

Latam Daily: Chile October Inflation; Colombia Confidence Up; Mexico August Indicators

- **Chile:** October CPI increased 1.3% m/m (6% y/y), due to extraordinary increases in travel services
- **Colombia:** Consumer confidence up again as economic conditions and activity improve; some hesitancy for 2022 expectations
- **Mexico:** Mixed August indicators as investment ticks up m/m but COVID-19 third wave and supply chain disruptions keep up the pressure

CHILE: OCTOBER CPI INCREASED 1.3% M/M (6% Y/Y), DUE TO EXTRAORDINARY INCREASES IN TRAVEL SERVICES

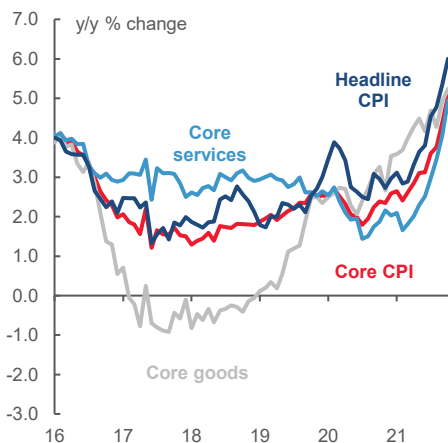
On Monday, November 8, statistical agency (INE) released October's CPI, which increased 1.3% m/m (6.0% y/y, chart 1), above market expectations (Bloomberg: 0.9% m/m). The figure was explained mainly by increases in two services: tourist packages (55.8% m/m) and air transport fares (45.4% m/m), which contributed 0.85 percent points (ppts) to the m/m inflation. In September, those products had only increased by 2.5% m/m and 23.5% m/m, respectively.

By components, the core CPI (without food and energy items) rose 1.4% m/m (5.1% y/y), with m/m increases of the same magnitude in both goods and services but with greater impact of the above noted services (chart 2). Excluding those, the core CPI of goods would have decreased 0.6% m/m and the core services would have increased 0.7% m/m.

By category, transportation (0.53 ppts) and recreation and culture (0.50 ppts) recorded the highest contributions to the m/m inflation, again due to the rise in the products mentioned above. Meanwhile, housing (0.19 ppts) and restaurants and hotels (0.14 ppts) increased due to expected rises in liquid petroleum gas (LPG) and co-ownership expenses, respectively.

Chart 1

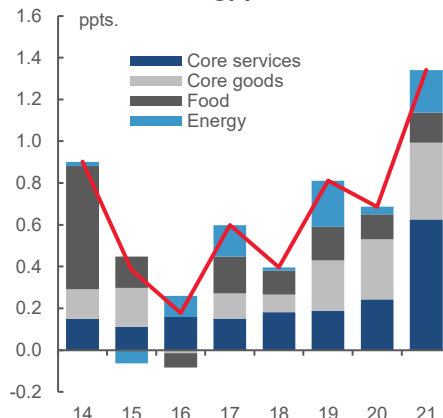
Chile: Headline and Core CPI



Sources: Scotiabank Economics, INE.

Chart 2

Chile: Contributions to October's CPI



Sources: Scotiabank Economics, INE.

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In general, the inflationary dispersion, which is the proportion of products with rises m/m, was below its historical average of the last 11 years for October, showing that the inflation pressures decreased compared to [last month's figures](#). However, the recent high inflation figures are introducing persistence and second-round effects. Consequently, we consider that the central bank will hike the monetary policy rate up to 4% in its December meeting. However, in a scenario where Congress approves the bill for a new withdrawal of pension funds, the long-term inflation expectations could increase and the central bank could hike the policy rate beyond 4%.

