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Latam Daily: Chile CPI Meets, Colombia CPI Slightly Misses

- **Chile: March CPI of 0.5% m/m keeps the Central Bank's baseline scenario in place (4.9% y/y)**
- **Colombia: Annual headline decreased in March, interrupting four months of stagnation**

CHILE: MARCH CPI OF 0.5% M/M KEEPS THE CENTRAL BANK'S BASELINE SCENARIO IN PLACE (4.9% Y/Y)

- **Services (Healthcare and Housing) show high inflationary diffusion, prompting greater caution in Monetary Policy**

The March CPI reading of 0.5% m/m was in line with our projection, that of the Central Bank, and the consensus, leaving annual inflation at 4.9%. The CPI "excluding volatiles" print of 0.4% m/m was the lowest since 2013, explained by goods and services. However, particularly in services, high diffusion is observed, suggesting that many services are experiencing price adjustments (charts 1 and 2). The evolution of services is worrying, as they could be responding to indexation effects (in healthcare), demand pressures (in housing), and/or second-round effects linked to electricity prices. It is still early to determine the importance of these factors in services, but a degree of caution is undoubtedly warranted in monetary policy despite the low underlying inflation rate.

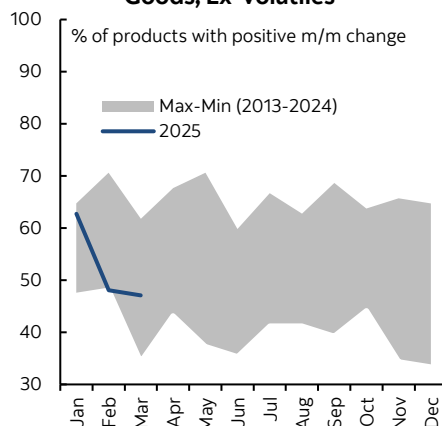
Some products are providing relief, especially shelter, which experienced a modest 0.1% m/m increase, the lowest since 2013, despite headline inflation close to 5%. This could reflect less pressure for additional price adjustments in that sector. The same is true for Household Services, which did not experience price increases this month (0% m/m), something never seen before in March (at least since 2013).

The high inflationary diffusion of services, especially in health and housing, is worrisome given that goods significantly offset inflation in services (charts 1 and 2 again). However, the recent depreciation of the Chilean peso could put pressure on tradable goods, adding to the persistent price adjustment in services. This combination would likely be the most challenging for inflationary convergence. For example, it should not be surprising if the peso's depreciation leads to increases in the tourism package item, which declined in March, but could reverse and result in a significant increase in the April CPI.

In terms of monetary policy, this outcome does not come as a surprise to the Central Bank's baseline scenario. Regarding the partial materialization of external risks linked to the

Chart 1

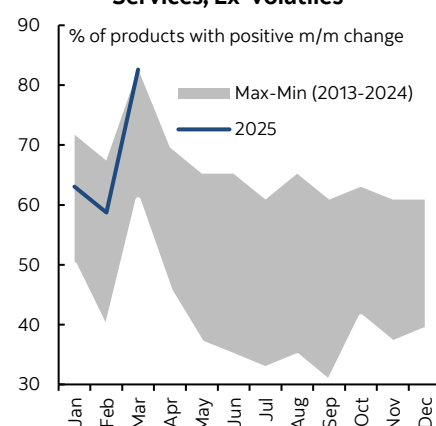
Chile: CPI Inflationary Diffusion of Goods, Ex-volatiles



Sources: Scotiabank Economics, INE.

Chart 2

Chile: CPI Inflationary Diffusion of Services, Ex-volatiles



Sources: Scotiabank Economics, INE.

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trade war, the effects run in opposite directions. On the one hand, they reduce medium-term external demand, widening the output gap and suggesting greater monetary stimulus, but they also place upward pressure on external and domestic prices. While it is still early to assess the quantitative effects on the path that monetary policy should follow, the Central Bank's and our scenario, which contemplates two cuts in the monetary policy rate during the second half of the year, remains in effect, especially given that short-term figures have met expectations.

—Waldo Riveras

COLOMBIA: ANNUAL HEADLINE DECREASED IN MARCH, INTERRUPTING FOUR MONTHS OF STAGNATION

Colombia's monthly CPI inflation rate was 0.52% m/m in March, according to data published by DANE on Monday, April 7th, 2025. The result was below analysts' expectations in the BanRep survey of 0.58% m/m and Scotiabank Colpatria's expectation of 0.54% m/m. In March, 11 of the 12 main groups had positive monthly variations, with 63% of inflation explained by food, rent, and utilities.

In March, we continued to observe indexation effects, especially in rental rates. The lodging and utilities category (+0.56% m/m) contributed the most to inflation, with 17 bps, mainly explained by increases in rents and increases in energy fees. Food (+0.86% m/m) was the second largest contributor to inflation, with 16 bps, perhaps due to the start of the winter season. Services, such as urban transportation, restaurants, and hotels, showed further effects of indexation to the minimum wage.

