Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Contributors

Juan Manuel Herrera
Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Aníbal Alarcón, Senior Economist
+56.2.2619.5465 (Chile)
anibal.alarcon@scotiabank.cl

Latam Daily: Chile's Inflation Exceeds Forecasts

- **Chile: CLP strength not reflected in goods yet, services don't show full VAT pass-through**

Choppy trading and swings in risk sentiment during Powell's chat yesterday was followed by a final, more welcoming, reaction to his comments that saw US equities rally into the close and the USD ultimately end lower on the day. Dollar losses extended in European trading, but with the bulk of this on a sharp move ahead of the London open that has left the USD on weak footing.

It was a quiet overnight session on the data and events front as we look ahead to a slew of central bank speakers, most notably the Fed's Williams (neutral) at 9.15ET.

The Latam day ahead is uneventful following the headliner, Chilean January CPI that significantly beat estimates with core gains the stand-out. The CLP is the second-best performing currency in the expanded majors space, with a ~1% gain, roughly double the average gains in the BRL and MXN, while Chilean rates markets push out rate cut expectations to the May meeting with a hold in April expected. The BCCh still has a few data prints to go before it makes up its mind on rates policy in the months ahead, however.

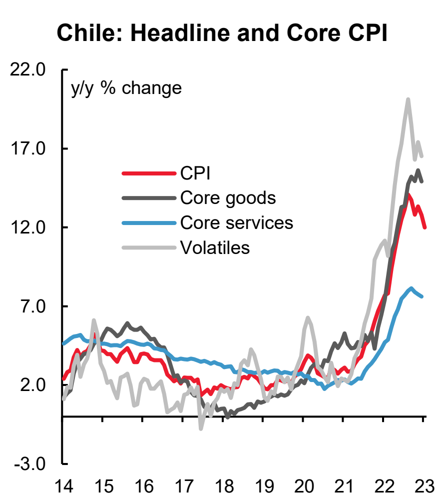
—Juan Manuel Herrera

CHILE: CLP STRENGTH NOT REFLECTED IN GOODS YET, SERVICES DON'T SHOW FULL VAT PASS-THROUGH

Inflation is still not responding to the appreciation of the CLP nor lower demand as January's CPI gain of 0.8% m/m and 12.3% y/y (charts 1 and 2) exceeded our, and the median's expectation. Beyond the inflationary effect of the VAT on services, inflation in this category did not drop as expected and goods inflation is still not responding to the strong multilateral appreciation of the currency.

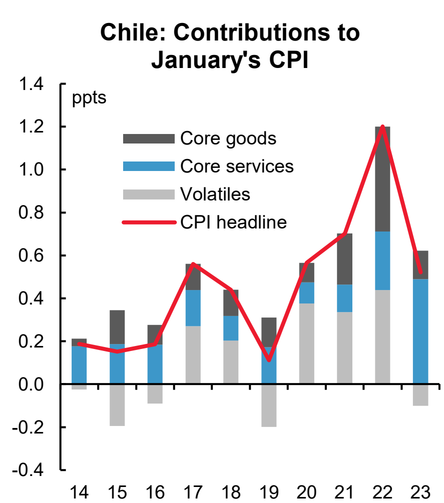
Core inflation for both goods and services accelerated. Core volatility remains high. Likewise, inflationary diffusion in goods and services accelerated again, reaching the upper part of the range observed for the month. This could be due to the annual adjustments for past inflation in goods and services, reflecting the high levels of

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

indexation to inflation in the Chilean economy. Moreover, we cannot rule out that the high levels of inflation reached in previous months have led to inflation adjustments for a greater number of goods and services increasing the importance of inflation indexation.

This time around, no surprises were seen in food and in volatile items. There was a downward impact from fuels and an upward impact, but of lesser magnitude, from food. Inflation in these groups continues to decelerate and, in fact, these increases were in line with our projection. On the other hand, the main surprise originated at the non-volatile goods level, along with air transport services and food at restaurants.

The services VAT was felt, but to a lesser extent than expected. Of note this month were increases in services subject to the new VAT in gymnasiums and veterinary services, but with increases lower than the 19% expected. Due to the gradual application of the law, we could see further increases in the coming months. However, we could also have the opposite effects due to a change in the commercial category of business of some suppliers in order to avoid the effects of the law.

The multilateral appreciation of the peso is not yet strongly felt, which could be explained by second round effects and/or imported inventories acquired at higher exchange rates. However, we believe that it is a matter of time, if the exchange rate appreciation of the last few months continues. Goods inflation dropped to 15.9% y/y, still well above historical ranges and showing no signs of reflecting the decline in the USDCLP observed in recent months. This was nevertheless reflected in new increases in imported products such as clothing, home furnishings, beauty products, among others. Perhaps the only product that could be responding to the lower demand and the appreciation of the peso is automobiles, which fell 1.1% m/m.

—Aníbal Alarcón