—Jorge Selaive, Anibal Alarcón, & Waldo Riveras

COLOMBIA: CONSUMER CONFIDENCE UP AGAIN AS ECONOMIC CONDITIONS AND ACTIVITY IMPROVE; SOME HESITANCY FOR 2022 EXPECTATIONS

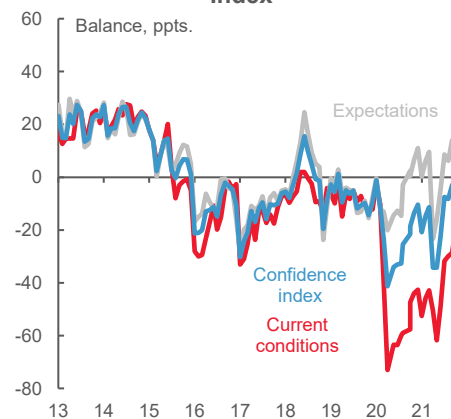
Colombia's Consumer Confidence Index (CCI) in October reported a balance of **-1.3 ppts**, improving from the **-3 ppts in September** and closer to the **January 2020 benchmark level**. The data was released by Colombia's Fedesarrollo on Monday, November 8. In October, Colombians worked in an environment of broad normality and, as it was a school holiday season, services and hotels sectors operated at a higher capacity. Main cities continued lifting restrictions for massive events as COVID-19 contagious have significantly declined. Against this backdrop, consumers' optimism about current conditions improved (chart 3), showing a significant boost in the willingness to buy durable goods despite COP weakness. It is worth noting that the assessment of future conditions fell as consumers expect a more moderate economic activity recovery next year.

Looking at October's details:

- The Current Conditions Index rose to -19.2 ppts from September's -28.7 ppts, its highest level since February 2020.** Although consumers' perceptions of the current situation remained deep in negative territory, in October, consumers' appetite to buy new durable goods (chart 4) showed the strongest monthly rebound since mid-2015, 16.1 ppt from -44.3 ppts to -28.2 ppts. We think that better labour market dynamics and consolidation of the reopening is encouraging consumers to purchase more despite the higher prices due to international costs and FX depreciation effects.
- The Expectations Index fell by 3.5 ppts from September's 14.1 ppts level (chart 3, again).** Expectations on the country's economic future worsened and also the assessment about economic future in their households weakened. We think consumers are showing uncertainty regarding the election process that will take place in 2022, although the expectations index continues in positive territory and higher than 2019 levels.
- Consumer confidence numbers improved in two of the five major cities surveyed at the regional level, with Bogota now leading the gains.** On the negative side, Medellin and Barranquilla showed the worst contractions, -2.7 ppts and -12.3 ppts, respectively as the willingness to buy houses fell. In fact, in both cities willingness to buy houses erased three months of gains. In the case of Bogota, consumer confidence rebounded strongly on the basis of greater willingness to buy durable goods, which stood at their best level since March 2020.
- Confidence rebounded across socioeconomic status: high-income households had the most significant rebound from 2.6 ppts to 10.1 ppts, while the low-income population posted a mild improvement from -4.2 ppts to -3.4 ppts.** Middle-income households' confidence increased from -2.6 ppts to an almost neutral level of -0.8 ppts.

Chart 3

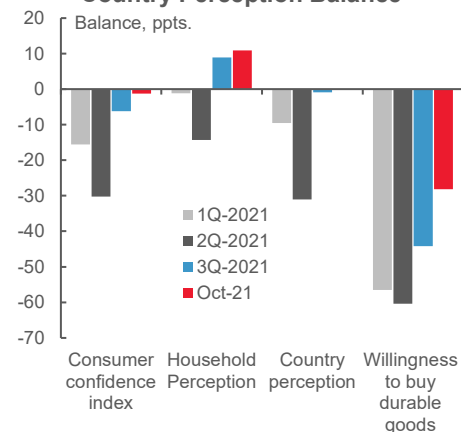
Colombia: Consumption Confidence Index



Sources: Scotiabank Economics, Fedesarrollo.

Chart 4

Colombia: CCI—Household and Country Perception Balance



Sources: Scotiabank Economics, Fedesarrollo.

