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Latam Daily: BCRP Cut, Colombia CPI, and Banxico Minutes Recap

- **Colombia: Headline inflation stopped falling while core inflation made moderate progress. BanRep may pause the easing cycle amid risks from minimum wage increase**
- **Mexico: Banxico December meeting minutes**
- **Peru: BCRP reduces gap with the Fed; New vehicle sales fall in 2024 but exceed pre-pandemic levels**

COLOMBIA: HEADLINE INFLATION STOPPED FALLING WHILE CORE INFLATION MADE MODERATE PROGRESS. BANREP MAY PAUSE THE EASING CYCLE AMID RISKS FROM MINIMUM WAGE INCREASE

Colombia's monthly CPI inflation stood at 0.46% in December 2024, according to data published by DANE on Thursday, January 9th, 2025 (chart 1). The result was above analysts' expectations from the BanRep survey and Scotiabank Colpatria's expectation of 0.40% m/m. Due to the seasonal effects of the end-of-year festivities, December inflation reflected increases in the prices of some services, such as restaurants, hotels, and transportation. However, the main contributors to monthly inflation were lodging and utilities, accounting for 40% of the monthly inflation amid an acceleration in energy prices. Food inflation also accelerated. It is worth noting that despite the exchange rate depreciation, inflation in tradable goods remained under control.

In annual terms, total inflation for 2024 closed at 5.20%, remaining stable compared to the November result and achieving a decrease of 407 basis points compared to December 2023 (9.28% y/y). Core inflation ex-food decreased from 5.88% in November to 5.65%, the lowest since March 2022; inflation in ex-food and regulated items fell from 5.36% to 5.15%, resuming the downward trend after the increase seen in November. Goods inflation remained stable at 0.62%, while services inflation fell from 7.28% to 6.97%, showing the largest decrease since January 2024, which is positive considering that its progress had been slow throughout the year.

The pause in the disinflationary process does not come at a good time, considering that at the last BanRep meeting, the Board decided to slow down the pace of cuts, and inflationary risks for 2025 could suggest a pause at its next meeting on January 31st. On December 24th, the Government decreed the minimum wage increase for 2025 at 9.54%, higher than the 6.2% estimated by the Ministry of Finance and 434 basis points above final inflation for 2024, which implies a still significant indexation effect that would prevent the inflation from reaching the target range in 2025.

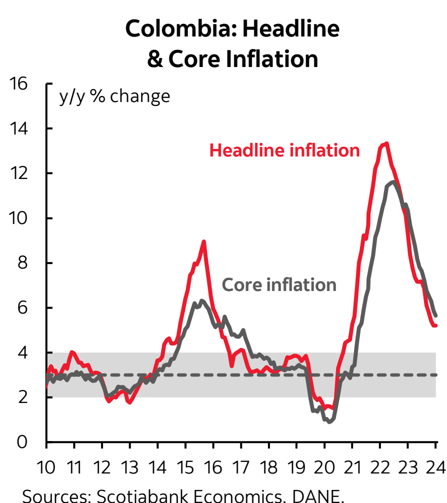
Scotiabank Colpatria estimates that inflation will remain relatively constant throughout the year, closing around 4.8% y/y in Dec 2025. Regarding monetary policy, caution would continue to prevail over BanRep's board, given the potential scenario in which inflation does not fall at the expected pace and in which the Fed is pointing to fewer rate cuts. The chances of the monetary policy rate in Colombia remaining at 9.50% at the January meeting increased with yesterday's data, becoming our base case scenario.

Complementary highlights:

- **The lodging and utilities group was the one that contributed the most to inflation, with a monthly variation of 0.58% and a contribution of 18bps to the total.** Rental rates showed a more moderate variation than that registered in November with an increase of 0.29% m/m, while utilities had a variation of 1.44% m/m, this being the highest increase since February 2024, and mainly explained by a change in the trend in the price of energy (+2.54% m/m) and increases in water and gas rates.

