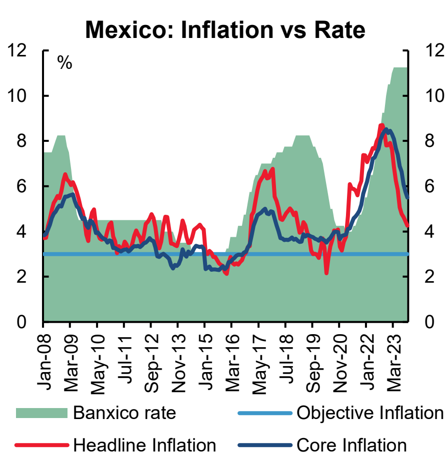
Banxico minutes for November's monetary policy meeting showed a more dovish tone than statement. Several members were of the opinion that the disinflationary process is in a better position than a year earlier, despite uncertainty and a still upwardly biased balance of risks. Overall, the consensus of the Governing Board considers it appropriate to begin the downward cycle gradually in the first quarter of next year, in line with private expectations. However, we highlight the dissenting opinion of Deputy Governor Irene Espinosa, who advocates maintaining a cautious tone in a scenario in which inflation risks have increased in recent months.

Regarding the current economic outlook, members highlighted the behaviour of inflation since the second half of 2022. In this regard, some members recalled the different trends in the core components, where merchandise has presented a straight decline, but services presented a marked stickiness, and a rebound in the latest prints. Most members continue to expect inflation to converge to target in the second quarter of 2025. Despite this, the Board considered that the balance of risk remains skewed to the upside.

Members had different opinions on changes in the balance of risk; Deputy Governor Espinosa based her dissenting opinion on the strength of economic activity, the cyclical position of the economy, the tightening of the labour market, the persistence of core inflation, the recent upward trend in non-core inflation, inflation expectations above the target, and a procyclical fiscal policy, all of them increasing the bias at the time of the meeting. On the other hand, another member considered that the balance has improved with respect to March. Another member, in a more dovish tone, argued that classifying the balance of risks as biased to the upside at the current environment implies that inflation could decline more gradually than expected, while last year, the balance of risks implied the possibility of greater increases in inflation.

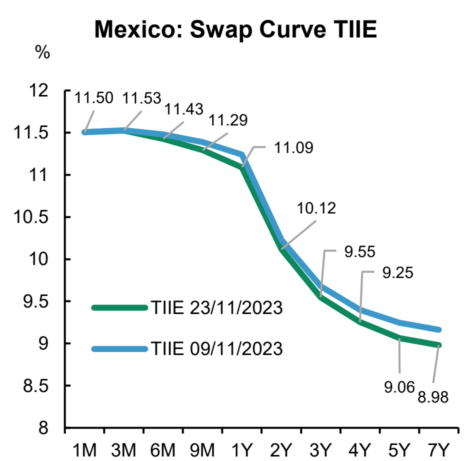
Regarding forward guidance and the future of monetary policy, most members considered that the first interest rate cut could take place in the first quarter of 2024. In addition, there was some consensus regarding the uncertainty in the outlook, so several

Chart 1



Sources: Scotiabank Economics, INEGI,

Chart 2



Sources: Scotiabank Economics, Bloomberg.

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members considered important to remember that future decisions will remain data-dependent, as adjustments could be gradual and spaced as inflation could present setbacks in a still complicated outlook. Some members also pointed out that the lack of coordination between fiscal and monetary policy could delay the effects of the restrictive stance and complicate the normalization of monetary policy.

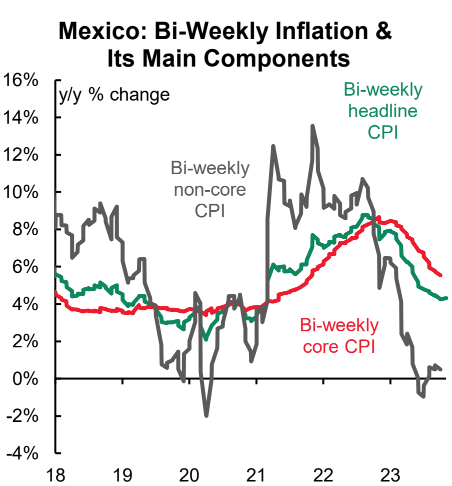
Lastly, we agree with Deputy Governor Espinosa's dissenting opinion, where she underlines that the disinflationary process has slowed down in the second half of the year, and stressed the importance of maintaining a cautious forward guidance in light of a still uncertain environment, and a balance of inflation risks more biased to the upside.

INFLATION REBOUNDED IN THE FIRST HALF OF NOVEMBER; SERVICES CONTINUE TO PERSIST

In the first half of November, inflation edged up to 4.32% y/y from 4.27% y/y (vs. 4.31% consensus), see chart 3, while core inflation slowed down from 5.54% y/y to 5.31% y/y (vs. 5.33% consensus). Merchandise decelerated 5.32% y/y (previously 5.55%), and services 5.28% y/y (previously 5.35%), see chart 4. On the other hand, non-core inflation increased 1.41% y/y (0.64% previously), see chart 5, highlighting energy and government tariffs, which rose for the first time in 15 months at 0.05% y/y (-0.19% previously). In its biweekly sequential comparison, headline inflation increased to 0.63% 2w/2w (0.13% previously, 0.58% consensus), while the core component rose 0.20% 2w (0.18% previously, 0.21% consensus) and the non-core 1.96% from 0.0%.

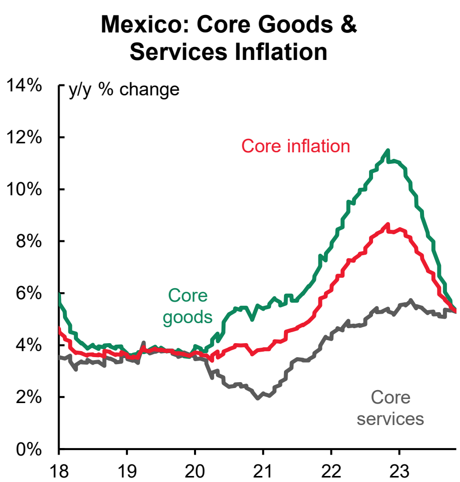
During the year non-core months have contributed significantly to the headline inflation downwards trends (chart 3 again), however, looking at recent setbacks, we consider that non-core items could pose some problems in the short term, owing to occasional setbacks in headline inflation, as core inflation could face some stickiness although still with a downward trend (chart 4 again). These results reinforce the perspective that we have presented for a few weeks on a rebound in inflation by the end of the year, hoping that it will be reflected in the upcoming monthly prints, due to increases in non-core inflation.

Chart 3



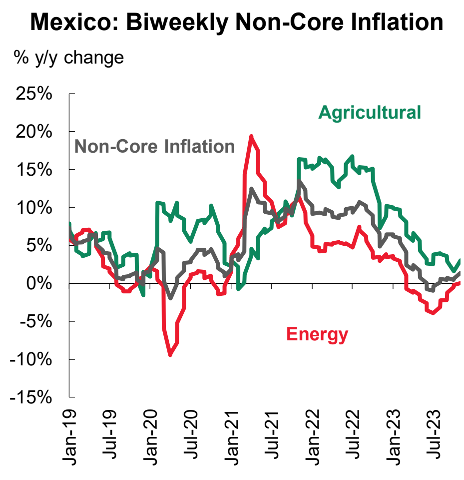
Sources: Scotiabank Economics, INEGI.

Chart 4



Sources: Scotiabank Economics, INEGI.

Chart 5



Sources: Scotiabank Economics, INEGI.

—Miguel Saldaña & Brian Pérez