Scotiabank.

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Chile Inflation Undershoots, Colombia's Returns to 5%+

- **Chile: August CPI at 0.0% m/m (4.0% y/y) with zero inflation in clothing and footwear**
- **Colombia: Headline inflation surpasses the 5% mark again**

CHILE: AUGUST CPI AT 0.0% M/M (4.0% Y/Y) WITH ZERO INFLATION IN CLOTHING AND FOOTWEAR

This morning, the INE released August CPI data showing a 0.04% m/m change in prices (4.0% y/y), below the market consensus and survey expectations (0.2%), inflation forwards (0.06%), and our own forecast (0.16%). Core inflation (ex-volatile items) showed no monthly variation (0.0% m/m), with a decline in goods prices (-0.3%) largely explained by clothing and footwear, and a rise in services in line with expectations (0.2%), albeit with lower diffusion levels.

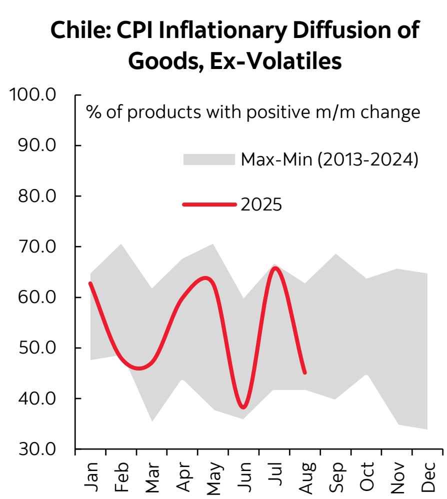
The main surprise relative to our forecast came from the flat reading in the clothing and footwear division, which led to a monthly drop in inflation diffusion not seen in any August since historical records began (at least since 2013). Additionally, volatile items also surprised to the downside, mainly due to a drop in package tour prices.

Inflationary diffusion remains highly volatile, falling to the bottom of its historical range (48.4%). After peaking in July, August figures show the expected reversal in goods diffusion (core), but also a surprising decline in services diffusion, which for the first time this year fell significantly below average (charts 1 and 2). This could signal more contained services inflation pressures in coming months, although it is still early to draw firm conclusions given recent volatility in analytical indicators and pending cost-side supply shocks yet to be internalized by firms (minimum wage hike, new increase in pension contributions, and indirect effects from the reduction in working hours).

Despite the favourable inflation surprise, we do not see implications for changing our cautious stance for the short-term policy rate outlook, due to the following:

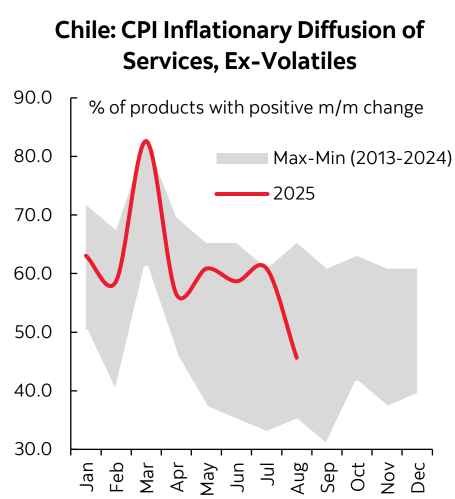
- August's monthly inflation was heavily influenced by one division (clothing), which showed particularly disinflationary behaviour.
- Upside surprises in core CPI have accumulated from June to August, beyond the flat monthly print in August. We estimate that annual core CPI was projected in the June Monetary Policy Report (MPR) at around 3.6% for August, but it stands at 3.9%, indicating a cumulative upside surprise between the two MPRs.

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

- New cost shocks are yet to be incorporated. This not only includes the recent increase in employer-side pension contributions in August (+1 ppts), which has a less direct impact than the minimum wage hike, but also a new minimum wage increase in January 2025, another pension contribution hike in August 2026 (+2.5 ppts), and a further reduction in working hours (40-hour law) in April 2026.
- As we have noted recently, our re-estimation of the neutral policy rate suggests a neutral range between 3.75% and 4.75%, with a midpoint of 4.25%, indicating that the current policy rate is within the "neutral zone", substantially reducing the urgency for accelerated rate cuts in the short-term. This view is reinforced by the recent revision of the potential GDP estimate by the Expert Committee, from 2.1% to 2.6%.
- Economic activity is showing momentum that is broadly in line with Scotiabank's expectations and slightly above the June MPR baseline. The output gap appears to be closed, while the labour market's slack may also be explained by structural rather than purely cyclical factors, where monetary policy could play a limited role.

—Aníbal Alarcón

COLOMBIA: HEADLINE INFLATION SURPASSES THE 5% MARK AGAIN

Colombia's monthly CPI inflation stood at 0.19% m/m in August, according to data published by DANE on Friday. This result was in line with analysts' expectations in the BanRep survey (0.19% m/m avg) and slightly below Scotiabank Colpatria's forecast (0.23% m/m). During the month, 8 of the 12 consumption groups registered positive monthly variations, with food, restaurants, and other goods & services contributing the most to total inflation, accounting for 86% of the gains.

