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Latam Daily: Chile's CPI Rises to 0.3% m/m While Mexico's CPI Below Consensus

- **Chile: May CPI rose 0.3% m/m, above our projection**
- **Mexico: May inflation below expectations**

CHILE: MAY CPI ROSE 0.3% M/M, ABOVE OUR PROJECTION

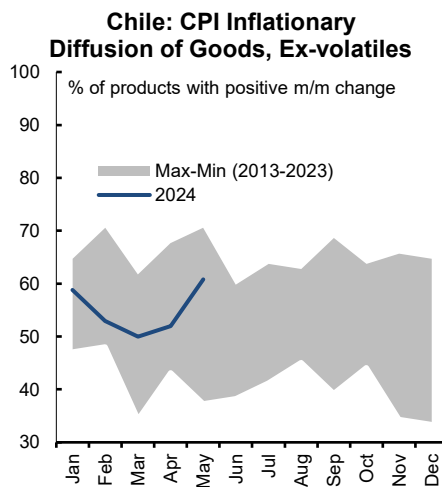
- **Annual inflation stands at 3.4%, above our projection although without surprises for the Central Bank's base scenario**

On Friday, June 7th, the Statistics Agency (INE) published the CPI for May, which rose 0.3% m/m, significantly surprising our projection of 0%, although well below market expectations (Economists Survey: 0.3%; Traders Survey: 0.2%). Our expectation of greater impacts on the basket of the recent appreciation of the CLP is not observed in this monthly record. However, we expect that the strength of the peso will be observed during the coming months in several tradable products.

By division, the greatest positive impact came from transportation, due to the expected increase in gasoline. Along the same lines, the increase in clothing prices was especially significant and surprised us on the upside. That is one of the divisions where we could be seeing lagged effects of past depreciation. Along these lines, goods are what explained May's inflation, while services continue to decelerate their inflationary records.

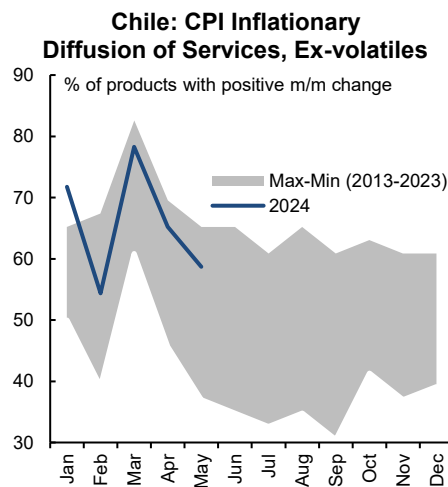
We observe a widespread counter-seasonal acceleration in inflationary diffusion within the basket and especially on the goods side. In May, the total diffusion within the basket increased to 55.8%, while excluding volatiles it rose to 60.1%, both records at the top of their historical range. These counter-seasonal increases were explained by generalized increases in goods (60.8%), since services continued to moderate the pace of monthly increases (58.7%), see charts 1 and 2.

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

—Aníbal Alarcón

MEXICO: MAY INFLATION BELOW EXPECTATIONS

In May, inflation accelerated less than expected, to 4.69% from 4.65% (vs. 4.82% consensus), while core inflation also came in below consensus, moderating from 4.37% to 4.21% (vs. 4.25% consensus). Merchandise inflation decelerated 3.38% (3.67% previously), and services inflation decreased to 4.49% (4.79% previously). On the other hand, non-

core inflation led the increase, edging up to 6.19% (5.54% previously), with agricultural products rising 8.44% (7.35% previously). In its monthly comparison, headline inflation decreased -0.19% (-0.20% previously, -0.06% consensus), core inflation decreased to 0.17% (0.21% previously, 0.25% consensus) and non-core inflation decreased -1.28% (0.18% previously).

