Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

November 11, 2024

Contributors

Juan Manuel Herrera
Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Jackeline Piraján, Head Economist, Colombia
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

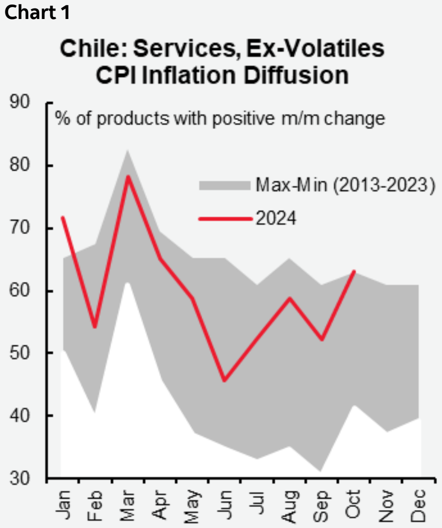
Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Aníbal Alarcón, Senior Economist
+56.2.2619.5465 (Chile)
anibal.alarcon@scotiabank.cl

Carlos Felipe Cruz, Intern
+57.601.745.6300 Ext. 1875 (Colombia)
carlos.cruz@scotiabankcolpatria.com

Chart 1



Sources: INE, Scotiabank Economics.

Latam Daily: Chile and Colombia CPI Recap

- **Chile: October CPI of 1% m/m (0.4% m/m ex-volatiles) points to greater prudence in monetary policy**
- **Colombia: Inflation surprises to the downside on lower food and electricity prices, but probably not enough to speed up easing cycle**

CHILE: OCTOBER CPI OF 1% M/M (0.4% M/M EX-VOLATILES) POINTS TO GREATER PRUDENCE IN MONETARY POLICY

- **BCCh will wait for confirmation in November CPI to verify second round effects of electricity rate hike. If confirmed, rate cutting would take a break.**

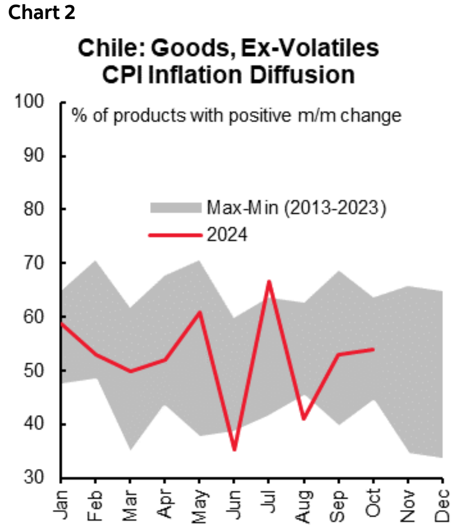
On Friday, November 8th, the INE released October CPI, which rose 1% m/m (4.7% y/y), significantly above market expectations of around 0.6% m/m. Core measures contribute to a somewhat less worrisome diagnosis, as the ex-volatiles CPI rises, above our expectations, but mainly affected by some food items that are part of this basket. This becomes clearer when we see that the CPI excluding food and energy rises much more moderately (0.2% m/m). However, it is precisely these goods that could be passing on the significant increase in costs resulting from the rise in electricity tariffs. Also with more caution, annual inflation for 2024 would end up somewhat above the central bank's baseline scenario of 4.5%.

Increases in food items stand out, which could be reflecting second round effects. This is the case of meats (4.6% m/m; +0.05 ppts), bottled water (15% m/m; +0.04 ppts), bread (0.9% m/m; +0.02 ppts), soft drinks (3.7% m/m; +0.04 ppts), among other domestically produced products where electricity represents a relevant component in their cost structure. Given that some of these foods are considered within the ex-volatile basket, they explain almost completely (+0.16 ppts) the incidence of the CPI of goods (ex-volatiles).

There is a worrying rise in services diffusion. The diffusion of the total CPI stood at 50.9%, while the diffusion of ex-volatile services was at the high end of its historical records (63%; chart 1). Despite the fact that services show increases of limited magnitude, their high diffusion is still a cause for concern, as it indicates fairly generalized increases in these products, which could be incipiently evidencing the expected second round effects generated by the electricity rate hikes. In the same line, the diffusion of goods increased to 53.9% (chart 2), especially due to increases in food prices.

Implications for monetary policy include awaiting verification of second round effects in November CPI. The reading of the October monthly reading is undoubtedly above the central bank's baseline scenario and contains some symptoms of possible second round effects of the increase in electricity tariffs, which, moreover, have a new and significant increase next January 2025. In this scenario, it is expected that the BCCh will be particularly attentive to November's monthly inflation record to better diagnose whether we are facing significant second round effects that would put in check a new cut in the policy rate on December 17th. Alternatively, if the November CPI shows reversals in the products most affected by the electricity rate hike, we should have a new 25bps cut, but we see no room for a larger dose of cuts.

Chart 2



Sources: INE, Scotiabank Economics.

—Aníbal Alarcón

COLOMBIA: INFLATION SURPRISES TO THE DOWNSIDE ON LOWER FOOD AND ELECTRICITY PRICES, BUT PROBABLY NOT ENOUGH TO SPEED UP THE EASING CYCLE

Colombia's monthly CPI inflation stood at -0.13% in October, according to data released on Friday, November 8th. The result was below analysts' average expectation of 0.17% m/m, according to the BanRep survey, and below Scotiabank Colpatria's expectation of 0.11% m/m. During October, the food inflation group posted a contraction of 0.76% m/m, while electricity fees continued decreasing. On the core side, price variations were relatively moderate, as is usual in a regular October, but there was also the disinflationary contribution from tradeable goods, especially vehicles and cell phones. Services inflation continued high, as indexation effects remain the main challenge, especially for rent fees. The headline annual inflation went down from 5.81% to 5.41% y/y, the lowest level since December 2021 (chart 3), while the core inflation ex-food decreased from 6.55% to 6.29%, the weakest since April 2022. Inflation in ex-food and regulated prices improved from 5.49% to 5.34%, still reflecting the stickiness of service prices.

