Latam Daily: Divergent Inflation in Chile and Colombia; Peru Trade Surplus Surge

- **Chile: January CPI surprises with an expansion of 0.7% m/m—annual inflation reaches 3.1% y/y**
- **Colombia: January inflation met market expectations, although food prices surprised**
- **Peru: The country should register a historic trade balance surplus in 2021**

CHILE: JANUARY CPI SURPRISES WITH AN EXPANSION OF 0.7% M/M—ANNUAL INFLATION REACHES 3.1% Y/Y

High CPI is still linked to a transitory liquidity shock, so it would not be of concern to the central bank until it is accompanied by a recovery in the labour market.

In data out Monday, February 8, January CPI stands at 0.7% m/m, exceeding our expectations, as well as those of the market and analysts who anticipated 0.5% m/m. With this, annual inflation reached 3.1% y/y, influenced by a relevant pressure on the prices of mass consumer goods due to the strong increase in disposable income of households and relatively limited stocks by marketers. This, coupled with seasonal increases in food somewhat greater than previous years and an increase in international fuel prices, lead us to reach one of the highest records seen in January. However, the note of caution regarding inflation is given by the weakness of the labour market, which would continue to be the main concern for the central bank when evaluating the transitory nature of these records and calibrating its monetary stimulus. We do not see space yet for the monetary authority to deliver a more hawkish message, especially when there is consensus that we are facing a sum of transitory shocks that should fade in the coming months, in addition to unexpected increases in volatile goods such as perishable food and fuel.

Inflation for the month showed a considerable rise in all its components, especially food. Although January historically shows high records for the food item, in this month in particular it showed a higher contribution to its seasonality (0.25 ppts, chart 1), with products such as lemon, potato and avocado showing strong increases. Meanwhile, core CPI rose 0.5% m/m (2.6% y/y, chart 2), due to the rise of 0.6% m/m in goods (3.6% y/y) and 0.4% m/m in services (2.1% y/y).

At the product level, the rise in fuels stands out due to the recovery that the price of oil has shown in international markets in recent months, attenuated only in part by the appreciation of the peso. Likewise, there is a significant rise in new cars, which we estimate is explained by the higher demand from households (especially for durable goods) due to an increase in their disposable income. In addition, prices pressures even greater than their usual seasonality are observed in products such as lemon and common spending.

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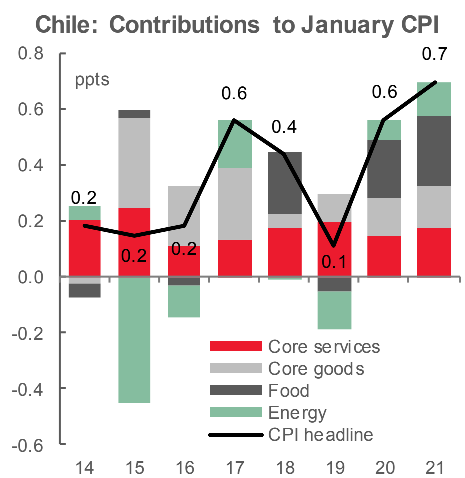
Chart 1

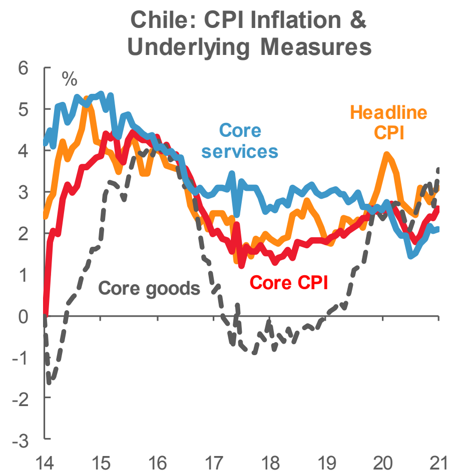


Sources: Scotiabank Economics, INE.

On the other hand, the INE indicates that in this print the methods of imputation of missing prices from previous months are still applied (air transport service, tourist package and other recreational services), that is, null price variation is assumed in the products with no price visibility. We estimate that this imputation method would continue in February.

For the month of February, we preliminarily project inflation of 0.3% m/m. We continue to anticipate increases in fuels during the month, added to the increase already materialized in cigarettes—which were not included in January's inflation. With this, we would reach an annual inflation of 3.0% in the month. Despite the positive surprise in January, we maintain our annual projection of 3.0% for December 2021, recognizing that recent records are still conditioned by the liquidity provided by the withdrawal of pension funds, monetary transfers to households and the slow replenishment of inventories. Current inflationary pressures should diminish in the coming months as the weakness of the labour market and the appreciation of the peso are reflected more strongly in the local market. Lastly, products with high weighting such as electricity and multimodal transport continue with their prices frozen.

