Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Chile GDP and Peru CPI Recap

- **Chile: June GDP growth of 0.1% y/y but with (peculiar) seasonally adjusted 0.1% m/m increase in non-mining GDP**
- **Peru: Headline inflation under control, but core inflation remains persistent**

CHILE: JUNE GDP GROWTH OF 0.1% Y/Y BUT WITH (PECULIAR) SEASONALLY ADJUSTED 0.1% M/M INCREASE IN NON-MINING GDP

- **Another bucket of cold water for GDP growth**

June's GDP rise of 0.1% y/y is closer to our projection of 0.8% y/y but further away from consensus (Economists Survey: 1.7%; Bloomberg: 1.5%). In any case, for now, unless we see a strong recovery in the coming months, it is hard to see 2024 GDP growth within the range of the central bank's last IPoM (2.25–3.0%). This figure reaffirms our diagnosis that the BCCh would be weighting inflation somewhat more heavily in its monetary policy decision than the output gap. We suspect that there is particular caution ahead of the July CPI.

Undoubtedly, weather (supply) factors would be behind this lower year-on-year growth in May and June, which are markedly below ours and the central bank's baseline scenario. A third consecutive seasonally adjusted quarterly decline in construction stands out. On the positive side, commerce shows a strong recovery, reaching levels observed at the beginning of 2023 (chart 1).

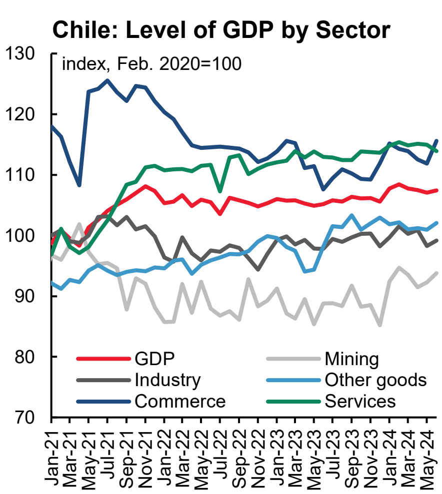
There was a particularly anomalous calendar effect (chart 2), with a particularly low seasonal factor and high dynamism in non-mining sectors. Although this is a statistical effect that has to do with the difficulties the BCCh has had in measuring seasonality this year, it suggests being careful when evaluating the dynamism of activity at the margin, especially at the sector level. In view of the above, the weakness of the economy is due to one-off supply factors, but with a permanent effect on GDP.

—Aníbal Alarcón

PERU: HEADLINE INFLATION UNDER CONTROL, BUT CORE INFLATION REMAINS PERSISTENT

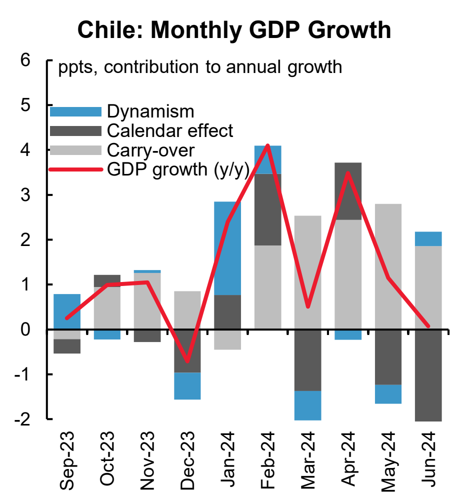
Headline inflation rose 0.24% m/m in July, below what was expected by the market consensus and the historical average of the last twenty years (+0.4%). That means that yearly inflation decreased from 2.3% in June to 2.1% in July. As of July, there have been four months in which inflation remains under the upper limit of 3% of the inflation target.

Chart 1



Sources: Scotiabank Economics, BCCh.

Chart 2



Sources: Scotiabank Economics, BCCh.

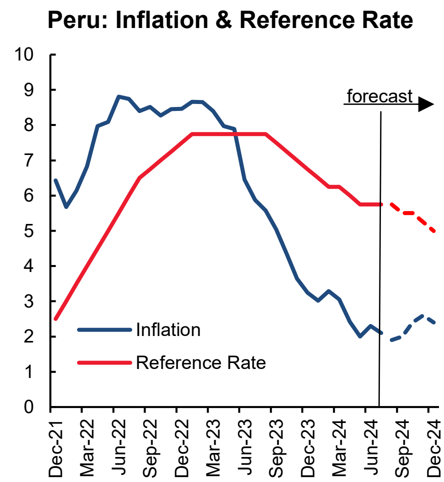
Core inflation, excluding food and energy, increased by +0.19%, below the historical average of the last twenty years (+0.4%). However, in year-over-year terms, it decreased slightly from 3.1% in June to 3.0% in July. This indicates that core inflation is still persistent, having remained around this level for the last six months without showing clear signs of easing.

The increase in headline inflation is mainly explained by a strong variation in corn prices (+46.6%), a correction in potato prices (+11.5%), an increase in chicken prices (+3.0%) and increased travel prices (+13.8%) due to the seasonal factor linked to the Independence Day holidays. On the other hand, the persistence of core inflation is mainly due to the services sector. National level inflation (not only in Lima) went from 1.9% to 1.8%, placing it within the inflation target range for the past seven months.

With this result, we maintain our baseline scenario of a moderation of general inflation to around 2% during the third quarter, followed by an increase to 2.4% at the end of the fourth quarter due to a base effect (chart 3).

—Ricardo Avila

Chart 3



Sources: Scotiabank Economics, BCRP