Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

December 6, 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

Rodolfo Mitchell, Director of Economic and Sectoral Analysis
+52.55.3977.4556 (Mexico)
mitchell.cervera@scotiabank.com.mx

Brian Pérez, Quant Analyst
+52.55.5123.1221 (Mexico)
bperezgu@scotiabank.com.mx

Miguel Saldaña, Economist
+52.55.5123.1718 (Mexico)
msaldanab@scotiabank.com.mx

Latam Daily: Chile's CPI Up, Mexico Indicators Preview; Peru Raises 2024 GDP Forecast

- **Chile: November CPI of 0.2% m/m (4.2% y/y)**
- **Mexico: Easing inflation despite upside risks but weaker industrial production affected by uncertainties**
- **Peru: We are raising our 2024 GDP growth forecast to 3.2%**

CHILE: NOVEMBER CPI OF 0.2% M/M (4.2% Y/Y)

- **The way is paved for further cuts in the policy rate. For now, the second-round effects of electricity tariffs are being diluted by weak consumption.**

On Friday, December 6th, INE published the November CPI, which rose 0.2% m/m, slightly below market expectations (at 0.3%). This CPI is the last input of price dynamics for the December 17th monetary policy decision, where external financial conditions, GDP and local inflation together with moderate real CLP depreciation would support a further 25bps cut.

We were concerned about the second-round effects that had been observed in the elevated diffusions at the goods and services level in the October inflation record. However, the November CPI reveals a more benign scenario that would respond to weak consumption, the consequent margin compression and pressures from other stable costs, in particular the exchange rate which, although it has depreciated, has been mainly against the US dollar and not against other currencies. The way is paved to reduce the policy rate to 5.0%.

Inflationary diffusion is slightly above historical averages, although this is explained by goods, as we expected, and the behaviour of pre-Cyber goods. Diffusion in the total CPI increased to 53.7%, while diffusion at the ex-volatile CPI level declined to 54.1%. Within this, the diffusion of goods increased due to increases in prices of products linked to Cyber events, in the run-up to the Black Friday event that took place towards the end of November (chart 1). This situation also occurred in May and September, in the run-up to the Cyber events of the following months. As for the diffusion of services, a normalization is observed in this CPI (chart 2), which could be indicative of still-limited effects of the second round of electricity tariffs.

Chart 1

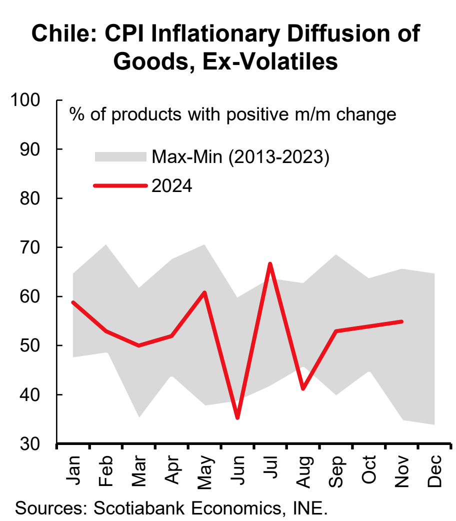
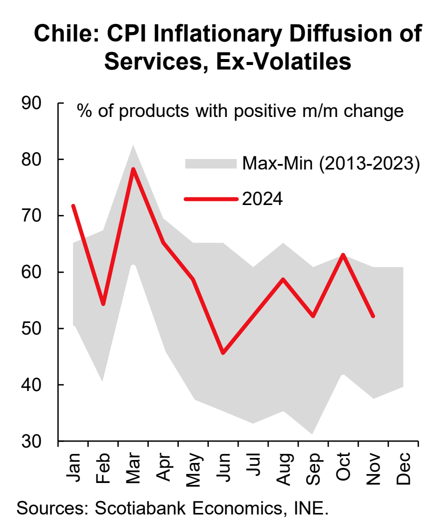


Chart 2



Rises in international air transport fares explained 54% of the total CPI. We could see a relevant reversal in the December CPI, placing it in negative territory. Although part of the increase in international fares could be explained by the 6% increase in the exchange rate during the INE price collection week (Wednesday of the week of the 15th), a significant part would be due to price increases prior to the launching of Black Friday offers, which began on November 27th for some airlines, so that these offers would not have been considered in the calculation of the CPI.

—Aníbal Alarcón

MEXICO: EASING INFLATION DESPITE UPSIDE RISKS BUT WEAKER INDUSTRIAL PRODUCTION AFFECTED BY UNCERTAINTIES

In the coming week, November's inflation data release will catch analysts' eyes as it will be the last update before the Bank of Mexico's monetary policy meeting on December 19th. Recapping the price dynamics throughout the year, headline inflation ended 2023 with significant increases in agricultural components owing to supply shocks from climatic events throughout the country. At the peak of the surge, fruits and vegetables reached 23% in July, pushing headline inflation to 5.57% y/y. Since then, both headline and agricultural inflation have eased more-than-expected, standing at 4.76% and 10.92% respectively in October. However, the chances of future disruptions in agricultural products remains, so analysts anticipate occasional spikes over the next year.

On the other hand, core inflation has maintained a consecutive downward trend throughout the year, reaching 3.80% y/y in October. Despite this, in the risk balance, the possibility of greater stickiness in core components, particularly in services, remains. Furthermore, in the coming months, the possibility of greater depreciation in the exchange rate, leading to price pass-through to consumers represents another surging risk in the outlook. This last one is especially linked to uncertainty around the future of trade policies in Mexico, the United States, and Canada, which could be inflationary, both due to the possibility of tariff impositions and the possibility of a complex and less friendly negotiation around the USMCA review.

