Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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# Latam Daily: Chile Economic Activity; Peru's Inflation

- **Chile: GDP on track to grow 12%—or above—in 2021. Signs of sectoral deceleration were observed.**
- **Peru: Inflation rises again, rate hikes to continue**

## CHILE: GDP ON TRACK TO GROW 12%—OR ABOVE—IN 2021. SIGNS OF SECTORAL DECELERATION WERE OBSERVED.

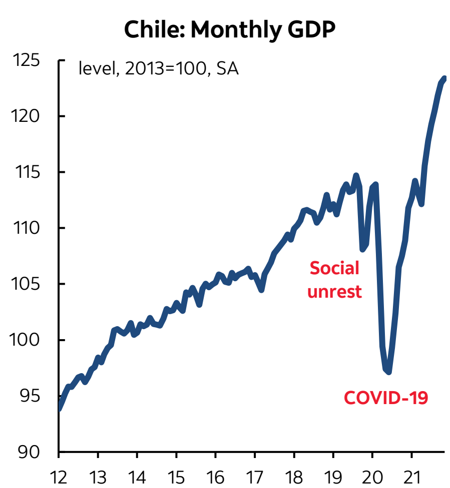
**On Monday, January 3, the Chilean central bank (BCCh) released economic activity data for November 2021, which expanded 14.3% y/y, above both our and market expectations (Bloomberg: 12.9%; Scotia: 13%).** In seasonally adjusted figures, the IMACEC increased 0.3% m/m (chart 1), mainly explained by increases in services (1.8% m/m). On the other hand, industry (-1.9% m/m), mining (-0.9% m/m), commerce (-0.8% m/m) and other goods (-0.5% m/m) showed decreases compared to the previous month.

**Economic activity by sector decelerated in all industries, excluding services (chart 2).** With this, our baseline scenario incorporates negative m/m seasonally adjusted figures during the first months of 2022, mainly driven by a deceleration in commercial activity.

**It should be noted that the central bank forecasted a GDP expansion between 11.5 and 12% in 2021, which is likely to be marginally surpassed after November's IMACEC.** As a result, with the expected lower bases of comparison for the IMACEC of December 2021 and a notable acceleration in commerce—according to our data of sales with debit and credit cards—we forecast an expansion of no less than 10% y/y in December economic activity, which will result in GDP growth at, or above, the upper bound of the central bank range.

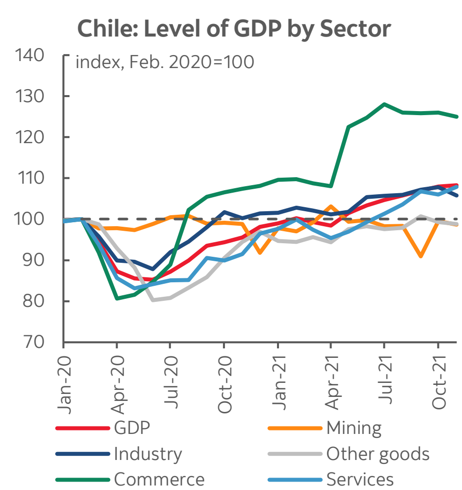
**Fiscal expenditure increased 57% y/y in November in real terms, driven by direct transfers (Universal IFE) and public consumption.** The labor market created 102k new jobs in the quarter that ended in November, which reduced the unemployment rate to 7.5%, better than market expectations. With this, the employment gap compared to its pre-COVID level fell to 505k.

Chart 1




Sources: Scotiabank Economics, BCCh.

Chart 2




Sources: Scotiabank Economics, BCCh.

**—Jorge Selaive, Anibal Alarcón, & Waldo Riveras**

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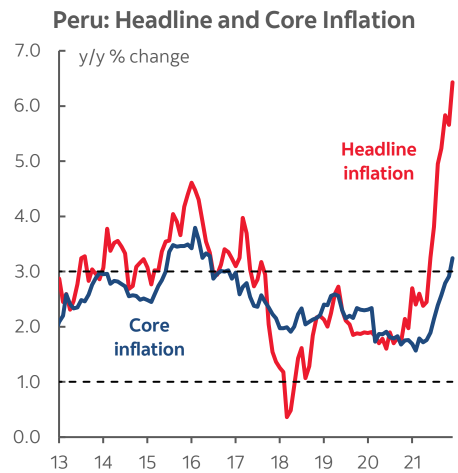
## PERU: INFLATION RISES AGAIN, RATE HIKES TO CONTINUE

**Peru's inflation increased 0.78% m/m in December, reaching 6.4% y/y in 2021, above the BCRP forecast of 6.2% y/y, but in line with our forecast of 6.5% y/y (chart 3).** This marks the seventh consecutive month that inflation exceeded the upper limit of the central bank's target range (between 1% and 3%); and at levels not seen since the beginning of 2009. Inflation exceeded the recent revision of the BCRP's forecast for 2021, from 4.9% to 6.2%, which will put pressure on the central bank to increase the reference rate further at its meeting on Thursday, January 6.

**Chart 3**



Sources: Scotiabank Economics, BCRP.

**For January we expect inflation to exceed 6% y/y, although base effects may limit the extent of the increase. We are keeping our inflation forecast of 4.5% for 2022.** Our forecast differs from the BCRP which projects that inflation will return to the target range in the second half of 2022 and converge towards the central value of the target range (2%) by end-2023, assuming the reversal of the effect of transitory factors on the inflation rate (exchange rate, international prices of fuels and soft commodities).

**Core inflation continued to pick up, going from 2.9% y/y in November to 3.2% y/y in December, exceeding the upper limit of the target range (3%) for the first time in five years and five months.** The different trend indicators of inflation are located above the target range and show an upward trend, according to the BCRP. Wholesale inflation, linked to production costs, remained high, close to 14% y/y, the highest rate in 27 years. We foresee that cost pressures are likely to continue this year. The PEN depreciation moderated—from 13% y/y in November to 10% y/y in December—despite the ups and downs of political uncertainty.

**Over the past five months, the central bank raised its benchmark rate by 225 basis points to 2.50% and increased reserve requirements twice, indicating that it would continue to withdraw monetary stimulus.** We believe that further increases in the policy rate will be necessary for inflationary expectations (3.7% at 12-months ahead according to the November survey) to return to the target range. In presenting its Inflation Report last December, the BCRP adopted a moderate stance, which would suggest an increase of 25 bps at its meeting on Thursday, January 6; however, an increase of 50 bps is also on the radar and would not surprise us.

**—Mario Guerrero**

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