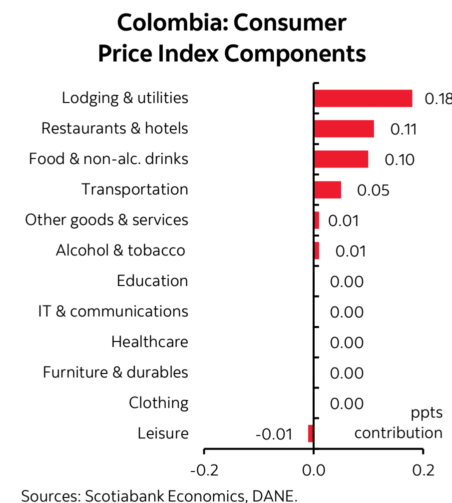
- **Nearly 60% of December's inflation would be explained by seasonal factors.** The price adjustments that usually occur in December given the end-of-year festivities and the holiday season explained a large part of inflation. The restaurant and hotel sector was the second largest contributor to inflation, with a variation of 0.99% m/m and a contribution of 11bps, followed by food with a variation of 0.58% m/m and a contribution of 10bps. Most foods showed a change in trend in the last month of the year with meat, tomatoes, and onions contributing the most to the variation, while other foods showed mostly positive but moderate variations. Transportation had a variation of 0.39% m/m and a contribution of 5bps, which can be attributed to regional transport fees amid the year-end holidays and a moderate increase on vehicles prices (charts 2 and 3).
- **The impact of the FX depreciation is something to keep an eye on.** During December, vehicle prices increased (+0.23% m/m), however, this was more moderate than the one registered in the previous month (0.64% m/m). Likewise, some household appliances showed negative variations, which may be related to an existing inventory that does not incorporate the recent depreciation of the currency. However, in the coming months, a higher level of the exchange rate may be reflected to a greater extent, added to an increase in payroll costs that companies must assume after the adjustment of the minimum wage and that can indirectly be passed on to final consumers.
- **The first quarter of 2025 will be critical to identify the indexation effects of the minimum wage increase.** The price update in regulated services and services, in general, will largely occur during the first quarter of the year. The inflation of 5.20% will be the regulatory ceiling to increase prices, such as rent fees, which will contribute to the disinflation process. However, the increase in the minimum wage could indirectly affect 50% of the CPI basket, especially on labour-intensive services, and could prevent headline inflation from reaching the target range during the year.
- **We think the minimum wage increase is a material risk for inflation in 2025, and the Central Bank could maintain the interest rate stable at 9.50% in January's meeting** to monitor the impact of the minimum wage increase.

Chart 1



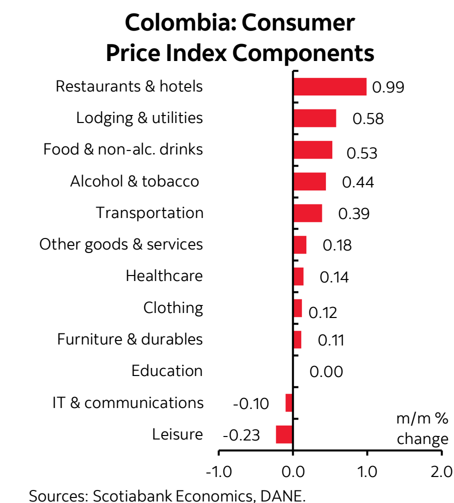
Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

—Jackeline Piraján & Daniela Silva

MEXICO: BANXICO DECEMBER MEETING MINUTES

- Looking ahead, despite a Governing Board with a clearly more dovish bias, we believe there are few conditions to increase the pace of cuts without negatively affecting variables such as the USDMXN or inflation expectations.
- In December, core inflation (3.65% vs. 3.58% previous) showed an increase in both goods and services, despite a headline inflation below expectations (4.21%, vs. 4.27% consensus), reinforcing the argument of the risk of persistence in the services component of inflation.

- As mentioned by some members, we believe there are growing risks and greater uncertainty around the trade relationship between Mexico and the U.S. under the new Trump administration.
- Additionally, fewer Fed cuts could reduce Banxico's room for cuts during the year.
- Deputy Governor Espinosa's term ended in December, and there is still no proposal from President Sheinbaum to fill the position, so the February meeting could have only four members.
- Considering the available data and the risks in the outlook, we maintain our call of a 25 basis point cut at the next policy meeting, although with a high risk of a 50 basis point cut following the comments of the Governing Board.
- For our part, we will evaluate possible changes in the outlook at the end of January, once President Trump has taken office and announced his first policy actions.