Chart 3

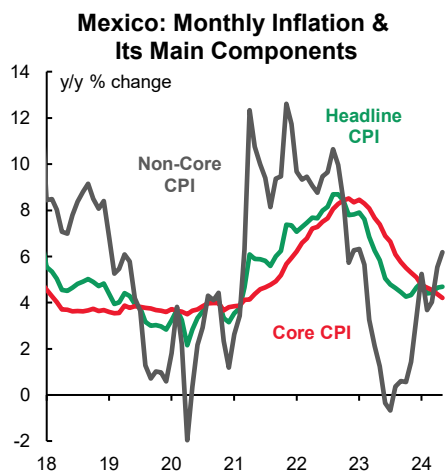


Chart 4

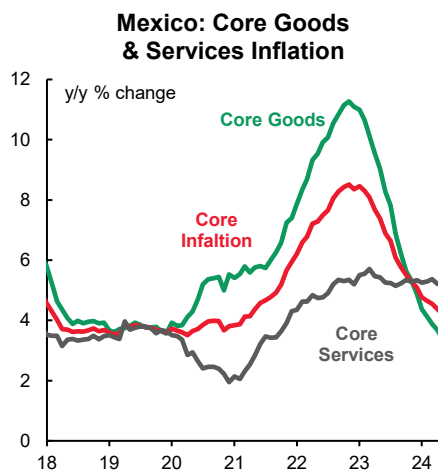
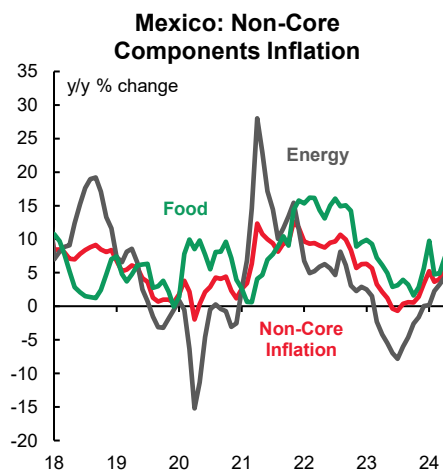


Chart 5



Sources: Scotiabank Economics, INEGI.

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Sources: Scotiabank Economics, INEGI.

Headline inflation has been accelerating for three consecutive months, in a range of 4.0%–5.0% for eleven months, but moving away from its lowest level of the year at 4.40% y/y in February, owing to the significant increase in energy and agricultural prices, specifically in fruits and vegetables, which have surely been affected by the weather’s adverse conditions, while livestock prices remain at low levels, even with negative variations in previous months. Additionally, energy also faces pressure in the short term caused by excess demand due to abnormally hot temperatures.

Monthly data suggests that in May prices remained under control, as we observed a low increase in merchandise (+0.07%), in contrast to services which rose +0.30%. Non-core inflation data showed a monthly drop, although this came from energy and government tariffs (-3.0%) as electricity tariffs faced downward adjustments because of the hot weather.

Looking ahead, we maintain our expectation that inflation will remain with pressures, although overall cooling down in 2024, with stickiness in services, and pressures in agriculture (at least until the weather situation improves). On the other hand, if the volatility in the USDMXN that was observed during the week continues, we think the risk of a pass-through in consumer prices could also affect Banxico’s decision making. This could be a determining factor for the central bank, in terms of the number of rate cuts it can make during the rest of the year in order to be sufficiently restrictive to reach its inflation target. In this sense, Banxico’s Financial Stability Report will be a good opportunity for the governor to address markets next week.

Indicator	2022			2023				2024	
	II	III	IV	I	II	III	IV	I	May
Headline	7.99	8.70	7.82	6.85	5.06	4.45	4.66	4.42	4.69
Core inflation	7.49	8.28	8.35	8.09	6.89	5.76	5.09	4.55	4.21
Goods	9.91	10.84	11.09	10.12	8.26	6.20	4.89	3.88	3.38
Food, drinks and tobacco	11.84	13.38	14.14	12.95	10.49	7.57	6.25	5.01	4.49
Non-food goods	7.78	8.00	7.68	6.93	5.70	4.59	3.28	2.53	2.05
Services	4.76	5.35	5.19	5.71	5.25	5.23	5.33	5.37	5.22
Households	2.97	3.15	3.17	3.54	3.66	3.58	3.64	3.78	3.81
Education	3.30	4.49	4.49	4.88	4.85	6.59	6.60	6.36	6.34
Other services	6.61	7.44	7.07	7.72	6.66	6.32	6.46	6.46	6.14
Non-core	9.47	9.96	6.27	3.27	-0.36	0.60	3.39	4.03	6.19
Agriculture	15.02	15.05	9.52	7.24	2.89	3.25	5.66	4.92	8.44
Fruits and vegetables	14.39	14.18	7.22	5.82	3.98	6.75	11.68	12.25	18.55
Livestock	15.51	15.79	11.50	8.37	2.05	0.33	0.68	-0.78	0.71
Energy and tariffs authorized by the government	5.22	5.88	3.66	0.16	-3.08	-1.71	1.46	3.29	4.20
Energetic	5.68	6.16	2.91	-2.26	-6.95	-4.61	0.06	3.25	4.81
Government authorized tariffs	4.12	5.23	5.48	6.35	6.26	5.14	4.82	3.38	2.88

Sources: Scotiabank Economics, INEGI.

—Brian Pérez & Miguel Saldaña

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