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GLOBAL ECONOMICS

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Latam Daily: Mexico Inflation Surprises Downward While November GDP Rebounds

- **Mexico: Although inflation surprises on the downside, basic prices rebound in the first half of January; Monthly GDP showed a rebound in November, despite the annual slowdown**

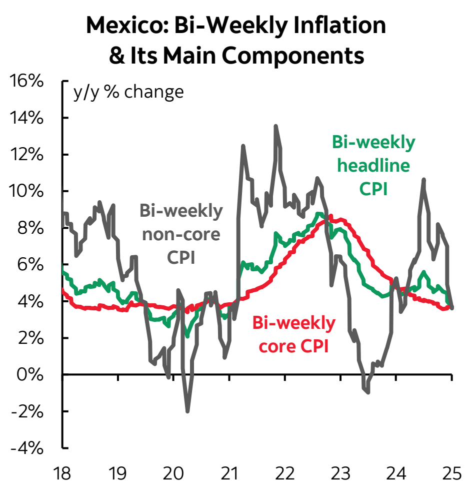
MEXICO: ALTHOUGH INFLATION SURPRISES ON THE DOWNSIDE, BASIC PRICES REBOUND IN THE FIRST HALF OF JANUARY

During the first half of January inflation decelerated more than expected to 3.69% from 3.99% (vs. 3.76% consensus from the Citi Survey), placing itself for the second consecutive reading within Banco de México's inflation target rate. However, core inflation picked up to 3.72% from 3.69% (vs. 3.67% consensus) as a result of an increase in the goods component to 2.75% (2.50% previously), while services continued to decrease to 4.82% (4.99% previously). On the other hand, non-core inflation slowed down to 3.60% (4.91% previously), with agricultural products decelerating to 1.06% (4.54% previously) due to better climate conditions, while energy and government tariffs stood at 5.41%. In biweekly terms, headline inflation rose to 0.20% (0.04% previously, 0.27% consensus from the Citi Survey), the core component increased by 0.28% (0.06% previously, 0.23% consensus), and non-core inflation fell by -0.04% (-0.02% previously). Although we believe inflation risks remain biased to the upside (highlighting the potential impact of tariff measures between Mexico and the U.S. and price pass-through due to greater depreciation), this inflation reinforces Banxico's intentions to increase the magnitude of the benchmark interest rate cut, from 25 to 50bps, at the February 6th Monetary Policy meeting, hence Banxico's reference interest rate could go from 10.0% to 9.50%. Although the 3-month implied rate stands at 9.38% and converges to a 9.25% rate in March, which implies one cut of 50bps and another of 25bps, we maintain a year-end rate of 8.50% as setbacks in headline inflation are still on the table (chart 1).

MONTHLY GDP SHOWED A REBOUND IN NOVEMBER, DESPITE THE ANNUAL SLOWDOWN

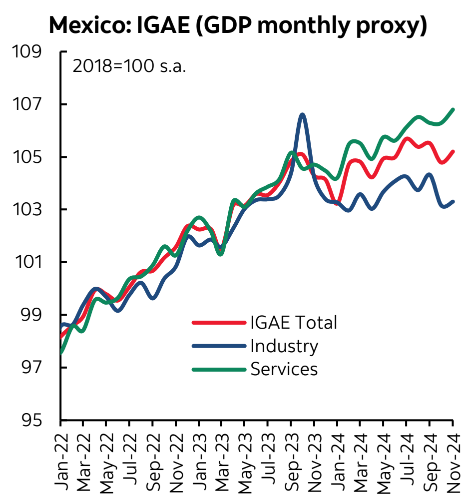
In November, the Global Indicator of Economic Activity (IGAE) slowed to an annual growth rate of 0.5%, compared to 0.8% in the previous month. By components, industry fell by -1.4% (-2.1% previously), due to weakness in manufacturing (-0.2%), a sharp decline in construction (-4.2%), and mining (-4.7%). Services also showed a slowdown, from 2.7% to 1.6%, with wholesale trade falling by -1.0% and retail trade slowing to 3.6%. The largest increase was observed in professional services, with growth of 8.2%. Primary activities rebounded by 0.2% (-4.8% previously) (chart 2).

Chart 1



Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

In seasonally adjusted monthly terms, the IGAE rebounded by 0.4%, with a slight increase in industry (0.1%) and a decline in primary activities (-1.4%), while services rose by 0.5%. From January–November 2024, the IGAE showed an increase of 1.6% compared to the same period of the previous year. In the coming months, the pace of economic activity is expected to continue slowing due to weaker consumption and increased uncertainty, which could impact industrial sector investment, leading to further downward revisions in growth expectations for 2025. Addressing structural issues in the industrial sector and improving business confidence will be crucial for maintaining long-term economic stability. It will be important to monitor the development of commercial activity between Mexico and the United States, as the imposition of tariffs could affect key sectors.

—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña