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Latam Daily: Chile GDP and Peru Inflation Recap

- **Chile: Non-mining GDP expanded 0.2% m/m, this time not due to supply factors**
- **Peru: Inflation slowing and approaching the target range**

CHILE: NON-MINING GDP EXPANDED 0.2% M/M, THIS TIME NOT DUE TO SUPPLY FACTORS

- **GDP recovers in a limited and heterogeneous manner: construction would have left the worst behind, while business services would continue to deteriorate**

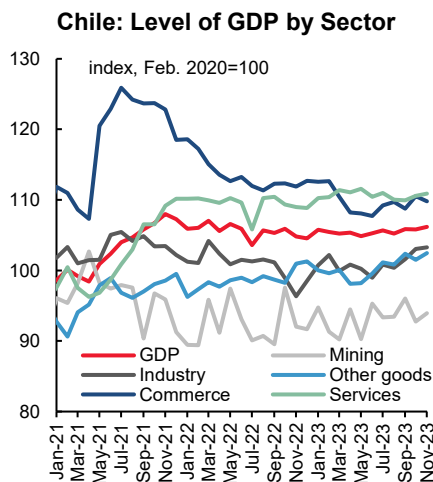
On Tuesday, January 2nd, the Central Bank (BCCh) released November GDP, which grew by 1.2% y/y (+0.3% m/m), in line with our forecasts (1.0%) and above market consensus (0.6% in the Economist Survey). In our view, November GDP is marginally positive, as only commerce, and we suspect also business services, show year-on-year and seasonally adjusted contractions. Within the latter, it is business services that are of most concern, as they are linked to the performance of private and public investment.

Mining GDP expanded by 1.3% m/m, while the rest of goods expanded by 0.9% m/m (chart 1), where at Scotiabank we believe there was a contribution from construction and electricity generation. With respect to construction, the sector's job creation figures would be part of this slight recovery (see our [Latam Daily](#)). Mining, within its characteristic volatility, presented a growth of 1.3% m/m, which leaves this sector with a level similar to that of January 2023.

Services confirmed a limited acceleration (chart 2), not in a generalized way, but due to a strong recovery of air transport where the utilization of installed capacities has exceeded even the pre-pandemic ones. Indeed, on the side of business services, linked to public and private investment, with no visibility for now in the November figures, we consider that the situation remains in frank deterioration approaching the levels of activity that this sector had in mid-2021. Thus, we estimate that business services would have experienced a year-on-year contraction of between 5% and 7% in November. Encouraging news on the investment side is seen in a significant recovery in the execution of capital spending by the government, where an important acceleration is observed. This could continue during Q1-24 given the high levels of under-execution and the government's renewed interest in accelerating investment.

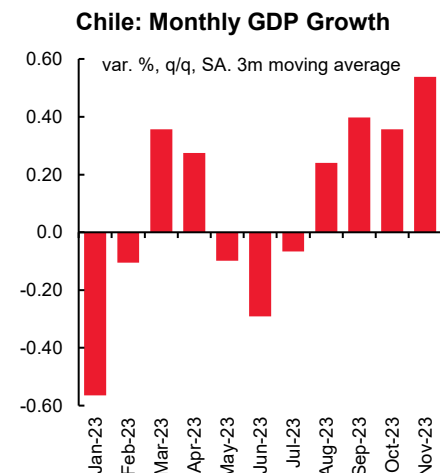
Regarding the baseline scenario for 2023 GDP growth, it would be close to confirming the Central Bank's scenario of zero growth. Consequently, we do not see material impacts on the monetary policy outlook by the BCCh.

Chart 1



Sources: Scotiabank Economics, BCCh.

Chart 2



Sources: Scotiabank Economics, BCCh.

—Aníbal Alarcón

PERU: INFLATION SLOWING AND APPROACHING THE TARGET RANGE

Lima’s CPI rose +0.41% m/m in December, above what was expected by the market consensus (+0.31% according to a Bloomberg survey), Scotiabank (+0.26% according to our latest update) and the historical average of the last 20 years (+0.29%). With this, year-on-year inflation continued to slow, going from 3.6% to 3.2%, reaching its lowest rate since June 2021 (chart 3).

