Latam Daily: Chile December IPoM; BanRep Preview, Colombia Imports/Economic Activity

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GLOBAL ECONOMICS

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- **Chile: IPoM confirms caution on future cuts, with likely pause in January**
- **Colombia: Monetary Policy Preview—BanRep will deliver the last 50bps cut of the year; Imports expanded for four months in a row, and the trade deficit widened, showing a recovery in domestic demand; Economic activity in October continues to outperform expectations**

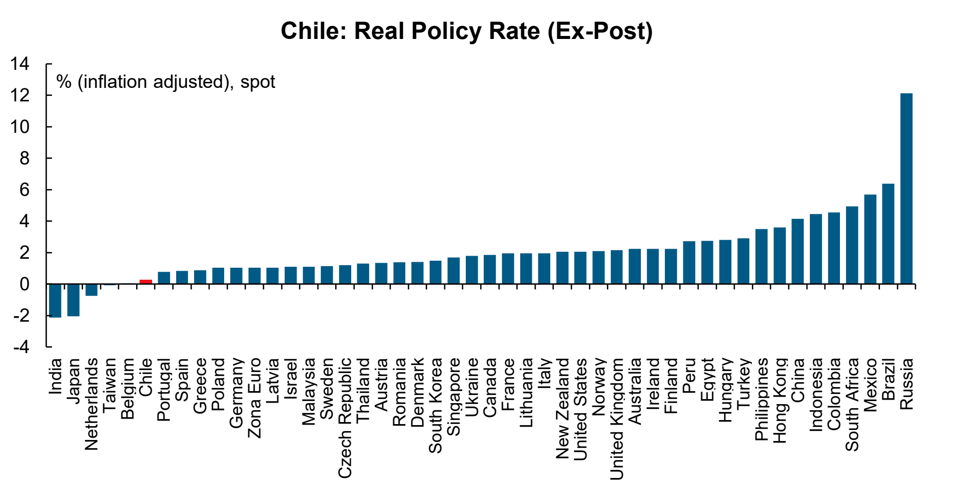
CHILE: IPOM CONFIRMS CAUTION ON FUTURE CUTS, WITH LIKELY PAUSE IN JANUARY

On Wednesday, December 18th, the Central Bank (BCCh) revealed its economic projections in the December IPoM, highlighting an expansion of 2.3% expected for the GDP (IPoM Sept-24: 2.4%) and of 4.8% y/y for CPI in 2024, the latter above what was projected in September (4.5% y/y). For 2025, the BCCh projects a CPI increase of 3.6% y/y, unchanged from the previous IPoM and similar to our 3.5% y/y projection. In this context, the working assumption for the policy rate assumed by the BCCh in its IPoM considers three cuts over the next year, one less than assumed in the previous IPoM, ratifying the cautious message delivered in the December meeting, where it cut 25bps and warned of upside risks for inflation in the short term.

The real policy rate in Chile is positioned as one of the lowest in the world (chart 1). After the December cut, the inflation-adjusted policy rate would be around 0% considering its spot level. Thus, its contribution to the year-on-year growth of private consumption would have been positive in Q3-24 according to estimates made by the BCCh, which would have continued in Q4-24. On the other hand, external financial conditions and consumer confidence in pessimistic territory detracted from private consumption growth, which surprised the Central Bank's projections downwards.

The Board could opt to maintain the policy rate at the January meeting, resuming cuts towards the end of Q1-25. At the next meeting on January 28th, the Central Bank will have a new monthly GDP figure (November) and the inflation figure for December, which according to our estimates has a high probability of being in negative territory. Although this is not the Central Bank's baseline scenario, the Board would opt to maintain the rate pending January CPI (to be released on February 7th), as this would incorporate a new increase in electricity tariffs and bring year-on-year inflation closer to 5%. Conditional on both inflation figures (plus February's), the Central Bank will evaluate the option to cut again at its March 21st meeting, where it will also publish a new scenario of economic projections.

Chart 1



Sources: Scotiabank Economics, Bloomberg.

With this, the BCCh's baseline scenario in terms of inflation is similar to ours, matching our assumption for the policy rate as of December 2025 (4.25%) by eliminating a cut from the previous IPoM. However, in terms of GDP growth for 2025, we remain somewhat more optimistic than the Central Bank, mainly due to our better outlook for investment growth next year. We reiterate our GDP growth projection of 2.5% for 2025, which is at the high end of the range estimated in the December IPoM (between 1.5 and 2.5%).

