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GLOBAL ECONOMICS

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Latam Daily: Slight Miss in Mexican CPI with Limited Implications for Banxico Tomorrow

- **Colombia: Inflation, growth, higher rates, and the external environment continue to depress confidence**

The too-close-to-call Senate and House US Midterm elections are weighing on risk sentiment somewhat today, adding to the negative mood on severe weakness in the cryptocurrency space. The overnight session was relatively quiet, with misses in Chinese CPI and PPI having little influence on global markets. After markets had positioned for a Republican majority in both houses, and the possibility that this would translate into more market-friendly policies, the chance that the Democrats retain the Senate is sitting poorly with traders.

Mexico published slightly lower than expected October inflation data this morning, though it should have little bearing on Banxico's decision tomorrow—nor on its medium term outlook. At the margin, it may take pressure off Banxico to follow the Fed for longer than necessary, although core inflation remains elevated and in itself should be motivation enough to keep Banxico in a significant tightening stance to avoid additional inflation through currency channels. Headline inflation for the whole of October came in at 8.41% y/y and 0.57% m/m (vs 8.45% and 0.60% expected respectively) while core CPI prices gained 8.42% and 0.63% (vs 8.44% and 0.65%, respectively). Data for the second half of the month showed a more significant deceleration in prices, with bi-weekly CPI going from 0.44% 2w/2w to 0.15% 2w/2w (vs 0.23% consensus).

The MXN and BRL are lagging in the region with losses of about 0.4%, dragged by the broad risk-off mood in markets and higher US yields. **Brazilian markets remain on edge as Lula may announce his spending plan today,** with Folha reporting yesterday that the incoming (and former) president's transition team is considering a permanent exemption for social spending (such as Auxilio Brasil's monthly payments) under the country's fiscal cap. A strong beat in Brazilian retail sales was categorically ignored by markets this morning.

In its H2 Financial Stability Report published this morning, Chile's central bank expressed particular concern over the country's real estate and construction sectors as well as low-income households. Financial difficulties (including insolvencies), higher input costs, and slowing economic activity pose key challenges to these industries. Elevated risk aversion in international markets due to monetary policy adjustments or geopolitical events have spilled over into Chilean financial markets. **Our economists expect that the BCCh will cut its policy rate by at least 100bps at its first meeting of 2023** given a sharply decelerating economy and falling inflation (as reflected in October data published yesterday).

—Juan Manuel Herrera

COLOMBIA: INFLATION, GROWTH, HIGHER RATES, AND THE EXTERNAL ENVIRONMENT CONTINUE TO DEPRESS CONFIDENCE

Colombia's Consumer Confidence Index (CCI) clocked in at -19.5 in October, showing a m/m decrease of 8.0 in the diffusion index. The worsening in consumer sentiment is due to a decrease in the expectations component of future conditions which fell from +1.6 to -7.3 (chart 1), while the current conditions gauge fell further into negative territory from -31.1 to -37.9.

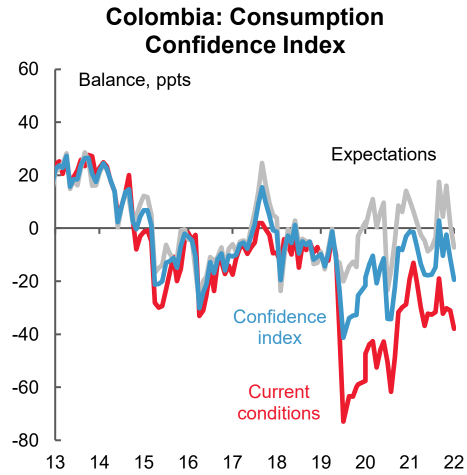
The expectations declined as consumers think that household conditions will not be as favourable in the year ahead as well as having a more negative outlook for the country. In the same vein**, the willingness to buy a house index retreated** 5.5 from the previous month (-31.1 to -36.6) and while **vehicle purchasing intentions also worsened** from -66.6 to -67.3.

Likewise, durable good buying intentions fell by 4.9 from -42.5 to -47.4 (chart 2). This shows a more negative balance of households regarding the economic future and uncertainty around the implementation of the recent reform accompanied by a persistently complex international backdrop and currency weakness.

Looking at the details for the month of October:

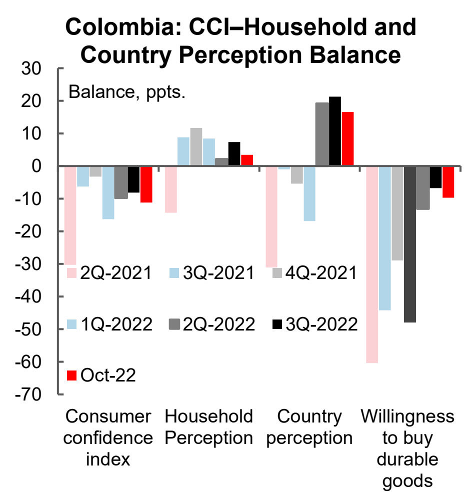
- The Current Conditions Index worsened to -37.9 from September's figure of -31.1. Households remain cautious as inflation continues to surprise to the upside, coupled with further currency depreciation and external volatility. The willingness to buy durable goods decreased by 4.9 compared to the previous month.
- The Expectations Index fell to -7.3 in October from 1.6 in September (chart 1, again). Household expectations ("in one year, will your household be better off?") was the component that contributed the most to the decline in the headline consumer confidence index as it fell from 15.3 to 4.4. The assessment of the country's economy also showed a lower balance at -6.8 from 4.1.
- The recent signs of economic deceleration combined with expectations of much lower growth may be impacting the outlook in the months ahead, in addition to the implications of the fiscal reform on the tax burden for companies.
- **That said, it will be relevant to continue monitoring the dynamics of growth and consumption for year-end, given that inflation is still at its highest level since 1999 and will continue to be pressured next year by the effects of indexation and currency depreciation.** Therefore, it is likely that consumer credit will show a further deceleration given higher interest rates weighing on private consumption towards a strong deceleration.
- At the city level, consumer confidence decreased in five cities. In Bogota, confidence fell from -11.8 to -17.1, in Medellin confidence worsened from -21.7 to -31.3. In Cali, Barranquilla, and Bucaramanga similar declines are evident. Throughout, the deterioration in sentiment reflects a more pronounced drop in the durable goods and housing buying intentions.
- Consumer confidence fell across all socioeconomic levels. In high income, confidence fell from -30.3 to -36.7. Middle income household perception worsened from -10.1 to -17.9 and low income confidence moved deeper into negative territory from -11.1 to -19.1. Strong prices pressures and, to some degree, the uncertainty around the economic outlook due to higher tax burdens are to blame.

Chart 1



Sources: Scotiabank Economics, Fedesarrollo.

Chart 2



Sources: Scotiabank Economics, Fedesarrollo.

While consumer confidence in October showed that consumers expectations have worsened, households continue to be impacted by the effects of higher inflation and a perception an economic deceleration. Furthermore, the fact that interest rates are already at elevated levels and are likely to rise further and last longer at these levels should impact consumer credit.

We have recently changed our outlook for the December monetary policy meeting for a 100bps hike to 12%. The central bank's main concern is inflation which continues to surprise on the upside and CPI upside risks will last into the first quarter of 2023, coupled with higher asset volatility in the country placing additional pressure on the bank to roll out a large rate increase.

—Sergio Olarte, María (Tatiana) Mejía & Jackeline Piraján