Banxico released the minutes for the December 19th meeting, detailing the discussion on inflation and monetary policy within the Governing Board, where a unanimous vote was cast to cut 25 basis points to 10.00%. In general, the Board members arguments revolved around the decelerating process of inflation. However, we perceive a Governing Board divided in opinions. Most members suggested adjusting the rate to a greater extent in the following meetings, while others prefer to calibrate the cuts to achieve convergence to the inflation target.

Regarding the Mexican economy, the comments highlighted the weakness in growth followed by a rebound for Q3-2024, higher than the previous three quarters. The Board mentioned that services continued to grow, while industrial activity was down mainly owing to the weakness of manufacturing. Additionally, construction has shown no clear trend and mining continues to decline. They noted that private consumption has moderated compared to Q2, largely due to a slower pace of consumption in imported goods (although it remains at high levels) and the consumption of services. On the other hand, all members mentioned that investment remains weak, with an annual contraction in September, due to a declining public component, with drops in machinery and equipment. The Governing Board members indicated that they expect a moderate pace of economic activity for 2025 at 1.2% and 1.8% in 2026, due to uncertainty related to the Trump administration and possible tariffs on Mexican products. On the employment side, the members noted that job creation has slowed, with one member stating that the employed population grew below its historical average. On the other hand, comments mentioned that remittances will be important to maintain consumption, as well as wage increases and government transfers.

In the external sector, the members highlighted that the main central banks are expected to continue reducing their reference rates at different paces and with greater cautions in their decisions, while emerging economies experience divergent monetary policy cycles, as some continue with downward adjustments while others have paused their cycle of cuts.

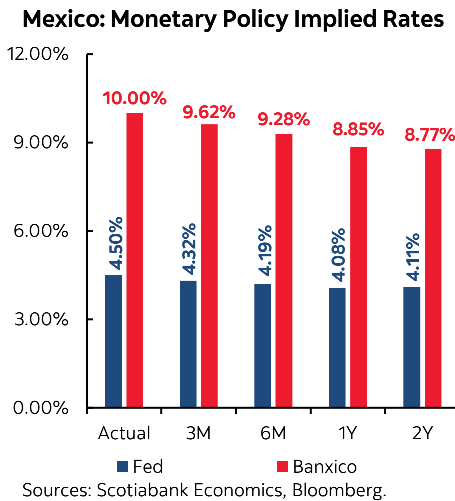
Regarding inflation, the majority of the Governing Board considered that the outlook has improved, even though the inflation forecasts were revised upwards in the same meeting, now expecting to converge in Q3 of 2026, and not in 2025, as previously anticipated. The Board argued that this revision incorporates greater persistence of service inflation. We perceive in the document that most of the Board remain confident in the disinflationary outlook. However, some comments of some Board members suggest that they consider that the balance of risks has decreased but remains skewed to the upside. In this regard, several members recognize greater uncertainty about the trade relationship between Mexico and the United States. Several members mentioned the upside risk of tariff imposition and a higher USDMXN, and a downside risk due to lower-than-expected economic activity. We agree that tariff policies could have opposing effects, although we believe that the net effect would be inflationary, accompanied by a risk-averse sentiment in the economic environment due to greater uncertainty.

In the discussion of monetary policy, we note a Governing Board mostly in favour of increasing the pace of cuts at the next monetary policy meeting. Three members mentioned the possibility of increasing the pace of adjustments at the next policy meeting. One member considered that "several of these risks have already materialized or dissipated, while others have been incorporated into the Central Bank's forecasts" so he estimated feasible adjustments of greater magnitude. Another member considered that "taking into account the inflationary outlook as a whole and the undeniable progress in disinflation, it is necessary to increase the magnitude of rate cuts in some of the upcoming monetary policy decisions." Another recalled that the ex-ante real rate remains in restrictive territory, so they "pointed out the importance of communicating that adjustments of larger magnitude could be implemented at the next policy meetings." On the other hand, one member mentioned that there is a more complex and uncertain environment, and that changes that may arise from the next U.S. administration should be incorporated, so it is advisable to emphasize the greater uncertainty and growing risks for inflation. Finally, another member considered that "it is necessary to remain cautious in view of the assumption that progress in core inflation will be maintained, due to the possibility that merchandise inflation will not decline any further and to the persistence shown by services inflation."