—Aníbal Alarcón

COLOMBIA: MONETARY POLICY PREVIEW—BANREP WILL DELIVER THE LAST 50 BPS CUT OF THE YEAR

On Friday, December 20th, BanRep will hold its last monetary policy meeting of 2024. During 2024, the progress on inflation and the negative output gap were arguments for continuing to take down the monetary policy rate. However, international volatility and domestic fiscal uncertainty prevented the Board from taking stronger steps in the easing cycle. In December, the Board faces a context in which the Federal Reserve projects fewer cuts in 2025; fiscal uncertainty has increased, while the minimum wage negotiation hasn't concluded, which is an additional source of uncertainty for inflation in 2025. Having said that, the backdrop supports caution: we project a 50bps rate cut tomorrow to close the year at a 9.25% rate.

In October, the Central Bank kept the cut pace at 50bps with the same vote division of five members voting for 50bps and two voting for 75bps. October's minutes suggested that the discussion around the reform of fiscal transfer to regions overshadowed the progress of inflation. That said, incoming information is not encouraging to expect an acceleration in the easing cycle. On the economic front, November's inflation and economic activity data were above expectations, which also supports a cautious stance and are probably enough of an argument to offset some concerns that could arise from the very narrow current account deficit.

The forthcoming meeting will be the first with Diego Guevara, as Finance Minister and president of the Board, participating. We expect Guevara to continue voting for a 75bps cut; however, it will be interesting to monitor his first intervention in the press conference, looking for some potential clues about fiscal perspectives.

Key points to consider ahead of December's BanRep meeting:

- **Inflation in November was above expectations.** Headline inflation stood at 5.20% after an upside surprise in November's release. Core inflation stood at 5.88%, showing moderate progress that reflected the first increase in monthly durable goods inflation in more than a year. Additionally, BEI has increased in recent weeks, which supports a cautious approach by the Central Bank.
- **Uncertainty around the minimum wage negotiation and FX depreciation could delay the inflation convergence to the Central Bank's target.** Business associations and labour unions failed to reach an agreement, while President Petro has said that as his reforms are failing to pass Congress debates, the lack of approval of the Labour Reform could be compensated by a higher minimum wage increment. We think the Board will continue acting cautiously, as one day before the meeting, we don't have progress in negotiations.
- **Economic activity has shown a better-than-expected performance.** Retail sales rebound, especially due to better demand for durable goods, and are signals of a recovery in domestic demand. It will be important to monitor whether this trend continues in the future, but for the moment, it is a fundamental support to BanRep's gradual approach.
- **Fiscal noise remains.** After rejecting the Financing Law in the congress debate, the fiscal policy is in the spotlight, not only because the Government has to announce cuts but also because CARF has emphasized there is a risk of not complying with the fiscal rule in 2024. Having said that, and considering that the narrow current account deficit is struggling to find traditional sources of funding, we expect BanRep's Board to remark on the necessity to continue with cautious steps in the easing cycle.
- **The international backdrop after the Fed's meeting is challenging.** The Federal Reserve implemented a hawkish cut at its December meeting, signaling that it will cut less than initially expected in 2025 and that the neutral rate will probably be reached after 2027. This changes the minds of markets that now are more focused on operating in the context of "higher for longer" and increasing fiscal risk around the world.
- **Why a 50bps cut and not a 25bps cut?** We think that inflation progress and the fact that Colombia is still operating in a negative output gap are arguments for continuing with the current speed of the easing cycle. A 25bps cut could maintain the real rate in a more-than-needed contractionary stance.

—Jackeline Piraján

IMPORTS EXPANDED FOR FOUR MONTHS IN A ROW, AND THE TRADE DEFICIT WIDENED, SHOWING A RECOVERY IN DOMESTIC DEMAND

On Wednesday, December 18th, DANE published the import data for October 2024. Imports reached USD $5.73 billion CIF, reaching the second-best result of the year, increasing 11% compared to the previous month and 6.6% compared to the same month last year (chart 2). The importing of manufactured products contributed the most to the result with a share of 72% (US $4.12 billion) contributing 4.9 ppts to the total annual variation, followed by the importing of agricultural products, food, and beverages which contributed 2.3 ppts. In contrast, the importing of fuels and other sectors partially offset the result slightly (-0.5 ppts).

Imports completed four months of expanding, suggesting a better dynamic of domestic demand. Imports of durable goods increased by 32.5% y/y, mainly explained by an increase in vehicle imports (+43.4% YoY), which is related to better sales recorded during October (32.2% y/y). Other consumer products also registered positive dynamics, such as household appliances, home furniture, and food, which can be attributed to importers' anticipation of the discount season such as Black Friday and Cyber Days in November, as well as the accumulation of inventories for the December holidays.

Imports of raw materials increased; however, the balance was negative for capital goods. Imports of raw materials for the agricultural and industrial sectors showed good dynamics, which is in line with better harvests and a more positive industrial sector, especially with a sustained rebound in the manufacturing of chemical and pharmaceutical products, while on the negative side, fuel imports registered a fall of -3.47% y/y, mainly due to lower oil imports. Imports of capital goods fell -7.5% y/y, construction, the agricultural sector, and industry registered an increase, while imports of transport equipment offset the result.

