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## Latam Daily: Chile December Imacec Contracted 1%; Peru January CPI Below Consensus

- Chile: December Imacec contracted 1% y/y
- Peru: January CPI

### CHILE: DECEMBER IMACEC CONTRACTED 1% Y/Y

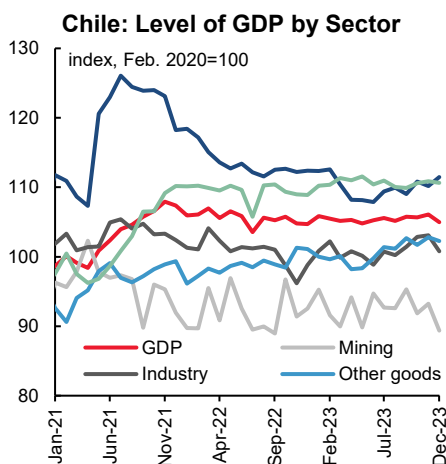
- The sharp month-on-month drop in GDP in December (-1.1%) could be a reflection of economic over-adjustment

On Thursday, February 1<sup>st</sup>, the Central Bank (BCCh) released December GDP, which contracted 1% y/y, disappointing market expectations (+0.5%) and surveys (+0.9%). With this, GDP would have fallen 0.2% in 2023, below what was expected by both the BCCh and the Ministry of Finance (MoF) and more in line with the GDP Fall projection that we raised at Scotiabank for much of the year. Along the same lines, the seasonally adjusted Imacec contracted 1.1% m/m, probably reflecting economic over-adjustment, with setbacks in a large part of the sectors of which there is visibility (chart 1) and providing a -0.4% carry-over effect for 2024 (chart 2). That is, the economy will require a strong acceleration next year to achieve the economic growth rates expected by the market and authorities.

Weak investment continues to undermine the performance of business services. By economic sectors, non-mining GDP contracted 0.5% m/m, mainly due to the decline in the GDP of industry (-2.2% m/m) and services (-0.2% m/m). Within the latter, the contraction experienced by the GDP of business services stands out, linked to public and private investment, where the deterioration would be pushing activity back to levels seen in mid-2021. Although an acceleration of public investment was observed in recent months, it was not enough to execute the entire budgeted capital expenditure, reaching an advance of 82% in execution and showing an annual drop of 2.4% in real terms last year according to figures from the Budget Office.

For its part, mining GDP contracted 4.2% m/m, taking the sector's economic activity to its lowest level in more than a year (since September 2022). Although the INE figures anticipated a fall, we estimate that the greater contraction reported in GDP would have been explained by methodological differences compared to the work carried out by the INE, so we do not rule out a slight reversal of the level of mining GDP in January. All in all, mining GDP would have grown 0.5% in 2023, after a first quarter marked by the final processing of the mining royalty and a second part of the year with the unlocking of some private investment projects in the sector.

Chart 1



Sources: Scotiabank Economics, BCCh.

Chart 2



Sources: Scotiabank Economics, BCCh.

February 2, 2024

At Scotiabank, we warn about the most optimistic growth projections for 2024, since the economy will need a relevant boost to take off given the low starting point that GDP provided in December, for which a more rapid acceleration of public investment will be necessary and a positive performance of private investment in sectors other than mining throughout the year.

—Aníbal Alarcón

## PERU: JANUARY CPI

The CPI in Lima was practically zero (+0.02% m/m) in January, below what was expected by the market consensus (+0.13% according to a Bloomberg survey) and the historical average of the last 20 years (+0.23%). At Scotiabank, we expected even a somewhat larger decrease (-0.10%). With this, year-on-year inflation continued to slow, going from 3.2% to 3.0%, remaining at its lowest level since June 2021 (chart 3).

In January, the main price increases were linked to the price of fruits (+5.5%)—with an increase greater than the historical average due to an El Niño with weak intensity, which was offset by lower prices of poultry products and by the decrease in local fuel prices.

Core inflation increased by 0.01%, slightly higher than the historical average (-0.04% in the last 20 years), so in year-on-year terms it remained at 2.9%, within the target range (between 1% and 3%) for the second consecutive month. Inflationary pressures on costs remained low, as did imported inflation. The PEN appreciated in January, for the third consecutive month, accumulating an appreciation of 3% during the last 12 months. As of January, there are 32 months in which inflation remains above the upper limit of 3% of the inflation target (table 1).

Inflation at the national level (not only in Lima) went from 3.4% to 3.0%, equaling Lima's inflation after 28 consecutive months of having exceeded it.

Looking ahead, we expect February inflation to remain around 3.0% y/y as we see no base effects with average inflation for February at 0.30% m/m. We maintain our forecast of 2.4% for 2024, which considers a weak El Niño scenario, close to the BCRP forecast (2.3%). Lower inflationary pressures create more room for the BCRP to continue its pace of interest rate cuts. We anticipate a new cut of 25bps to 6.25% at its meeting on Thursday, February 8<sup>th</sup>. We see a 50bps cut as less likely. One of the reasons is that monetary conditions look more moderate for 2024, according to the review carried out by the BCRP last December. Another is that we do not see a rush to change its policy, it seems comfortable with the current pace of rate cuts.

Chart 3

Peru: Headline and Core Inflation

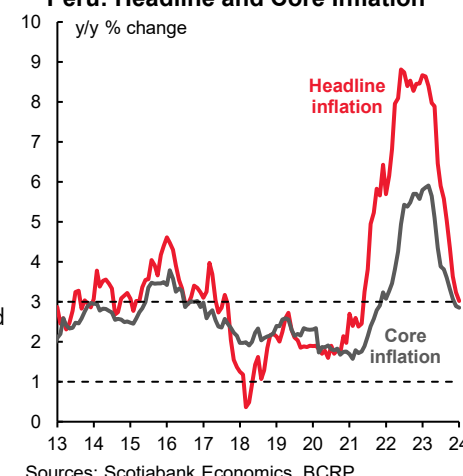


Table 1: Peru—Lima CPI Basket—January 2024

Groups of consumption	Base 2021	% m/m	% y/y
1. Food and non-alcoholic beverages	22.97	-0.02	3.0
2. Alcoholic beverages, tobacco, drugs	1.61	0.59	3.9
3. Apparel and footwear	4.20	0.13	2.8
4. Housing, water, electricity, gas and others	10.55	0.06	-1.9
5. Furniture and home maintenance	5.11	0.17	1.9
6. Health	3.48	0.17	2.3
7. Transport	12.40	-0.54	1.9
8. Communications	4.77	-0.01	-0.1
9. Recreation and culture	3.96	0.02	3.1
10. Education	8.61	0.00	6.4
11. Restaurants & hotels	15.89	0.25	6.2
12. Other goods and services	6.47	0.28	4.1
<b>Total CPI</b>	<b>100.00</b>	<b>0.02</b>	<b>3.0</b>

\*Adjusted base to 12 from 8 groups of consumption.  
Sources: Scotiabank Economics, INEI.

—Mario Guerrero

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