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Latam Daily: Mexico Biweekly Inflation in December; October Economic Activity Index

- **Mexico: Inflation cools in H1-December but upward trend continues; economic activity index for October**

MEXICO: INFLATION COOLS IN H1-DECEMBER BUT UPWARD TREND CONTINUES; ECONOMIC ACTIVITY INDEX FOR OCTOBER

I. Inflation moderated unexpectedly in first half of December, but core inflation still on an upward trend

According to data released on December 23 by Statistical Agency [INEGI](#), headline inflation surprised to downside in the first half of December, moderating to **7.45% y/y from a previous 7.70% y/y (and 7.70% y/y expected by the consensus)**. However, the upside trend in core inflation remains, edging up from 5.80% y/y to 5.87% y/y, its highest pace since 2001. Merchandise prices moderated from 7.44% y/y to 7.26% y/y but services prices grew from 3.98% y/y to 4.32% y/y. The non-core component meanwhile presented a lower pace, as it moved from 13.55% y/y to 12.34% y/y. In particular, energy and regulated prices moderated from 11.38% y/y to 9.33% y/y, but food stood at 16.30% y/y (vs. 16.37% y/y previously).

On its fortnight sequential comparison, headline inflation cooled from **0.51% 2w/2w to 0.10% 2w/2w (0.32% consensus)**. The core item moved up to 0.59% 2w/2w from 0.23% 2w/2w previous, its highest pace for any first half of December since 1998, led by a 0.60% 2w/2w increase in merchandise item (0.28% 2w/2w previous), and 0.57% 2w/2w in services (vs. 0.17% 2w/2w previous). On the other hand, non-core inflation dropped from 1.34% 2w/2w to -0.129% 2w/2w, its lowest for any first half of December on record, as energy prices dropped 1.42% 2w/2w (0.10% 2w/2w previous), and food fell 1.4% from a previous 3.20%.

Despite this result, we expect an upward bias to our forecast of 7.4% CPI for 2021, as the core item is still on an upward trend and supply shocks remain. Moreover, an increase in demand of services over the holiday season could yet add more pressure on inflation.

II. Economy activity fell for the third consecutive time, below pre pandemic levels

Also according to [INEGI](#), the Economic Activity Index (IGAE) fell for the third consecutive time in October by **-0.2% m/m, following a previous contraction of -0.4% m/m**. On this occasion, industry rebounded from -1.1% m/m to 0.6% m/m, but services fell for the fifth time, from -0.2% m/m to 0.5% m/m. Thus, the Index remains -3.9% below its level of February 2020. On an annual comparison, the IGAE dropped -0.7% y/y from 0.9% y/y. Despite recent results, we expect activity to rebound in the coming months, but with significant risk owing to the COVID-19 Omicron variant.

—Miguel Saldaña

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