

Latam Daily: Chile's Inflation Pushed Higher by Housing and Services

- Chile: August CPI increased 4.8% y/y; we forecast September CPI of 0.6% m/m and annual inflation to December 2021 at 5.0%

CHILE: AUGUST CPI INCREASED 4.8% Y/Y; WE FORECAST SEPTEMBER CPI OF 0.6% M/M AND ANNUAL INFLATION TO DECEMBER 2021 AT 5.0%

Reopening and high household liquidity push some services higher while goods prices stabilize.

On Wednesday, September 8, the statistical agency INE released the CPI for August, which increased 0.4% m/m (4.8% y/y)—above our expectation (0.2% m/m), but in line with consensus. The increase is largely explained by price rises in the restaurants and hotels component (accounting for 0.12 percentage points) and housing (0.13 pts). In our view, the process of reopening of the economy during August led to several services experiencing important and counter-seasonal increases in prices. Goods prices, meanwhile, showed signs of stabilizing.

August inflation was driven higher by increases in core services (chart 1) linked to the reopening of the economy and the adjustment in service prices subjected to pandemic restrictions in an environment of strong demand supported by household liquidity. Higher prices for energy products also stand out, particularly increases in liquid petroleum gas, which is not regulated unlike the price of gasoline and diesel. Finally, price increases of both core goods and food were somewhat lower than expected, accounting for less of the overall increase than would be expected from their seasonal factors for the month. Core inflation was 0.4% m/m (3.8% y/y), with a rise of 0.1% m/m in goods and 0.5% m/m in services (chart 2).

For September's CPI, the INE announced the reincorporation of air transport services and tourist packages, which have been imputed since May 2020 and together have a weight of 1.5% in the basket. Last week, the INE reported

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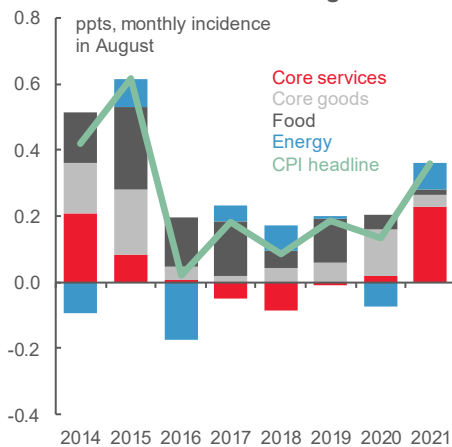
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Chart 1

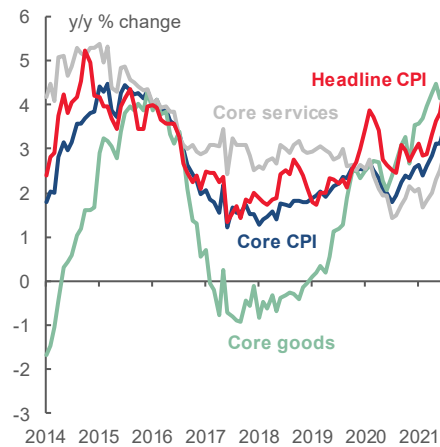
Chile: Contributions to August's CPI



Sources: Scotiabank Economics, INE.

Chart 2

Chile: Headline and Core CPI



Sources: Scotiabank Economics, INE.

that it will use direct comparison; that is, the prices for both services it collects in September will be compared with the imputed price level, without accounting for possible changes in quality. We estimate that during the pandemic air transport fares decreased, while tourist packages increased in price. Overall, these effects will have a positive impact on September's CPI.

We expect September CPI of 0.6% m/m, while we increase our forecast for the CPI to December 2021 to 5.0% y/y, reflecting the methodological adjustments of the INE and the depreciation of the Chilean peso owing to the high degree of political uncertainty.

—Jorge Selaive, Anibal Alarcón, & Waldo Riveras

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