Annual inflation fell from 5.28% to 5.09%, breaking the upward trend of the previous four months (chart 3) and recording its lowest figure since October 2021. Core inflation showed a favourable performance; inflation excluding food fell from 5.44% to 5.19%, while inflation excluding food and regulated prices fell from 4.92% to 4.88%. Meanwhile, goods inflation accelerated from 0.67% to 0.93% annually, due to an increase in vehicle and furniture prices, while services inflation fell from 6.57% to 6.38%.

The March results can be viewed positively for the next BanRep meeting; however, reaching the 3% target could take time. In our scenario, annual inflation would remain above 4% throughout the year, showing a slight rebound in the final quarter to close at around 4.9%. Under this scenario, we believe BanRep could consider cutting the interest rate by 25 basis points at its April 30th meeting, considering that the real rate would remain contractionary. However, the international outlook and its effects on local assets will play a key role in the decision, given that a significant FX depreciation could translate into inflationary pressures. We expect the board to continue acting cautiously, resuming gradual cuts that will bring the interest rate to 8% for the year's end.

Other highlights:

- **The lodging and utilities sector was the largest contributor to inflation (chart 4).** The lodging and utilities sector registered a monthly increase of 0.56%, contributing 17 bps to the total increase. Rental rates registered a change of 0.57% m/m, lower than the 0.82% increase recorded in February and lower than the 0.74% increase recorded the previous year, which could indicate that the strongest effect of indexation had already materialized. Utilities, meanwhile, registered a change of 0.38% m/m, with electricity (0.6% m/m) and garbage collection (3.84% m/m) increasing the most, while gas registered a negative change of -1.42% m/m, offsetting the result.

Chart 3

Colombia: Headline and Core Inflation

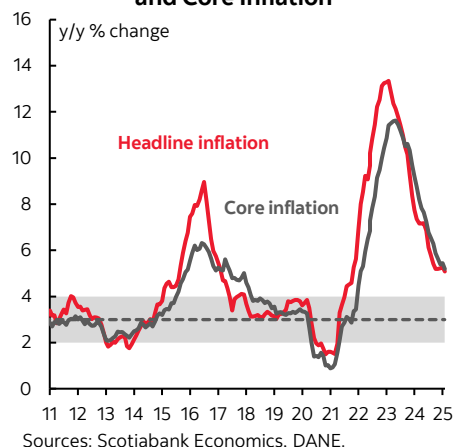


Chart 4

Colombia: Consumer Price Index Components

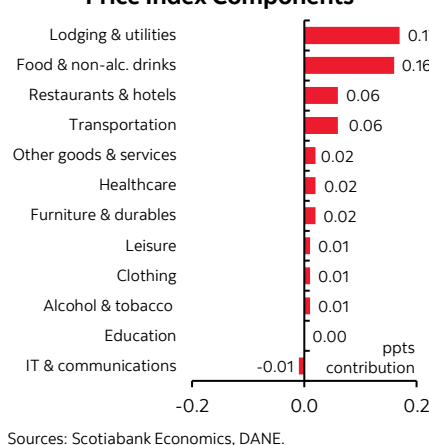
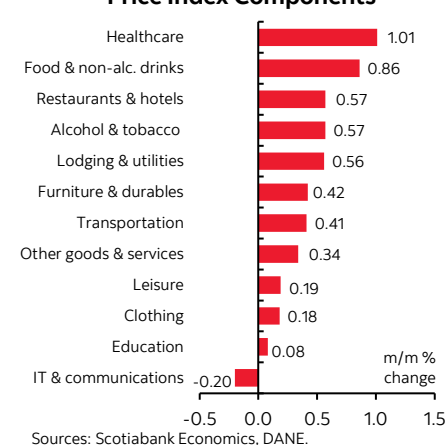


Chart 5

Colombia: Consumer Price Index Components



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- **Food was the second largest contributor to inflation, with a change of 0.86% m/m (chart 5).** Food contributed 16 bps to total inflation, with increases in vegetables (6.36% m/m), potatoes (+4.35% m/m), fresh fruit (+2.94% m/m), and meat (0.90% m/m), all of which are important items in the family basket. However, variations in other foods were moderate and, in some cases, negative, such as tomatoes (-3.77% m/m), which had seen double-digit increases in the previous four months. We believe this result may be related to the winter season and the anticipation of the Easter holiday season.
- **Services experienced indexation effects: however, they showed a decline in annual terms, while goods-maintained inflation below the target.** Services such as restaurants and hotels showed a positive variation of 0.57% m/m, contributing 6 bps to the total and reflecting the effects of indexation to the minimum wage, especially for meals outside the home. Transportation also contributed 6 bps to the total, with a monthly variation of 0.41%, reflecting increases in urban transportation and parking. In the transportation sector, vehicle prices also increased (+0.57% m/m), slightly pushing up inflation in goods. Health care saw the largest variation (+1.01% m/m) but with a contribution of only 2 bps. This reflected a combination of services, with increased medical consultations and exams, and an increase in pharmaceutical products.

—Jackeline Piraján & Daniela Silva

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