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GLOBAL ECONOMICS

LATAM FLASH

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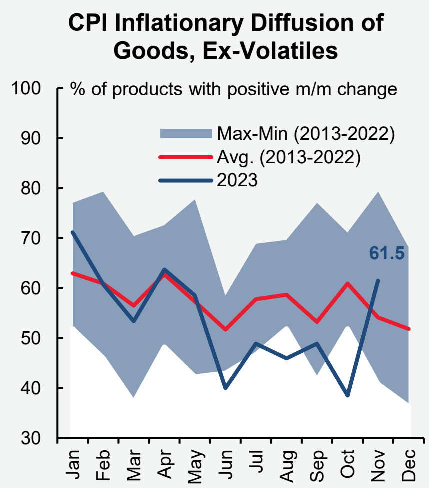
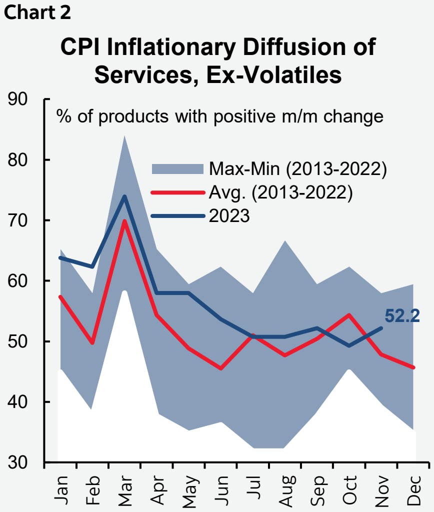
Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

Chile—November CPI at 0.7% m/m (4.8% y/y) Checks Expectations of Larger BCCh Cut

- **Strong exchange rate shock on semi-durable tradable goods, but with very opaque services inflation**

The exchange rate volatility buffer has weakened and, consequently, will bring inflationary volatility in the future. Indeed, a more shallow capital market after pension fund withdrawals, together with weakened USD liquidity indicators (international reserves of the BCCh), is generating greater exchange rate volatility —higher than that of other comparable currencies—which would be behind the lower inflation of past prints and the recent surprising rise.

Until the pension reform is completed and/or greater levels of international reserves are recovered, it is very likely that we will again see sharp rises and falls in tradable goods explained by increases and decreases in the exchange rate, all of them framed within limited pass-through, but nevertheless significant for inflation. As a consequence of the above, the exchange rate has recently appreciated again, which leads us to raise the risk of a negative m/m inflation print in December. Not only are the prices of goods at high levels after the November CPI (i.e. higher comparison base), but a CLP appreciation has also taken place of late which would prevent further increases in the short term for these goods.

Today's surprising inflation reading leaves ours and the BCCh's short-term inflationary scenario in doubt. Thus, we see it as more likely that recent economic figures will lead the BCCh to cut the benchmark rate again, but by only 50 bps. The labour market continues to weaken, activity shows stabilization with favourable supply momentum—but not demand—credit remains muted, but now inflation is receding slower than expected due to this November CPI that receives a strong impulse from tradable goods. Only the persistence of the recent CLP appreciation and confirmation of a negative December CPI could lead the BCCh to increase the size of cuts at January's meeting.

Not all, but almost all of it is explained by tradable goods, which showed a high exchange rate pass-through due to the CLP's depreciation in September and October. Such a pass-through was softened in October thanks to CyberDay (Black Friday equivalent), but was fully shown in November data.

The 0.7% m/m rise in prices in November is explained by generalized increases in the entire basket, both in volatile and ex-volatile items, but focused on non-durable or semi-durable tradable goods; and very limited increases in services. Ex-volatile CPI inflation stood at 0.5% m/m (6% y/y), although it continues to converge downwards. In November, it was mainly explained by tradable goods, which is clearly seen in the inflation diffusion indicators for both goods (chart 1) and tradables, whose diffusion reached the highest level since April this year. The exceptions within goods prices increases were those of a more durable nature, such as new automobiles (-1.1% m/m), which could be repeated in December.

As a sign of weakened demand, some emblematic services show inflationary calm. This is the case of rent (+0.1% m/m) and domestic services (0% m/m), which have shown low inflation for some months and reflect the low dynamism of private consumption. This is also clearly observed when looking at the inflationary diffusion of services (chart 2) and non-tradables, which have decreased during the year and in November sat at levels close to historical averages.