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Latam Daily: Chile's Inflation; Peru's Politics, Fiscal Performance and Expectations

- Chile: CPI increased 1.2% m/m in January (7.7% y/y)
- Peru: Political update, fiscal figures and business expectations

CHILE: CPI INCREASED 1.2% M/M IN JANUARY (7.7% Y/Y)

Persistent inflationary pressures on goods further complicate the inflationary situation.

On Tuesday, February 8, the statistical agency (INE) released the CPI for January, which rose 1.2% m/m (7.7% y/y) (chart 1), above both market consensus (0.5% m/m) and our expectations (0.43% m/m). Reversals that we had expected in air transport and tourist packages did not materialize in January, adding to the general increase in core inflation measures, both in goods and services, together with higher prices for more volatile items, such as food and energy.

Along with the January CPI reading of 1.2% m/m, the index that excludes volatile elements also increased 1.2% m/m, the second highest reading in the last 25 years, surpassed only in March 2008. Previously, such increases were last recorded in the mid-1990s.

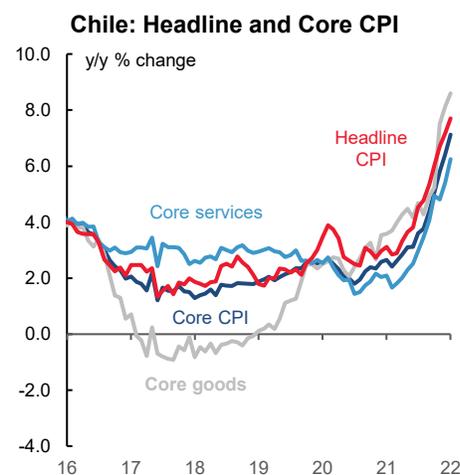
Core CPI (without food and energy) increased 1.1% m/m (7.1% y/y), with goods inflation of 1.0% m/m (8.6% y/y) and services of 1.2% m/m (6.3% y/y). The most volatile items, such as food and energy, continued to fuel inflation, with increases of 1.6% m/m and 0.8% m/m, respectively (chart 2).

Price pressures were highly diffused within the total CPI, exceeding the upper part of the historical range of recent years, at 69%. By components, the percentage of products that experienced m/m price increases in the core CPI basket was 64.7%, also above the historical range, mainly due to the high diffusion of price pressures among goods (65.2%).

In our view, this reading further complicates the inflationary situation that we have observed over the last year, exacerbating the already worrying de-anchoring of inflation expectations. Given this, in its next Monetary Policy Meeting on March 29, the central bank is likely to significantly increase the benchmark rate, with hikes of between 100 and 150 basis points once again under consideration.

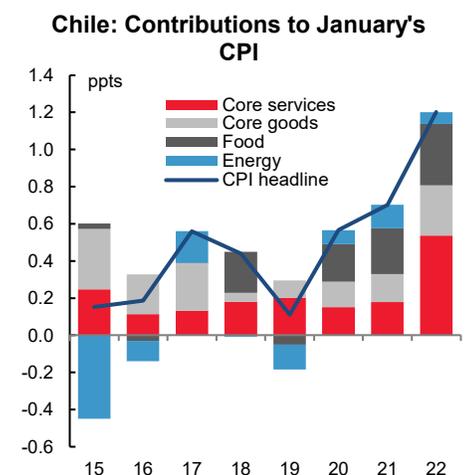
—Jorge Selaive, Anibal Alarcón, & Waldo Riveras

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

PERU: POLITICAL UPDATE, FISCAL FIGURES AND BUSINESS EXPECTATIONS

President Castillo will have to rebuild his Cabinet—the fourth in the past seven months—after political turmoil erupted over his appointment of Héctor Valer as Prime Minister.

Valer, who took office on February 1, submitted his resignation on February 5, making his one of the shortest Cabinet tenures ever. The new Cabinet should be known in the next few hours/days. With this latest episode of political instability, President Castillo has lost political support in Congress, though there seems to be no consensus regarding the possibility of a new impeachment moving forward.

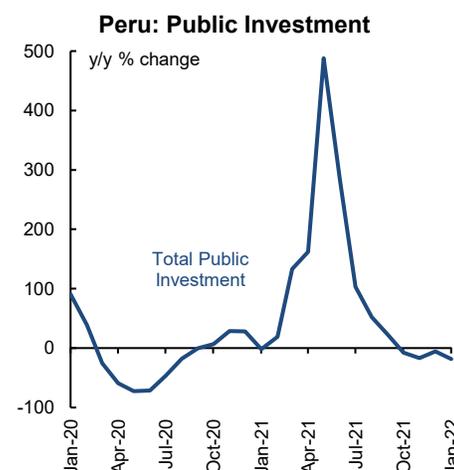
Meanwhile, fiscal data show that tax collections continued to improve in January (+11% y/y), in line with the recovery of domestic demand and with extraordinary payments corresponding to previous years.

On the spending side, public investment fell in January (-19% y/y), for the fourth consecutive month, according to the MoF (chart 3). Investment by the National government (-27% y/y) and Local government (-9% y/y) fell, partially offset by higher spending by Regional governments (+0.4% y/y). While lower investment leads to slower growth in the economy, it contributes to the fiscal consolidation that we have seen in recent months. The fiscal deficit reached 2.6% of GDP in 2021, and our forecast is 3.0% of GDP this year.

Business expectations improved in January, the second consecutive month, although it remains in pessimistic territory (below 50 points), according to the BCRP's expectations surveys (chart 4). The survey revealed that the main factor impacting sales in January was the omicron wave (around 30% indicated a significant impact), though close to 70% indicated the latest variant had only a moderate or slight impact. The second most important factor was problems in the supply chain. Expectations of economic growth for 2022 are between 2.6% and 3.0%, reflecting cautious optimism. 12-month inflation expectations continue to creep higher to 3.7%, while policy rate expectations have risen to between 4.0% and 4.25%, close to our forecast of 4.50% at year-end.

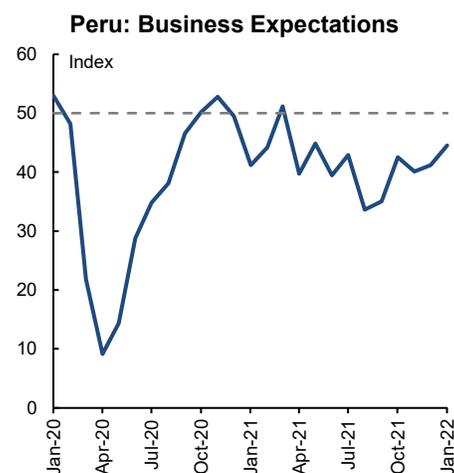
—Mario Guerrero

Chart 3



Sources: Scotiabank Economics, MEF.

Chart 4



Sources: Scotiabank Economics, BCRP.

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