Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

December 18, 2024

Latam Daily: Chile Cuts Rate 25bps; Mexico Retail Sales Drop; Banxico Survey Results

- **Chile: 25bps cut brings policy rate to 5.0%, but path narrows for further consecutive cuts**
- **Mexico: Retail and wholesale dropped in October amid weaker growth expectations; Banxico survey signals a higher year-end expected policy rate for 2025**

CHILE: 25BPS CUT BRINGS POLICY RATE TO 5.0%, BUT PATH NARROWS FOR FURTHER CONSECUTIVE CUTS

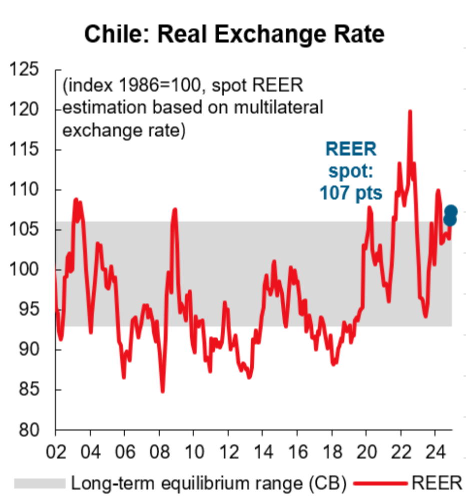
- **Higher core inflation and significant multilateral depreciation of the CLP will lead to pauses in cuts, starting in January 2025**

On Tuesday, December 17th, the Central Bank cut the policy rate by 25 bps to 5%, as expected, but the dichotomy between real and nominal variables put a loin of bull to continue cutting consecutively. In fact, the cut was consistent with the baseline scenario for real variables in the September IPoM and also with the new December IPoM. On the real side, the economy has confirmed the weakness of domestic demand, particularly private consumption of residents, while total investment is expected to end with a somewhat larger contraction than expected last September.

On the nominal variables side, the situation does not look entirely benign, from inflation to wages. Total inflation would be somewhat above the 4.5% of the September baseline scenario as the December CPI is on track to be negative as we pointed out a few weeks ago. However, we justifiably consider that a relevant source of concern comes from the ex-volatile CPI which would be sharply above the 3.9% projected in September. The October and November CPIs would have surprised the IPoM's ex-volatile CPI projection upwards, in part we estimate due to second round effects observed in October through foods and in November due to upside surprises in some services. This is an undisputed source of further caution by the Board that the policy rate will decline over the medium-term policy horizon, which is substantially less stimulative than the policy rate around its neutral level by mid-2025 as was the working assumption of the September IPoM.

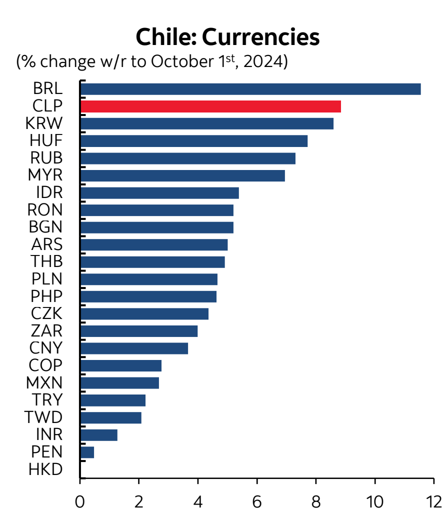
The main concern for the coming months will be international financial conditions and, particularly, the exchange rate. For some, the recent CLP depreciation was enough to introduce a neutral bias or even maintain the rate. For others, the CLP's depreciation has had an eminently global component associated with the renewed strength of the US

Chart 1



Sources: Scotiabank Economics, BCCh.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

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

dollar in the days before and after Trump's election. Consequently, knowing that the exchange rate pass-through to inflation is substantially lower in the face of US dollar-driven depreciations than those driven by idiosyncratic CLP weakness, they supported continuing to reduce the policy rate. Our position is that the CLP depreciation has been driven by fundamentals (copper and US dollar), but the Chilean peso has been particularly punished leading to a multilateral and real depreciation that suggests caution since being multilateral and placing the Chilean peso (together with the Brazilian real) among the worst performers since the beginning of October is an important inflationary source.

We estimate the spot real exchange rate at 107 (base 100=1986) (chart 1), which is above the range consistent with the fundamentals revealed in the December 2022 IPoM. The Chilean peso has also experienced a depreciation, undoubtedly driven by the fall in copper and the global appreciation of the US dollar, but markedly higher than other emerging currencies. This depreciation has placed it in the dangerous group of economies with the greatest depreciation against the US dollar, together with the Korean won and the Brazilian real (chart 2).

