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Latam Daily: Mexico H1-October CPI Rises; Retail Sales Decline in August

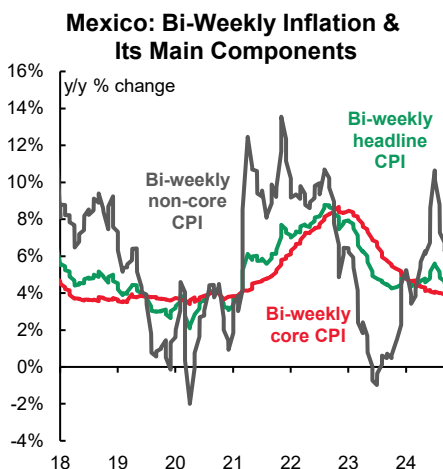
- **Mexico:** In the first half of October, headline and core inflation rose more than expected, but we still expect a cut by Banxico in November; Wholesale and retail sales in August suggest greater weakness in consumption

MEXICO: IN THE FIRST HALF OF OCTOBER, HEADLINE AND CORE INFLATION ROSE MORE THAN EXPECTED, BUT WE STILL EXPECT A CUT BY BANXICO IN NOVEMBER

In the first half of October, inflation rose to 4.69% from 4.50% (vs. 4.66% consensus) as a result of greater pressures from the non-core component. In detail, it stands out that core inflation remains almost at the same level as the last two weeks of September at 3.87% from 3.88% (vs. 3.82% consensus), as a result of slight declines in merchandise (2.89% from 2.90% previously), and in services (5.03% from 5.05% previously). On the other hand, non-core inflation rose to 7.17% (6.28% previously), highlighting agriculture, which rose to 9.66% (7.02% previously). In its biweekly sequential comparison, general inflation increased 0.43% (-0.02% previously, 0.39% consensus, based on the Citibanamex Survey), the underlying component increased 0.23% (0.05% previously, 0.18% consensus) and non-core inflation showed a significant increase of 1.08% (-0.23% previously), see chart 1.

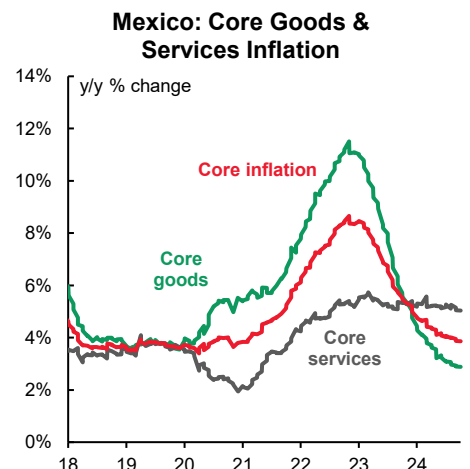
The data show a greater-than-expected rebound, generating uncertainty about the trajectory of inflation, since internal demand has not fallen enough, and goods and services are falling slowly, due to effects of natural phenomena, which contributes to volatility in agricultural prices (chart 2). Although prices have picked up, we maintain our call of a 25 basis point rate cut at the November Banxico meeting, hence the central bank reference interest rate will be set at 10.25%.

Chart 1



Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

WHOLESALE AND RETAIL SALES IN AUGUST SUGGEST GREATER WEAKNESS IN CONSUMPTION

In August, retail sales fell by -0.8% y/y, compared to -0.6% in July. By components, grocery and tobacco trade stood out with an increase of 7.1% (5.5% previous), while textiles decrease -2.0% (-3.1% previous), health care drops -1.5% (-1.3% previous), and online sales slow down to 8.1% from 33.0% in July. On a monthly comparison, retail sales increased by 0.1% (0.7% previous), although with declines in six of its nine components.

Annually, wholesale trade suffered a decline of -8.7%, from the previous -3.3%, with five of its seven components in negative, adding up to eight consecutive declines. The most pronounced drop was observed in pharmaceuticals and entertainment, with -14.7% (-7.9% previous), while the largest increase was in intermediation with 5.3% (-8.5% previous), see table 1. Monthly, wholesale sales increased by 0.9%, from the previous 1.6%. These figures reinforce a weak outlook due to a trend of moderation in consumption and declines in investment.

Table 1: Mexico—Retail and Wholesale Sales

Sector/ Subsector	% real annual				% monthly s.a.	
	Aug		Jan-Aug		Jul	Aug
	2022	2023	2022	2023		
1. Retail	2.7	-0.8	4.5	-0.3	0.7	0.1
2. Groceries, food and drinks	2.6	7.1	4.5	4.4	1.7	0.7
3. Self-service and department stores	8.9	-2.1	9.2	-0.4	-0.6	0.3
4. Textile, clothing and footwear products	11.2	-2.0	17.7	-6.3	0.3	-0.2
5. Health care	1.4	-1.5	4.2	-2.2	2.1	-0.9
6. Stationery and entertainment items	5.0	-2.2	6.1	-7.3	5.2	0.6
7. Household goods and computers	5.8	2.7	1.4	2.1	8.0	-0.8
8. Hardware items	-1.8	-6.3	-1.9	-4.4	3.7	-0.6
9. Motor vehicles, spare parts and fuels	-5.3	-1.5	-0.8	1.1	-0.4	-2.1
10. Internet commerce and catalogs	32.5	8.1	14.2	12.6	17.7	-5.9
11. Wholesale	2.7	-8.7	-1.1	-5.8	1.6	0.9
12. Groceries, food and drinks	-1.4	1.0	-1.9	0.1	-1.9	4.5
13. Textile, clothing and footwear products	-16.8	-9.0	2.9	-10.0	9.3	-3.9
14. Pharmaceutical products, perfumery, leisure items.	14.1	-14.2	10.1	-9.1	1.2	-2.2
15. Agricultural and forestry raw materials	0.4	-12.2	-5.6	-8.1	2.4	1.3
16. Machinery, equipment and furniture	13.8	-5.8	11.1	-2.6	-2.4	-0.2
17. Trucks and new car parts	22.3	-4.3	24.4	-6.9	9.2	-6.3
18. Intermediation	6.0	5.3	11.2	3.9	7.6	3.0

Sources: Scotiabank Economics, INEGI.

These figures indicate weakness in consumption, reflecting economic pressures to the downside and the high degree of uncertainty affecting Mexican households and businesses in the second half of the year. The persistent decline in wholesale sales could anticipate greater weakness in consumption, also affected by increased pessimism among investors and a certain degree of risk aversion in an uncertain environment, given that the wholesale sector is an early indicator of demand in the supply chain.

—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña

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