October's result confirms that inflation in Colombia continues to decrease consistently; however, as October's disinflation was mostly concentrated on food and regulated prices, it is important to monitor how those dynamics evolve as the climatic events could reverse part of price reduction. It was good news having a CPI inflation below market expectations; however, due to the nature of the result, it could not be enough to motivate an acceleration in BanRep's easing cycle at December's meeting as the main concern that divides the board right now is around domestic and international uncertainty.

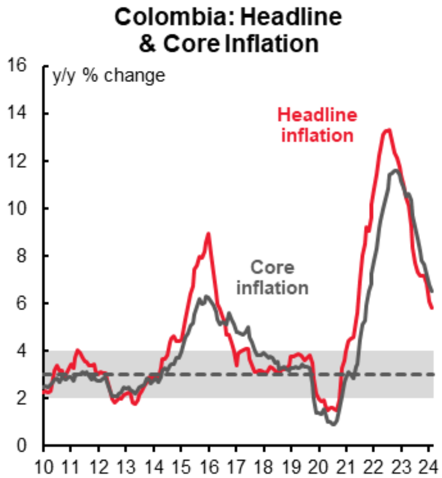
Regarding the minimum wage negotiations, October's data shows that the base to negotiate is 50% lower compared to the previous year. However, we have to monitor if business associations and labour unions reach an agreement or if the government should end up setting the increase at the end of the year. We expect a 50bps cut in December to 9.25%, and a potential acceleration could start in March when inflation could consolidate closer to the target range ceiling and when we expect to have more clarity about fiscal and international risks. We recently revised the terminal rate to the upside to 5.75% as the central bank staff estimates a higher neutral rate, but also because we now expect a rebound in the year-end inflation for 2025 given the low base effect surging from current downside surprises in 2024.

Highlights:

- **Three of the twelve CPI basket groups negatively contributed to inflation in October.** Food and non-alcoholic drinks contributed the most with -0.76% m/m variation and a contribution of -14bps (charts 4 and 5). Food inflation could still be affected by some statistical effects due to the truck driver strike early in September, that generated high bases for the fist part of October, however it could also be attributed to a seasonal low demand of products such as eggs that is usual during vacation times that happen in October. The food items that contributed most to the disinflation were tomatoes (-11.6% m/m), eggs (-0.72% m/m), cooking oils (-0.15% m/m), and onions (-14.25% m/m). The rest of the items posted very low variations.

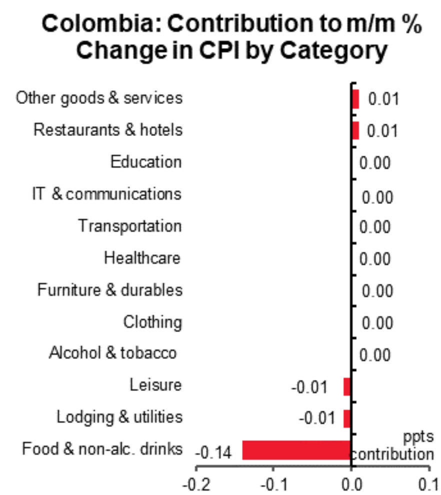
- **The lodging and utilities group was the second to contribute the most to the reduction in inflation.** The leisure group registered a variation of -0.04% m/m and a contribution of -1bp where the persistent effect on price indexation of past months on rental rates was offset by electricity and gas with a variation of -2.25% m/m and -0.49% respectively. Meanwhile other utilities such as water supply did not present any variation compared to September.

Chart 3



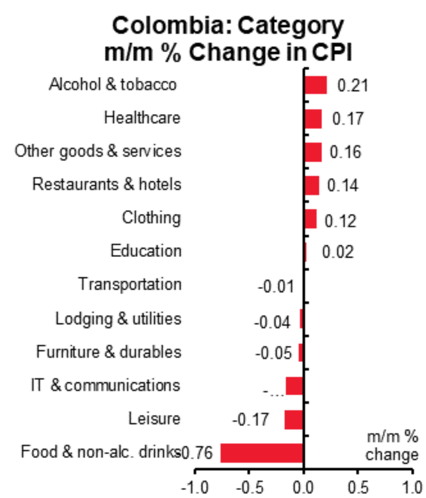
Sources: Scotiabank Economics, DANE.

Chart 4



Sources: Scotiabank Economics, DANE.

Chart 5



Sources: Scotiabank Economics, DANE.

- **Core inflation deceleration is still gradual.** Core inflation, excluding food and regulated prices, decreased by 15bps to 5.34 y/y. In this group, core inflation of goods continued decreasing from 0.60% y/y to 0.42% y/y in October, especially on tradable goods, something that could be interrupted due to recent FX volatility. The inflation of services went down from 7.48% y/y to 7.34% y/y, something that prevents BanRep from accelerate the easing cycle, and probably one of the explanations of why is key to monitor the minimum wage negotiation.
- **The minimum wage negotiation now has a base that is 50% lower versus the previous year.** In October 2023 inflation was around 10.50%, this time the 5.41% inflation set the probabilities of the minimum salary increase around 6.50% to 7.50%, which will contribute to continue seeing a disinflationary process on services in 2025.

—Jackeline Piraján & Carlos Felipe Cruz