

Latam Daily: Mexico Biweekly Inflation Cools/ Annual Above Target; Retail Sales Down

- Mexico: Biweekly inflation cools, but annual inflation likely to double CB's target; retail sales down

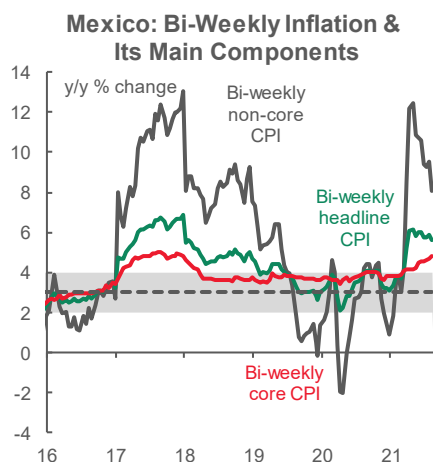
MEXICO: BIWEEKLY INFLATION COOLS, BUT ANNUAL INFLATION LIKELY TO DOUBLE CB'S TARGET; RETAIL SALES DOWN

I. Inflation remains close to 2X Banxico's target, but cooled off in the first half of August

According to data released on August 24 by Mexico's statistical [agency](#) (INEGI), during the first half of August, inflation retreated -0.02% q/q in its biweekly change from $+0.24\%$ q/q the previous fortnight, falling below the $+0.09\%$ q/q estimated by the median of analysts participating in the Citi survey. On a year-over-year basis, headline inflation came in at $+5.58\%$ y/y, below the $+5.70\%$ y/y anticipated by the market and a deceleration from the previous $+5.86\%$ y/y (chart 1). Our forecasts suggest that inflation is set to remain out of range for the remainder of 2021 and will end the year closer to 6.0% , nearly double the central bank's target of 3% . This will likely push Banxico to further increase by 75 bps the policy rate and close the year at 5.25% . Into the second half of the year, we expect pressures from energy and agricultural prices to be replaced by services price inflation.

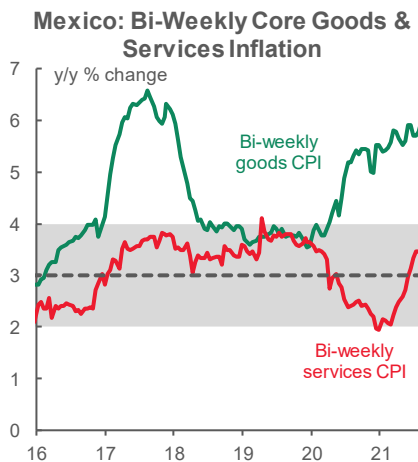
Core inflation continued its upward trend and advanced $+0.28\%$ q/q, from a previous $+0.13\%$ q/q and exceeding the consensus $+0.20\%$ q/q. In its annual variation, core inflation accelerated from 4.68% y/y to 4.78% y/y, pressured by changes in consumption dynamics that favor essential goods such as food ($+6.45\%$ q/q) and non-food merchandise (5.49% q/q) over services ($+3.44\%$ q/q) (chart 2).

Chart 1



Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

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On the other hand, non-core inflation showed some signs of easing, decreasing -0.92% q/q, driven by the drop in energy prices (-3.60% q/q), as a result of the government’s strategy to implement some temporary price controls on domestic LP gas. In its annual comparison, inflation decelerated to 8.08% y/y from the previous 9.55% .

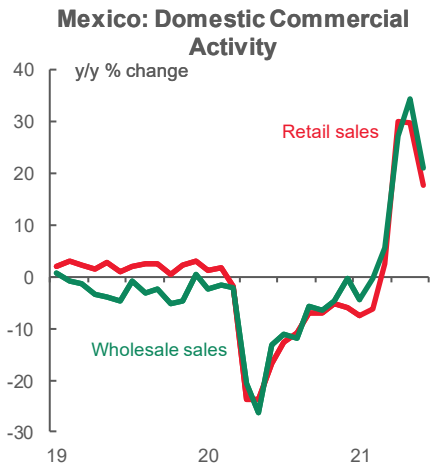
—Paulina Villanueva

II. Retail sales down as base effects dissipate and given relatively weaker dynamics

INEGI also released on August 23, the results of retail and wholesale sales for the month of June, which both decreased on a monthly basis. The data revealed that retail sales fell -0.6% m/m from the previous $+0.5\%$ in May. On a y/y basis, they moderated to $+17.7\%$ y/y, below the consensus estimate of $+20.4\%$ y/y from the $+29.7\%$ y/y increase in May (chart 3). This lower annual pace shows signs of dissipating base effects (retail sales declined by -16.7% y/y in June 2020), but also by relatively weaker dynamics in the commercial sector this year. On the other hand, wholesale sales fell -0.1% m/m in June, after advancing $+1.2\%$ m/m in May. In annual terms, wholesale trade grew 21.0% , which compares with the 34.3% y/y rise observed a month earlier and with the -13.1% drop in June 2020. For the following month, a higher contagion rate could pose some risk to retail sales, in line with the cooled consumer confidence in July. However, the outlook for retail and wholesale sales remains positive as jobs and economic activity continue their path to recovery.

—Miguel Saldaña

Chart 3



Sources: Scotiabank Economics, INEGI.

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