Chart 2



Sources: Scotiabank Economics, INE.

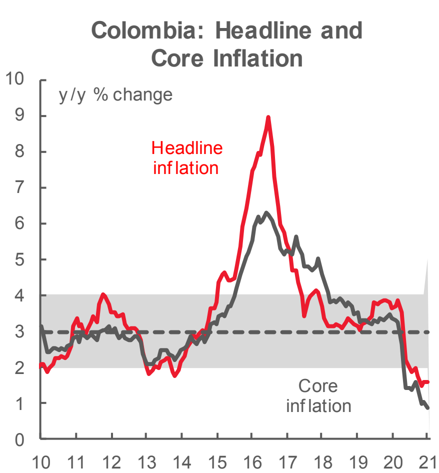
—Carlos Muñoz

COLOMBIA: JANUARY INFLATION MET MARKET EXPECTATIONS, ALTHOUGH FOOD PRICES SURPRISED

January inflation, published late on Friday, February 5, by DANE, met market expectations according to the BanRep survey and stood at 0.41% m/m, above our projections of 0.34% m/m. However, core inflation stood below market consensus (0.21% m/m versus 0.35% m/m expected), pointing that upside surprise was on foodstuff inflation while other items remained weak. January's data showed lower indexation effects and posted a new clothing prices contraction. Although other items such as rent fees increased, which is a positive signal of economic recovery. Headline inflation stood at 1.60% y/y; while core inflation fell from 1.03% y/y in December to 0.89% y/y in January (chart 3).

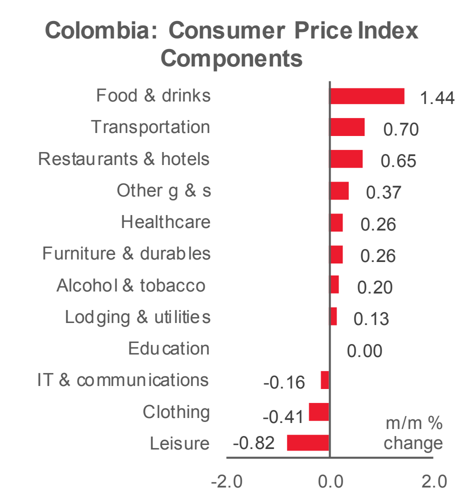
January's inflation reflected some usual price adjustments that take place at the beginning of the year (chart 4 and chart 5), although with some nuances. Foodstuff inflation was higher than the previous year (1.4% m/m versus 0.76% m/m in Jan-2020), on the other side indexation effects were lower as 2021 adjustments had a lower reference (December 2020 inflation), that said, categories such as restaurants, rent fees, among others, increased less than in 2020, which was broadly expected, although, some prices have shown some items recovery from last quarter of 2020. On the negative side, we noticed that weaker

Chart 3



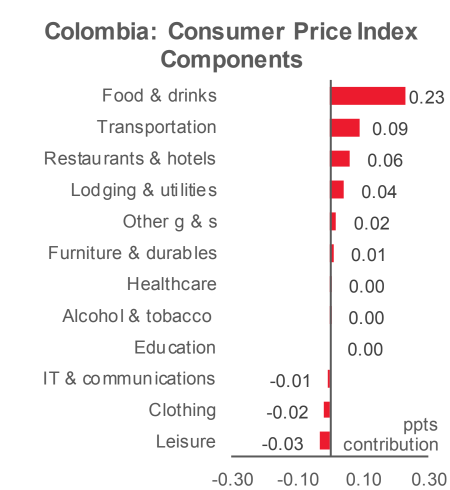
Sources: Scotiabank Economics, DANE.

Chart 4



Sources: Scotiabank Economics, DANE.

Chart 5



Sources: Scotiabank Economics, DANE.

demand pressures persisted in some items, especially on leisure (-0.82% m/m) and clothing (-0.41% m/m), which subtracted 3 bps and 2 bps to the headline figure, respectively.

Foodstuff inflation surprised to the upside (+1.44% m/m), posting the highest figure since April 2020 and contributing 23 bps to the headline figure due to supply effects on tomatoes, meat, and potatoes, which accounted for around 50% of the group's inflation. Other items such as, transport (+0.70% m/m), restaurants and hotels (+0.65% m/m) contributed positively to the inflation, reflecting moderate indexation effects. While Lodging & utilities group prices slightly increased by 0.13% m/m, with a recovery signal on rent fees (+0.18% m/m), which is positive since that item was hard hit by the pandemic effect on households income last year.

Looking at broad categories, goods inflation fell by -21 bps to 0.42% y/y, services inflation fell from 1.29% y/y to 1.04% y/y, and regulated-price inflation increased by 21 bps to 0.95% y/y. Core inflation remained low: ex-food inflation came in at 0.89% y/y (down 15 bps from December), while ex-food and regulated inflation fell by -24 bps from December to 0.87% y/y in January. One thing to keep an eye on is that low-income households face higher inflation (+2.30% y/y) than high-income households (+1.01% y/y), which would weigh against policy rate cuts in the short term, especially since low-income people are the less banked population.