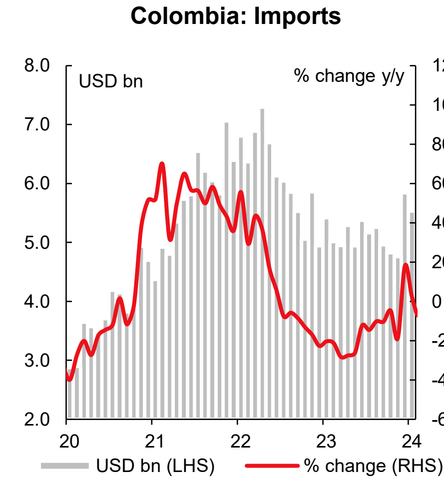
The trade balance stood at USD $1.05 billion, widening the deficit compared to October 2023 (USD $958.9 million) (chart 3). In October, exports contracted mainly due to the export of traditional products, especially mining products that have been impacted by the fall in oil prices internationally. It is important to keep an eye on how the deficit is being financed since recent BoP reports show that traditional sources of financing (FDI and capital net inflows) have been insufficient.

Key Highlights:

- **Consumption-goods imports expanded again. In October, imports of consumer goods grew 17% y/y, contributing 4.1 ppts to total import growth.** Imports of non-durable goods grew 6.6% year-on-year, driven by food and beverage products, in addition to showing an upturn in the import of textile products. Durable goods exports increased by 32.5% y/y, driven by imports of automobiles and household goods.
- **Imports of raw materials grew by 9.8% y/y.** Imports of intermediate goods and raw materials increased in the agricultural and industrial sectors with growth of 9.7% y/y and 15.2% y/y, respectively, while fuel imports partially offset the result with a contraction of -3.5% y/y.
- **Imports of capital goods contracted.** Imports of capital goods fell -7.5% y/y, given lower imports of transport equipment (-40.6 y/y). Imports of construction materials increased by 5.0% y/y, while imports of capital goods for agriculture and industry also showed growth of 27.8% y/y and 5.4% y/y, respectively (chart 4).

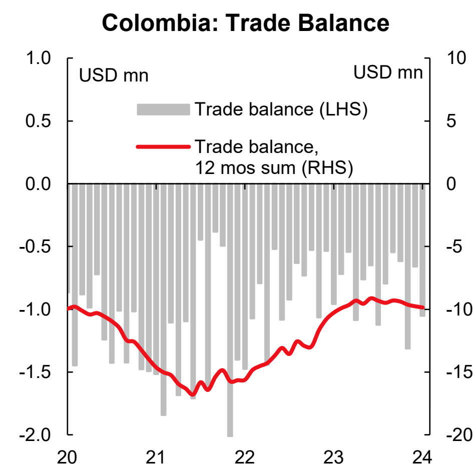
—Jackeline Piraján & Daniela Silva

Chart 2



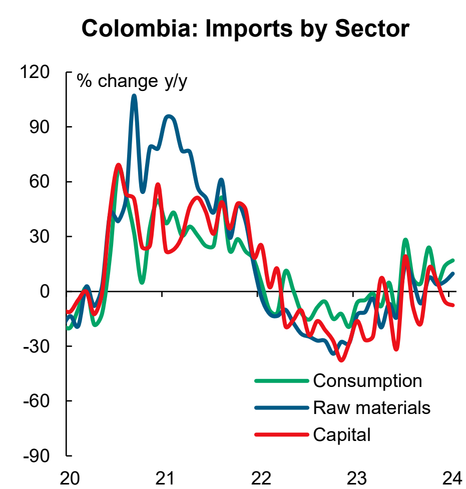
Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

Chart 4



Sources: Scotiabank Economics, DANE.

ECONOMIC ACTIVITY IN OCTOBER CONTINUES TO OUTPERFORM EXPECTATIONS

On Wednesday, December 18th, DANE released the October data for the Economic Activity Indicator (ISE). The indicator registered a 2.9% y/y growth (chart 5), exceeding the 2.3% market expectation and showing positive variations in seven of the nine activities. In marginal terms, economic activity also showed a strong performance, rising by 0.8% compared to September (chart 6).

Economic activity performed better-than-expected. The positive performance was concentrated in commerce and public administration. On the positive side, commerce showed an expansion of 5.0% y/y and 1.4% m/m, reversing the contraction of -1.5% m/m in September, signaling further recovery, particularly in durable goods consumption. Public administration activities, health, and leisure, expanded by 4.8% y/y and showed a positive marginal trend with an increase of 0.8% m/m, in contrast to the contraction of -1.1% m/m recorded last month. Agriculture recorded a growth of 4.4% y/y and 1.5% m/m. However, the positive performance of the agricultural sector may face challenges as expected weather conditions could affect the sector and counteract the growth achieved so far. On the negative side, the information and communications sector recorded a contraction of 5.9% y/y, making it the second sharpest contraction since the end of 2020.