Overall, October's consumer confidence strengthened as Colombia is consolidating a strong reopening. However, the assessment of future conditions would point to some concerns ahead, likely in view of the upcoming electoral process of 2022. The greater willingness to buy durable goods is a positive surprise ahead of the year-end. That said, we expect that as the labour market consolidates and main cities continue allowing traditional services to operate, the sentiment will further improve, translating into better consumption numbers.

—Sergio Olarte & Jackeline Piraján

MEXICO: MIXED AUGUST INDICATORS AS INVESTMENT TICKS UP M/M BUT COVID-19 THIRD WAVE AND SUPPLY CHAIN DISTURPTIONS KEEP UP THE PRESSURE

I. Private consumption fell in August amid higher contagions by the Delta variant

According to statistical agency, **INEGI**, private consumption in August fell for the third consecutive occasion, from **-0.0% m/m to -0.6% m/m measured with seasonally adjusted figures**. All of its components fell, with the biggest drop registered in imported goods (-6.8% m/m), followed by domestic goods (-0.3% m/m), and services (-0.1% m/m). In its annual comparison, consumption moderated from 12.1% y/y to 10.1% y/y nsa, still showing distortions due to the base effect of 2020. In August, consumption remained affected by the rebound of the third wave of contagions, even though restrictions were not as severe as during the first and second waves.

Going forward, we expect consumption to recover as **COVID-19-related risk diminishes, in line with the rebound in consumer confidence observed in September and October**. However, rising prices, along with some uncertainty regarding disruptions in value chains pose the main downside risks to consumption in the coming months.

II. Investment increased m/m in August, but weakness remains

Also released yesterday (Monday, November 8), was data by **INEGI** showing gross fixed investment moderated in its monthly variation from **2.5% m/m to 1.1% m/m, measured in a seasonally adjusted series**. Construction accelerated from 2.7% m/m to 3.2% m/m, led by its residential subcomponent, while machinery and equipment fell from 4.4% m/m to -1.0% m/m, with a more pronounced deterioration in the imported subcomponent affected by supply chain disruptions. In its annual comparison, investment moderated from 15.6% y/y to 13.9% y/y, again showing distortions owing to the low comparison base. Nevertheless, investment continues to be far from pre-pandemic levels with persistent weakness. Going forward, uncertainty regarding public-private sector relations could keep investment weak, thus compromising a broader and faster-paced recovery of the economy.

III. Annual drop in October in production and exports in the auto sector; outlook remains complicated owing to supply chain disruptions

Lastly, **INEGI's** automotive industry numbers showed persistent problems posed by supply chain disruptions and input shortages. Despite a monthly rebound from -12.2% m/m to 23.9% m/m in production and from -8.2% m/m to 15.0% m/m in exports, they both face downward pressures, as observed in its annual drop of -25.9% y/y and -19.9% y/y, respectively.

2021 auto production and export figures so far show an improvement over 2020 but levels remain below 2019: from January to October 2021, auto production totalled 2,520 mn units YTD, above the same period in 2020 (2,473 mn units YTD) but below 2019 numbers (3,288 mn YTD). In the same sense, exports were up in the first ten months of 2021 (2,239 mn YTD) compared to 2020 (2,119 mn YTD), but below 2019 (2,876 mn YTD). Domestic sales, meanwhile, fell from -1.7% m/m to -0.4% m/m in sequential terms and from -1.1% y/y to -9.1% y/y on yearly basis. Sales added up to 834 thousand units, above the same period in 2019 (748k), but below by almost one fifth compared to Jan-Oct of 2020 (1,062 mn).

Logistical disruptions and input shortages are expected to extend for the remainder of the year and through the first part of 2022, which is why we foresee a complicated scenario for auto production and exports over the coming months. On the demand side, price increases as well as higher rates pose the main downside risk over the medium term, despite the expected recovery in consumption.

—Miguel Saldaña

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