Latam Economic Update

- **Chile: We estimate that July inflation, due for release on Friday, August 7, will come in at 0% m/m and 2.4% y/y**

CHILE: WE ESTIMATE THAT JULY INFLATION, DUE FOR RELEASE ON FRIDAY, AUGUST 7, WILL COME IN AT 0% M/M AND 2.4% Y/Y

In anticipation of next week's July inflation print on Friday, August 7, we confirm our estimate that headline inflation will remain muted, but price pressures could pick up in H2-2020 as withdrawn pension monies get spent.

We estimate that July's consumer price index (CPI) will show a change of 0% m/m and 2.4% y/y, in line with the consensus in the BCCh's *Survey of Economic Expectations* and the *Survey of Financial Traders*, both of which expect 0% m/m. Low demand for services and declines in fuels prices would be offset by increases in some food prices and fares for inter-urban transport. This would mark a fourth month in a row in which monthly headline inflation has been between 0% and -0.1% m/m, which would pull annual inflation down to 2.4% y/y from a cycle high of 3.9% y/y in February (chart 1).

We anticipate that the July inflation numbers will still reflect a high degree of data imputation by the National Institute of Statistics (INE), owing to difficulties in collecting prices since the beginning of quarantine measures in March. Some items with relatively heavy weights in the CPI and for which there is little demand will likely still see their price data carried over from previous months, as was the case in May and June. This would imply zero monthly variation for these items and provide a dampener on the overall index. As a result, we estimate a change in core CPI of only -0.1% m/m (1.6% y/y), with goods prices down -0.1% m/m (1.9% y/y) and services prices also falling -0.1% m/m (1.4% y/y).

Nearly four months of quarantine have presented serious challenges for the INE's collection of price data. Prior to the pandemic, about 10% of prices used to construct the CPI were imputed; in contrast, confinement measures meant that nearly half of all prices in the index, some 42.6%, were imputed in April. The share of imputed prices fell back to 26.9% in June, and may have fallen further in July, but uncertainty surrounding the INE's rate of imputation significantly complicates inflation estimates and forecasts. As a result, the market will likely continue to work under a highly disinflationary scenario for the rest of the year. If full price collection is resumed in August, which is conditional on a relaxation of quarantine measures, ensuing CPI prints are likely to be volatile since the data collection process won't be immediately homogeneous for all items.

For August, we project inflation will remain at 0 to 0.1% m/m, which implies 2.3% y/y. With re-opening measures in the Santiago Metropolitan Region set to begin, we expect greater inflationary pressures on services. Similarly, the withdrawal of pension funds would increase private consumption, which in turn would boost demand for essential goods and push up prices going into H2-2020. This could be partially offset by shifts in the exchange rate, which could move below USDCLP 740–750 in the short term. In addition, August is likely to be the last month where fuel prices are a drag on the overall price index.

—Carlos Muñoz

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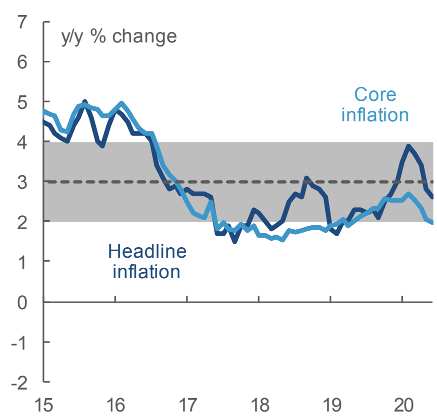
Chart 1

Chile: Headline and Core Inflation



Sources: Scotiabank Economics, INE.