They also opined that the gains in the fight against inflation should not be overestimated, or there is a risk of the inflation level becoming stagnant, an opinion with which we agree.

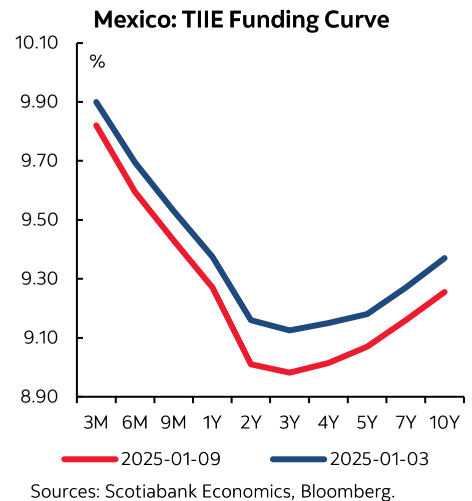
Looking ahead, despite a Governing Board with a clearly more dovish bias, we believe there are few conditions to increase the pace of cuts without negatively affecting variables such as the USDMXN or inflation expectations (charts 4 and 5). In December, core inflation (3.65% y/y vs. 3.58% previous) showed an increase in both goods and services, despite a headline inflation reading below expectations (4.21%, vs. 4.27% consensus), reinforcing the argument of the risk of persistence in the services component of inflation. As mentioned by some members, we believe there are growing risks and greater uncertainty around the trade relationship between Mexico and the U.S. under the new Trump administration. Additionally, fewer Fed cuts could reduce Banxico's room for cuts during the year. Furthermore, Deputy Governor Espinosa's term ended in December, and there is still no proposal from President Sheinbaum to fill the position, so the February meeting could have only four members, where Governor V. Rodríguez (with a dovish bias) would have the casting vote. Given the available data and the risks in the outlook, we maintain for now our call of a 25 basis point cut at the next policy meeting, although with a high risk of a 50 basis point cut following the comments of the Governing Board. We will evaluate possible changes in the outlook at the end of January, once President Trump has taken office and announced his first policy actions.

Chart 4



Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña

PERU: BCRP REDUCES GAP WITH THE FED

The Board of the Central Bank of Peru (BCRP) cut its policy rate by 25bps, to 4.75%, contrary to our expectation at Scotiabank but in line with the market consensus (the Bloomberg median) (chart 6). With this decision, the spread between the BCRP and the Fed reference rate is reduced from 50bps to 25bps.

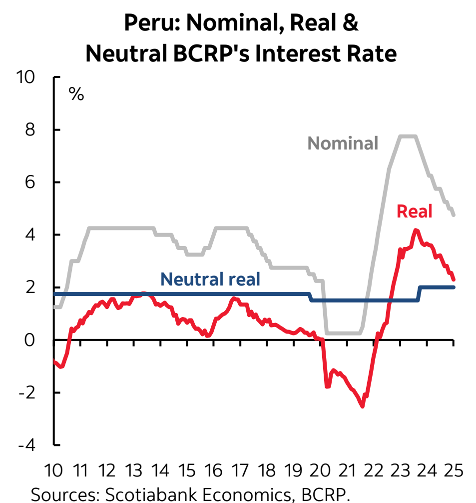
The BCRP gave a sign of greater confidence by reducing its reference rate, leaving aside caution. Regarding the statement, the decision is based on the following points. The first relates to inflation: they highlight that headline inflation is at the midpoint of the target range (2.0%) and that core inflation remained at 2.6%.

The second element is economic activity. The BCRP indicated in its statement that most indicators of economic activity expectations remained in the optimistic range but registered some deterioration. However, it continues around its potential level.

Finally, in the international context, the statement highlights persistent uncertainty about the possible application of trade policies during Donald Trump's administration.

By cutting its reference rate to 4.75%, the spread with the Fed is reduced from 50bps to 25bps. The spread would remain as the market assigns a 95% probability that the Fed will keep its rate unchanged on January 29th. On the other hand, the real interest rate is reduced from 2.55% to 2.30%, approaching the 2.00% level considered neutral. We expect one additional 25bps cut during Q2-25, to 4.50%, which is the level we consider to be the terminal rate.