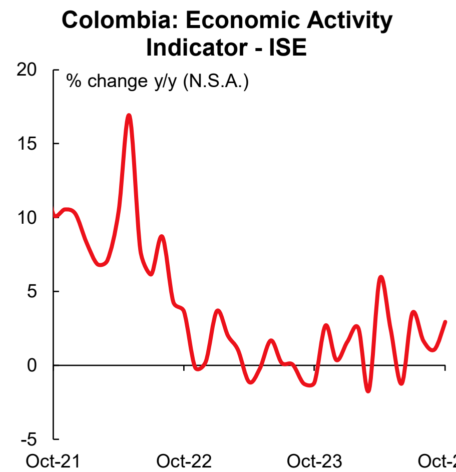
The positive results suggest that BanRep will not be in a hurry to accelerate the easing cycle. We continue to believe that there are more factors in favour of a 50bps cut at the December 20th meeting. The problems of economic growth are structural: the lack of investment continues to weigh on industry and construction, and the high cost of borrowing continues to pressure some part of household consumption. In addition, the Central Bank is more concerned about political issues related to fiscal policy and minimum wage negotiation. With this context, for the decision on December 20th, we expect the rate to fall from 9.75% to 9.25%, with fiscal concerns, inflation, and international financial conditions being the main factors likely to support this decision.

Key Highlights:

- **The primary sector continued to expand during the period.** In October, both agricultural and mining activities grew by 4.4% y/y. Coffee exports grew by 82.1% y/y, while overall agricultural exports increased by 24.4% y/y. Additionally, flowers and fruits contributed to the positive performance of the sector. On the domestic front, the supply of agricultural products saw a significant rise, growing by 8.9% in October. However, mining, coal, and extractive industries showed signs of contraction, this is mainly due to weaker domestic demand, which was reflected in an 18.0% y/y decline in mining exports.
- **Secondary activities grew by 1.4% y/y.** Both manufacturing and construction sectors returned to positive trends, in line with manufacturing output rising by 1.1% y/y during the same period. Meanwhile, construction activity is accelerating, being driven by stronger performance in civil works and a potential recovery in the housing sector, linked to declining interest rates.
- **The services sector continues to be supported by growth in public administration, leisure, and health activities.** On an annual basis, all service activities, except for professional services and information and communications, showed growth. Notably, commerce (+5.0% y/y), public administration activities (+4.8% y/y), and real estate (+1.8% y/y) contributed positively. In marginal terms, however, information and communications, professional services, and financial activities were the only sectors to experience declines, with a variation of -1.6% m/m, -1.1% m/m, and -0.7% m/m, respectively (chart 7).

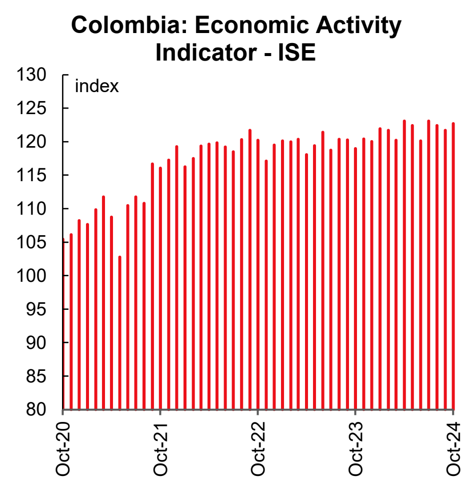
—Valentina Guio

Chart 5



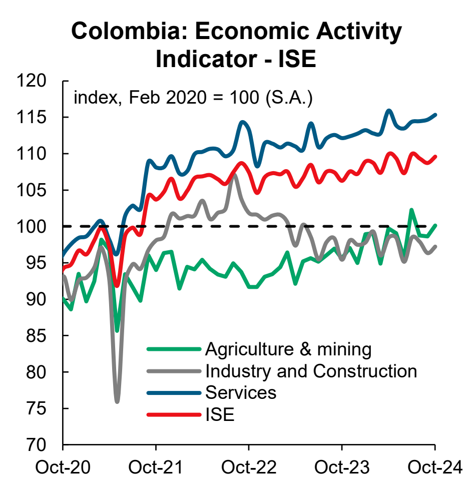
Sources: Scotiabank Economics, DANE.

Chart 6



Sources: Scotiabank Economics, DANE.

Chart 7



Sources: Scotiabank Economics, DANE.