With all this, we anticipate that in November, inflation will continue its downward trajectory, along with its core component, to stand at 4.58% y/y and 3.70% y/y respectively. In terms of monetary policy implications, the release will be relevant for possible changes in expectations around Banxico's monetary policy. According to the minutes, two members (Governor Rodriguez being one of them, along with possibly Deputy Governor Mejía) advocated for increasing the pace of rate cuts, despite the risk balance. Conversely, the other part of the board seems to maintain a data-dependent approach for upcoming meetings (especially in the first half of 2025, since everybody is already discounting another 25bps cut in December), so the inflation prints, with the development of its risk balance, will be crucial for the following meetings.

Another relevant indicator will be October's industrial production, where we believe the deterioration in construction and manufacturing will persist. Since June, heavy and civil engineering work has had significant annual setbacks owing to the completion of infrastructure projects from the previous administration, leading to declines in the construction component since August. In September, it fell by -2.3% y/y in real annual terms, with a weak outlook for the coming months due to increased uncertainty and lower public spending on infrastructure projects. Additionally, manufacturing has also experienced a clearer setback since August, in line with a cautious sentiment in the economic environment, despite diverse behaviour within segments. On the one hand, subsectors such as transportation equipment remained in positive territory during September (2.3% y/y, 1.7% YTD) despite signs of moderation. However, other activities such as machinery and equipment manufacturing have averaged a year-to-date cumulative annual decline of -5.0% YTD up to September.

Furthermore, uncertainty about the future of manufacturing trade conditions could have a greater impact in the short-term. Thus, we anticipate that in October, industrial production will present its third consecutive real annual setback, affected by lower levels of infrastructure construction and of high-export-profile manufacturing. However, thanks to the positive performance in the first months of the year, the annual cumulative number could remain in positive territory.

—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña

PERU: WE ARE RAISING OUR 2024 GDP GROWTH FORECAST TO 3.2%

We are raising our GDP growth forecast for 2024 from 3.0% to 3.2% (chart 3). The reason is twofold. First, the National Statistics Institute, INEI, has corrected past figures, raising GDP growth for the January–August period from 2.9% previously to 3.0% currently.

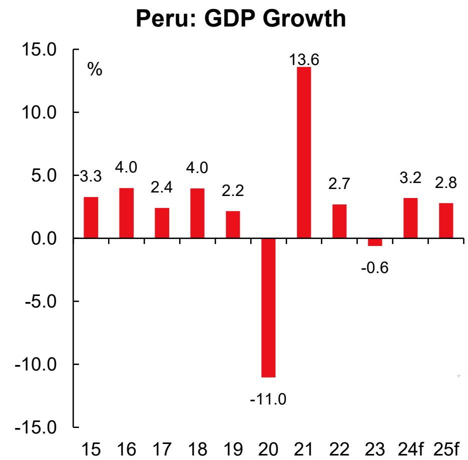
The other decimal point comes mainly from fishing, which is having a very strong season in Q4. Fishing GDP is extremely volatile, and magnitudes are difficult to anticipate. The month-to-month variation within Q4 is turning out to be huge. We already know that fishing GDP fell 48%, YoY, in October. But October was before the current fishing season began. The fishmeal-linked catch for November, the first month of the season, and for early December, is strong enough to not only make up for October, but, we believe, also to take fishing GDP growth to double-digit growth for the full quarter. As a result, we are raising our Q4 aggregate GDP growth figure from 3.3% to 3.8% (chart 4). This adds another decimal point to growth.

We are also heartened by the performance of domestic demand linked sectors in Q3. This was in line with 3.5% consumption growth in Q3. However, given that pension fund withdrawals funneled 2.4% of GDP worth of monetary resources into the hands of consumers in Q3, we need fourth-quarter data to ratify the magnitude growth in domestic demand linked sectors once the impact of pension funds on consumption is over.

All this with an eye on 2025. Our GDP growth forecast for 2025 continues to be 2.8%. One could argue that Peru is entering 2025 in greater strength than previously expected. Perhaps. At the same time, however the fishing season, which normally lasts into January, is currently so strong that little of the legally mandated fishing quota will be left over for January. Fishing is not likely to add to growth in early 2025 the way it has added in late 2024. Plus, raising our 2024 GDP forecast means that growth in 2025 will be off a higher base, such that, maintaining our 2.8% growth forecast means a level of GDP that is a bit higher than before, due to a higher base.

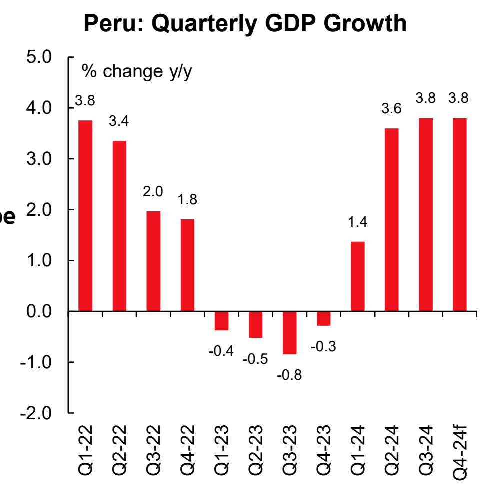
—Guillermo Arbe

Chart 3



Sources: Scotiabank Economics, BCRP.

Chart 4



Sources: Scotiabank Economics, INEI.