Chart 6



Sources: Scotiabank Economics, BCRP.

—Ricardo Avila

NEW VEHICLE SALES FALL IN 2024 BUT EXCEED PRE-PANDEMIC LEVELS

New vehicle sales in Peru fell by nearly 7% in 2024, according to the Peruvian Automotive Association (Asociación Automotriz del Peru, AAP). This annual decline was anticipated, and while the sales volume was the lowest since 2020, it was still higher than the sales figures from 2019, prior to the pandemic (charts 7 and 8). We expect the sector to recover and return to growth by 2025, although the expected growth rate will likely be slightly below our forecast for commerce sector growth this year, which stands at +3.2%.

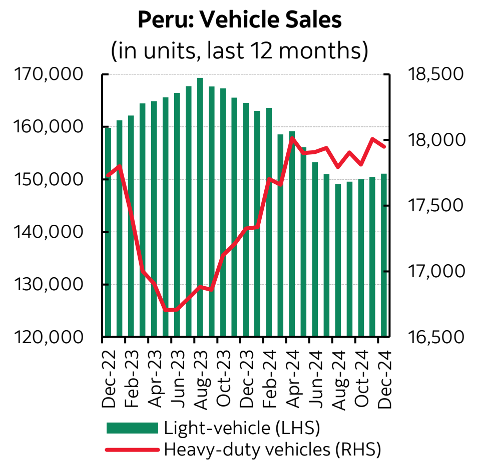
New vehicle sales in 2024 reached 169,538 units, 7% lower than in 2023. The decline in the sector was primarily attributed to an 8.2% drop in annual light vehicle sales (151,062 units), despite a 5.3% increase in heavy-duty vehicle sales (18,247 units) during 2024. The decrease in light vehicle sales was driven by lower demand for these vehicles in H1-24 due to weak household spending and a lack of formal job creation, which reflected the performance of private investment during this period. Also, there was some base effect in H1-24, as H1-23 sales were the highest since H1-13. However, sales rebounded during H2-24, partly due to extraordinary revenues from social security fund releases, which likely served as down payments for light vehicle purchases. Furthermore, the improvement in private formal employment, spurred by stronger private investment, contributed to this recovery.

Conversely, the increase in heavy-duty vehicle sales (+3.6%) helped mitigate the overall decline in the market. The sale of 18,247 heavy-duty vehicles marked the highest sales volume in the last 10 years. Demand for these vehicles surged due to increased purchases by mining and construction companies, along with a rise in bus sales, which were the highest since 2019 as passenger transportation companies sought to renew their fleets.

Looking forward, we anticipate a rebound in vehicle sales, particularly in H1-25. This recovery is expected to stem from improved private investment, fostering job creation and stimulating the purchase of light vehicles. Additionally, we expect relative price stability and better financing options, including lower credit rates. Demand for heavy-duty vehicles from the mining and construction sectors is likely to remain strong, thanks to positive trends in both industries. However, several factors could restrict growth in 2025, including the upcoming 2026 election season, which may limit sales in the latter part of that year. Furthermore, the extraordinary revenues from pension funds that boosted light vehicle sales in 2024 will no longer be available during this year.

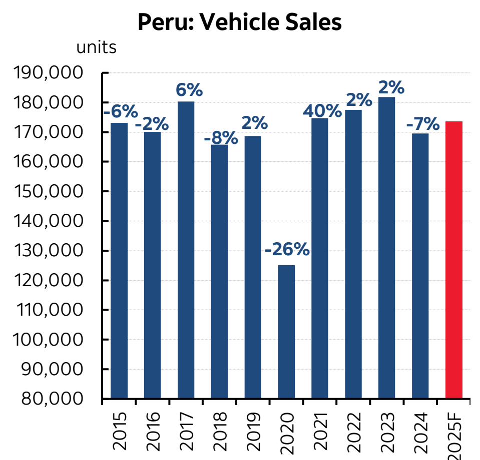
—Carlos Asmat

Chart 7



Sources: Scotiabank Economics, Asociación Automotriz del Perú (AAP).

Chart 8



Sources: Scotiabank Economics, Asociación Automotriz del Perú (AAP).

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