Of the price increase in December, 43% was explained by the increase in poultry prices, due to seasonal factors at year-end. The rest of the food prices, mainly perishables, had a low incidence, in line with the lower probability of occurrence of a moderate El Niño scenario, which in the most recent reading went from 54% to 37%.

Core inflation increased 0.36%, in line with the historical average (0.37% in the last 20 years), decreasing in interannual terms from 3.1% to 2.9%, returning to the target range (between 1% and 3%) after 24 months of being away, in line with the expectations of authorities. With this, the BCRP has reinforced its message that inflation is under control. Inflationary pressures on costs remained low, with negative variations in December. The PEN appreciated in December, for the second consecutive month, accumulating an appreciation of 2% in 2023. As of December, there are 31 months in which inflation remains above the upper limit of 3% of the inflation target (table 1). Inflation at the national level (not just in Lima) went from 3.8% to 3.4%, exceeding Lima’s inflation for 28 consecutive months.

Looking ahead, we expect January inflation to remain around 3.2% y/y, as we do not see base effects with average inflation for January of 0.23% m/m. Our 2024 forecast of 3.5% is under review, considering that the probability of a moderate/strong El Niño event is decreasing, so the bias is downward. The BCRP reduced its inflation forecast from 2.4% to 2.3% for 2024 in its December report, maintaining a moderate El Niño scenario and with inflation expected by analysts of 3.1%. Lower inflationary pressures create room for the BCRP to continue its cycle of interest rate cuts. We anticipate a new cut of 25bps to 6.50% at its meeting on Thursday, January 11th.

Chart 3

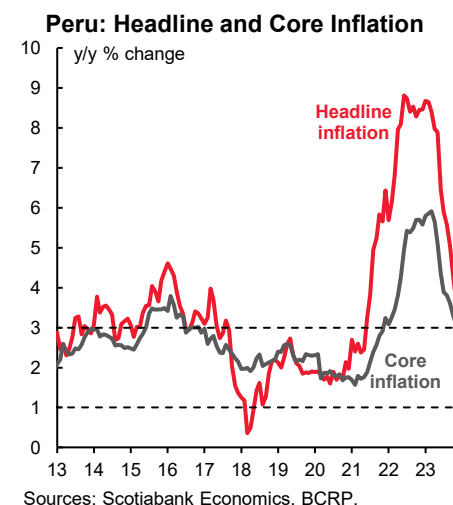


Table 1: Peru—Lima CPI Basket—December 2023

| Groups of consumption | Base 2021 | % m/m | % y/y |
|--|---------------|-------------|------------|
| 1. Food and non-alcoholic beverages | 22.97 | 0.79 | 3.7 |
| 2. Alcoholic beverages, tobacco, drugs | 1.61 | 0.23 | 3.6 |
| 3. Apparel and footwear | 4.20 | 0.18 | 2.9 |
| 4. Housing, water, electricity, gas and others | 10.55 | 0.02 | -1.9 |
| 5. Furniture and home maintenance | 5.11 | 0.06 | 1.9 |
| 6. Health | 3.48 | -0.03 | 2.4 |
| 7. Transport | 12.40 | 1.12 | 1.6 |
| 8. Communications | 4.77 | 0.01 | 0.1 |
| 9. Recreation and culture | 3.96 | 0.12 | 3.5 |
| 10. Education | 8.61 | 0.00 | 6.4 |
| 11. Restaurants & hotels | 15.89 | 0.25 | 6.5 |
| 12. Other goods and services | 6.47 | 0.18 | 4.3 |
| Total CPI | 100.00 | 0.41 | 3.2 |

*Adjusted base to 12 from 8 groups of consumption.
Sources: Scotiabank Economics, INEI.

—Mario Guerrero

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