January's inflation results reduce the possibility of monetary policy rate (MPR) cuts in the short term, since it does not point to a worse than BanRep staff's expected scenario. However, activity information will be relevant to confirm the stability view. We still forecast the 2021 annual inflation rate to converge to a level (i.e., 2.8% y/y) slightly below BanRep's 3% y/y target by the end-2021. We also anticipate that base effects could dampen year-on-year inflation numbers in Q1-2021, but annual inflation rates are expected to begin rising again by Q2-2021 as negative pressures from items such as education are difficult to repeat. That said the MPR would remain at 1.75% at least until September-2021, when BanRep's Board would start to consider rate hikes.

—Sergio Olarte & Jackeline Piraján

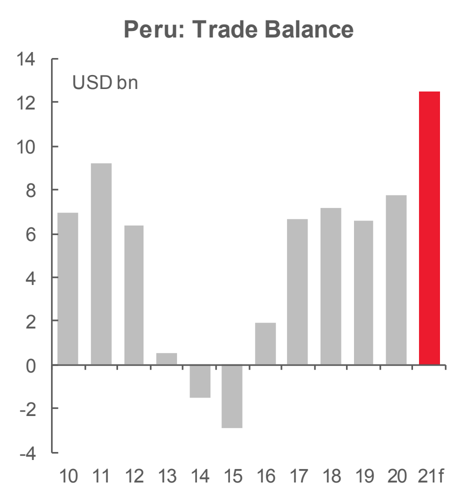
PERU: THE COUNTRY SHOULD REGISTER A HISTORIC TRADE BALANCE SURPLUS IN 2021

The trade balance closed 2020 with a surplus of USD 7.8 bn, its highest level since 2011 and slightly above our estimate of USD 7.6 bn, in data just out from the BCRP (chart 6). This result was accompanied by a lower volume of commercial exchange since both exports (-11.1%) and imports (-15.6%) fell.

Exports were affected by the decrease in exported volume during Q2–2020 due to logistical problems associated with the quarantine generated by the arrival of COVID-19 and the lower demand for manufactured products—especially textiles, metal-mechanics and steel-metallurgy—before the global recession. These factors were partially offset by the increase in export prices, particularly metals, which made it possible to close 2020 with an 8.2% increase in the terms of trade, its highest growth since 2010 (chart 7).

The reduction in imports was driven by less purchases of raw materials due to the significant drop in the price of petroleum—Peru is a net importer of fuels—and the lower input volume demanded by the industry (product of the recession that registered the economy). On the other hand, imports of capital goods fell in line with the decline in public and private investment, mainly affected by the stoppage of public works during Q2–2020 due to the quarantine decreed by the government to combat COVID-19.

Chart 6



Sources: Scotiabank Economics, BCRP.

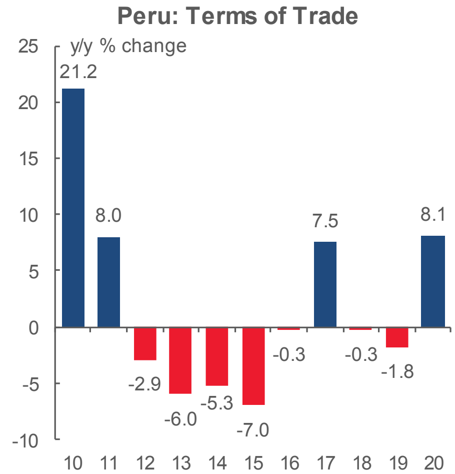
By 2021 we project that the trade balance will register a record surplus equal to USD 12.5 bn. It should be noted that between September and December 2020, four consecutive months were completed with a monthly surplus of more than USD 1 bn.

Exports (+22%) would be driven by the rise in the price of metals and by the increase in export volumes of non-traditional products, which were affected by the logistical restrictions associated with the quarantine registered in Q2–2020. In particular, we project mining, fishmeal and agricultural exports to lead the mentioned growth.

Additionally, imports would also recover (+13%), but without reaching their pre-COVID-19 levels. Input imports would be the fastest growing, given the low comparison base and the recovery in oil prices. Furthermore, purchases of capital goods would increase in line with the recovery of private and public investment. Finally, imports of consumer goods would bounce back as a result of the upward trend in the purchase of products linked to the pandemic such as masks, personal protective equipment and medicines; as well as foodstuff—given the rise in soft commodities—and laptops and tablets in view of the increased use of remote work and virtual education.

—Pablo Nano

Chart 7



Sources: Scotiabank Economics, BCRP.