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Latam Daily: Chile's Inflation Gets a Vacation Break

- Chile: February CPI inflation at 0.3% m/m (7.8% y/y)

CHILE: FEBRUARY CPI INFLATION AT 0.3% M/M (7.8% Y/Y)

February's inflation moderated by revisions to tourist package and air transport prices, with further adjustments likely in March.

On Tuesday, March 8, the statistical agency INE released the CPI for February, which increased 0.3% m/m (7.8% y/y), well below market expectations of 0.6% m/m or more.

The increase is explained by higher food and fuel prices, offset only in part by declines in goods and services prices resulting from the downward correction of tourist packages and air transport services.

Core inflation remains high, at 0.7% m/m (chart 1), with a high percentage of products fueling inflation. Excluding foodstuffs and energy (SAE), inflation fell to 0.3% m/m (6.6% y/y) in February, with goods prices declining 0.6% m/m (7.5% y/y) and services by 0.1% m/m (6.1% y/y). However, the goods and services elements of the SAE would have increased 0.8% m/m and 0.3% m/m, respectively, if tourist packages and air transport were excluded.

As we expected, tourist package and air transport prices were revised downward following unusual price rises observed in October 2021. Analyzing these increases using INE methodology, we detected an anomaly by comparing them with price changes of the same products in other countries. INE adjusted the February data, reporting price drops of 24.3% m/m in tourist packages (-0.36 ppts) and 17.5% m/m in air transport (-0.18 ppts), subtracting 0.55 ppts from the m/m inflation (chart 2). These revisions were applied when the seasonal factor for the month pointed to falls in prices in both items, which combined with lower demand for trips abroad. We estimate that further declines in the prices of both services are likely, which could subtract a little more from inflation in March.

Meanwhile, the dispersion of price pressures remained above historical ranges in February, a clear sign that inflation is still far from moderating. The number of products that registered price increases compared to the previous month was 67% (January 69%), with a high diffusion also observed in the core basket (61%).

Another relevant item within the month's inflation was gasoline (1.9% m/m; incidence +0.06 ppts). The Fuel Prices Stabilization Mechanism (MEPCO) continues to soften local fuel prices, dampening the effect of higher external prices. We estimate that if the current price levels are maintained until the end of the year there would be at least 10 months of

Chart 1

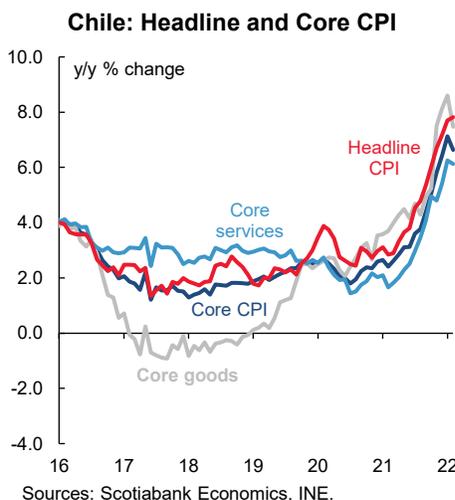
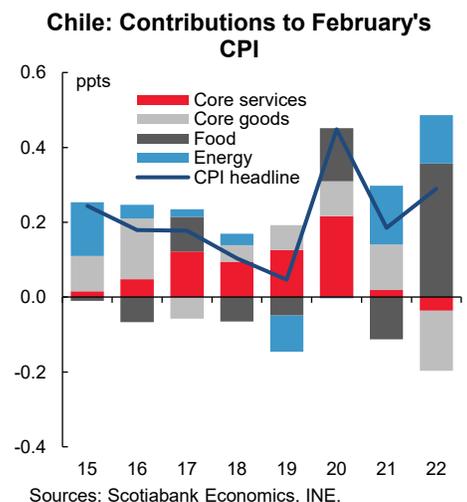


Chart 2



March 8, 2022

increases in the price of fuels (gasoline and diesel), resulting in an incidence like February's through the end of the year. The market has factored in this effect, adjusting inflation expectations for the coming months upwards.

Food prices registered a historical increase of 1.8% m/m in February. The jump in foodstuff prices was led by the price of meat (beef and chicken) and non-perishable foods. We have highlighted the adjustment in the prices of grain, sugar and dairy derivatives, all linked to the global foodstuffs price shock. We expect further price hikes in the coming months.

—Jorge Selaive, Anibal Alarcón, & Waldo Riveras

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