—Aníbal Alarcón

MEXICO: RETAIL AND WHOLESALE DROPPED IN OCTOBER AMID WEAKER GROWTH EXPECTATIONS

According to INEGI, retail sales fell in October by -1.2% nsa y/y, below the expected -1.0%, but with a slight improvement from the previous month's -1.5%, marking the sixth consecutive decline. This was driven by a sharp -4.2% y/y drop in sales at self-service and department stores (-2.1% previously) and a -5.8% contraction in health care product sales (-4.7% previously). On the other hand, non-store and digital sales increased by 16.4% from 16.1% last month. Wholesale sales have also declined for eleven consecutive months, falling by -7.7% y/y, due to a significant -12.7% drop in wholesale trade brokerage, -12.2% in sales of agricultural and forestry raw materials, industrial supplies, and waste materials, and -10.5% in sales of appliances.

Retail sales have shown a downward trend in recent months, in line with our expectation of moderating consumption and the trend of weak formal job creation. However, we consider they could rebound by year-end due to the holiday season, as merchandise inflation edged back during November, suggesting positive price adjustments during the sales season. Despite this, an economic slowdown is anticipated in 2025. The outlook for retail sales is moderate, whereas wholesale could remain in negative territory as managers prepare for weaker demand. On the positive side, the growth in online sales, driven by changing consumer habits, could partially sustain the sector, although other segments are likely to be affected (table 1).

Table 1: Mexico—Retail and Wholesale Sales

Sector/ Subsector	% real annual				% monthly s.a.	
	Oct		Jan-Oct			
	2023	2024	2023	2024	Sep	Oct
1. **Retail**	**3.7**	**-1.2**	**4.3**	**-0.5**	**0.1**	**-0.3**
2. Groceries, food and drinks	6.6	3.5	4.6	4.2	-1.4	1.5
3. Self-service and department stores	11.3	-4.2	9.5	-1.0	0.3	0.2
4. Textile, clothing and footwear products	1.6	2.5	14.9	-4.9	0.3	-0.2
5. Health care	2.8	-5.8	4.1	-2.8	-0.9	-0.8
6. Stationery and entertainment items	1.6	-3.4	4.6	-6.7	-2.4	2.6
7. Household goods and computers	8.4	3.2	2.4	2.8	1.9	-1.3
8. Hardware items	-3.7	-0.8	-1.7	-4.2	0.0	1.2
9. Motor vehicles, spare parts and fuels	-3.8	-0.5	-1.5	0.5	0.8	-1.0
10. Internet commerce and catalogs	15.1	16.4	14.4	13.3	2.5	1.1
11. **Wholesale**	**2.2**	**-7.7**	**0.0**	**-6.8**	**-0.8**	**-1.9**
12. Groceries, food and drinks	3.3	2.0	-1.4	0.4	1.1	-0.3
13. Textile, clothing and footwear products	-40.8	15.9	-5.0	-7.9	6.1	-4.6
14. Pharmaceutical products, perfumery, leisure items.	5.5	-10.5	9.8	-9.6	1.6	-3.4
15. Agricultural and forestry raw materials	-0.6	-12.2	-3.7	-9.8	-1.8	-3.9
16. Machinery, equipment and furniture	15.9	-5.7	11.2	-3.7	-3.3	1.3
17. Trucks and new car parts	24.9	-5.8	24.4	-6.8	-1.4	0.0
18. Intermediation	34.3	-12.7	17.5	-3.3	-23.7	21.4

Sources: Scotiabank Economics, INEGI.

BANXICO SURVEY SIGNALS A HIGHER YEAR-END EXPECTED POLICY RATE FOR 2025

Earlier this week, the Banxico Survey of Expectations for December showed a more restrictive expected policy rate for 2025. Despite the implicit rate indicating that the possibility of a higher rate cut in this week's policy meeting, private analysts still expect only a 25bps cut, ending 2024 at 10.00%. However, in line with a more restrictive Fed rate, and considering an upside biased balance of inflation risk, analysts also moved up their expectations for the year-end Banxico policy rate for 2025, now with a median response of 8.38% from the previous 8.00%. The expected exchange rate was slightly adjusted to $20.24 pesos per dollar by the end of this year and to $20.69 for 2025, which most likely reflects an expected effect of a more difficult trade relationship amid Mexico and the US. Furthermore, the growth expectation for this year remains at 1.55%, while the slight decrease in the forecast for 2025 to 1.17% (1.23% previous) suggests that analysts anticipate some weakness in economic activity in the coming quarters (table 2).

Table 2: Mexico - Banxico Survey, Main Results

Variable	Year	Oct-24	Nov-24	Change
GDP	2024	1.55	1.55	0.00
(Real annual % change)	2025	1.23	1.17	-0.06
Headline Inflation	2024	4.42	4.36	-0.06
(Annual % rate, Dec-Dec)	2025	3.84	3.86	0.02
Core Inflation	2024	3.69	3.63	-0.06
(Annual % rate, Dec-Dec)	2025	3.69	3.68	-0.01
Exchange Rate	2024	20.22	20.24	0.02
(MX$/USD$, Dec)	2025	20.71	20.69	-0.02
Policy Rate (median)	2024	10.00	10.00	0.00
(Rate %, end of period)	2025	8.00	8.38	0.38

Sources: Scotiabank Economics, Banxico.

—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña