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# Latam Daily: Mexico Economic Indicators—December CPI and Auto Sector

- **Mexico: December inflation and impact on February rate decision; supply constraints prevail in auto sector**

## MEXICO: DECEMBER INFLATION AND IMPACT ON FEBRUARY RATE DECISION; SUPPLY CONSTRAINTS PREVAIL IN AUTO SECTOR

I. Inflation closed 2021 below what was expected by the consensus; pressures, however, remain in the core component

According to statistical agency, **INEGI**, Mexico's annual headline inflation stood at **7.36% y/y**, slightly below November's **7.37% y/y** (its highest rate since 2001) and below the expected **7.44% y/y** of the consensus (chart 1). We maintain our forecast of a 25 bps hike at the upcoming monetary policy meeting in February.

An upward trend in the core inflation remained, as it ended 2021 at **5.94% y/y**—its highest pace since 2001—up from **5.89% y/y** expected by the consensus and the previous month's **5.67% y/y**, as merchandise inflation accelerated from **7.24% y/y** to **7.40% y/y** while services inflation accelerated from **3.92% y/y** to **4.20% y/y** (chart 2).

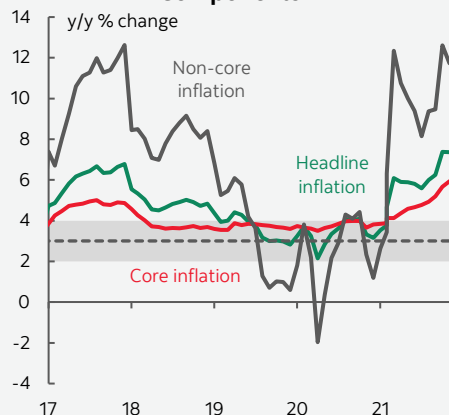
Non-core inflation decelerated from **12.81% y/y** to **11.74% y/y** owing to a moderation in energy and tariffs from **11.26% y/y** to **8.68% y/y**, although with an increase in food prices from **14.36% y/y** to **15.78% y/y**.

Looking to sequential monthly numbers, price dynamics moderated from **1.14% m/m** in **November** to **0.36% m/m**, below the consensus of **0.45%**. However, pressures in the core component picked up, accelerating from **0.37% m/m** to **0.80% m/m** (versus an expected **0.76% m/m**), its fastest pace since January 2014, as merchandise rose from **0.31% m/m** to **0.91% m/m** and services increased from **0.43% m/m** to **0.68% m/m**. At the same time, the non-core component fell from **3.45% m/m** to **-0.90% m/m**, as energy dropped **-2.30% m/m** from **3.69% m/m** previously, and food prices fell from **4.48% m/m** to **-0.08% m/m** (chart 3).

December's results benefitted from a slower pace in non-core inflation, however, pressures in the core component maintained an upward trend. According to the minutes of the monetary policy meeting, inflation remains with significant upside risks. Thus, for the next policy meeting in February, with the first participation of Governor

Chart 1

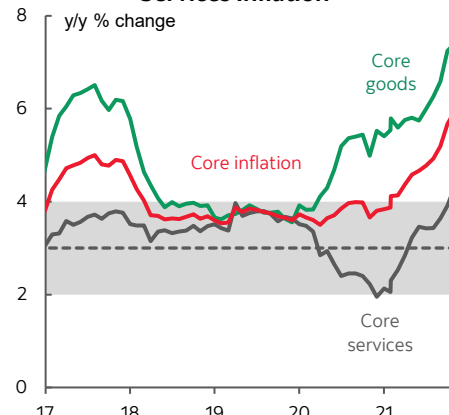
Mexico: Headline Inflation & Its Main Components



Sources: Scotiabank Economics, INEGI.

Chart 2

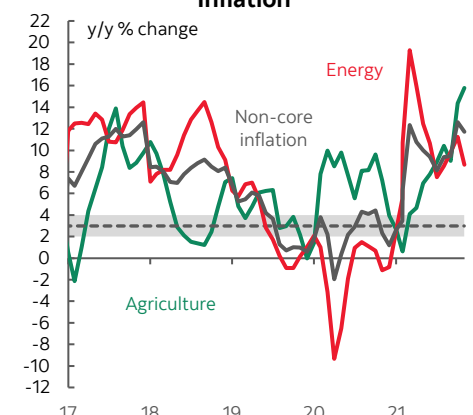
Mexico: Core Goods & Services Inflation



Sources: Scotiabank Economics, INEGI.

Chart 3

Mexico: Non-Core Components Inflation



Sources: Scotiabank Economics, INEGI.

Rodriguez Ceja, we maintain our outlook of a 25 bps hike, although with a significant risk of repeating a 50 bps hike and then continuing with 25 bps hikes. In this sense, we maintain our outlook for a terminal rate at 6.25%.

**II. Auto sector with prevailing supply constraints in December**

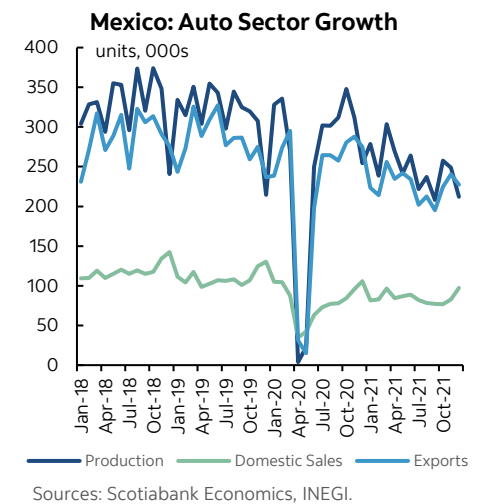
Also released by INEGI on Friday (January 7), were auto sector numbers for December, showing prevailing pressures on the supply side, but better numbers in domestic sales during the holiday season. Production deepened its monthly decline from -3.4% m/m to -14.7% m/m, while exports fell from 7.0% m/m to -5.4% m/m (chart 4), reflecting the persistent problems in the value chains, although December is typically a slow month for the auto production due to the holiday season. Domestic sales contrast with a 17.5% m/m increase from 8.1% m/m previously, in line with an increase in consumption in the holiday season.

In its annual comparison, production attenuated its decline from -20.3% y/y to -16.5% y/y, but exports deepened their drop from -16.5% y/y to -17.3% y/y. Domestic sales moderated their decline from -13.5% y/y to -7.8% y/y. Thus, production accumulated 2.979 mn assembled units in 2021, equivalent to an annual drop of -2.0% y/y, while exports totaled 2.706 mn units, representing an annual increase of just 0.9% y/y, while domestic sales accumulated 1.014 mn units, up 6.8% y/y. However, in comparison to 2019 levels, production presented an accumulated drop of -21.8% y/y, exports of -20.1% y/y, and sales of 23.0% y/y, reflecting an incomplete recovery, affected on the supply side by disruptions in the production chains, shortage of inputs, and a slow pace in recovery in domestic demand.

For the beginning of 2022, we expect a slow but positive pace in production exports and domestic sales, subject to high degree of uncertainty regarding capacity constraints, price dynamics, and possible impacts of the omicron waves in Mexico and with its trade partners.

—Miguel Saldaña

Chart 4



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