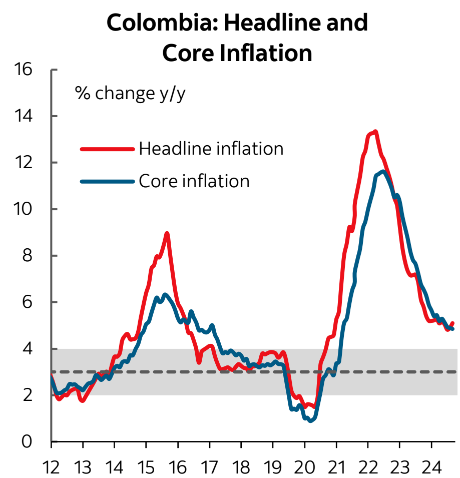
Annual inflation accelerated from 4.90% to 5.10% in August (chart 3), continuing the uptrend observed in the previous month. This increase was mainly driven by an acceleration in food inflation, which once again surpassed the 6% mark, and a mild uptick in goods-related inflation (1.93% y/y).

Regarding core measures, ex-food inflation declined slightly from 4.89% y/y to 4.85% y/y, while core inflation (excluding food and regulated prices) showed a moderate increase from 4.79% y/y to 4.82% y/y. Services inflation decreased from 6.0% y/y to 5.93% y/y, reflecting a slowdown in annual inflation due to transportation and some leisure services. Meanwhile, goods inflation rose from 1.66% to 1.93%, indicating moderate pressure on imported goods, though still below the target range (2%–4%). Regulated prices fell to 4.96%, mainly due to lower inflation in utilities (1.87% y/y) and fuel (2.2% y/y).

In August, there was a shift in the sources of inflation (charts 4 and 5). Food and non-alcoholic beverage prices increased by 0.45% m/m, well above the historical average for August (excluding the pandemic), which stands at -0.17% m/m. The rise in food prices was primarily driven by higher fruit prices. Restaurants and hotels were the second-largest contributors to August inflation, likely reflecting stronger household demand. In contrast, services such as leisure (due to vacation planning), transportation, communication, and clothing helped offset the overall inflationary pressure.

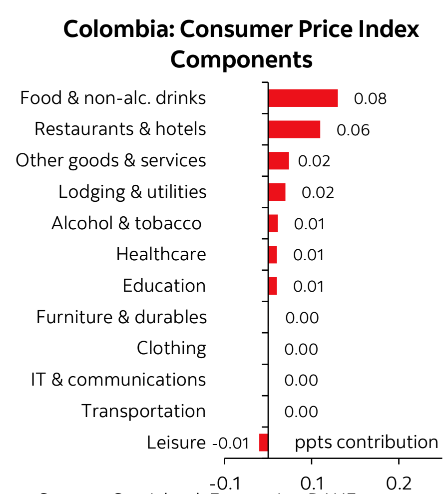
These results support our expectation that inflation will likely close above 5% in 2025. Statistical base effects remain low in areas such as food and regulated prices, particularly in October, posing significant challenges to reducing inflation during the rest of the year. We project year-end inflation at around 5.20% for December 2025, and slightly below 4% for December 2026. This path will be highly dependent on the minimum wage increase. If the wage adjustment exceeds the traditional rule of inflation plus productivity, it could skew our inflation forecast to the upside.

Chart 3



Sources: Scotiabank Economics, DANE.

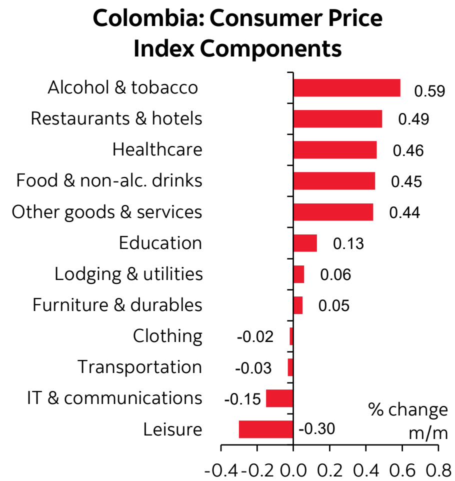
Chart 4



Sources: Scotiabank Economics, DANE.

Given this context, we do not anticipate any interest rate cuts by the central bank for the remainder of 2025. We only see the possibility of resuming the easing cycle in 2026, once it is confirmed that indexation effects will not prevent inflation from continuing to decline.

Chart 5



Sources: Scotiabank Economics, DANE.

Other highlights:

- Two groups accounted for 74% of total inflation. Food and non-alcoholic drinks, again, were the largest contributor with a monthly increase of 0.45% and a contribution of 8bps. Within the food basket, fruits were the largest contributors to the increase, with increases of 4.66% m/m. However, other foods also registered significant increases, such as carrots (+15.5% m/m), yucca (+11.26% m/m) and oranges (+6.43% m/m), However, 37% of the food items included in the basket registered contractions, with potatoes registering the largest decrease (-9.63% m/m).
- Restaurants and hotels were the second largest contributors to inflation. Restaurants and hotels registered an increase of 0.49% m/m, contributing with 6bps to the total. The increase was due to meals prepared outdoors (0.53% m/m). The increase in this group could be a signal of a robust households' demand.
- Other items contributed to inflation. Other goods and services registered a 0.44% m/m rise, explained by hygiene items prices (0.65% m/m) but partially offset by the performance of vehicle insurance. Meanwhile, lodging and utilities registered a 0.06% m/m increase, showing positive variations in almost all components except by electricity rates which fell -1.61% m/m, completing four months of negative variations, and reflecting the fact that in 2025 the electricity generation is using hydroelectric sources that are usually cheaper than thermos sources.
- Services continued to show persistence in August but for the first time in three years stood below the 6% mark. Services inflation had maintained a downtrend in August dropping to 5.93% y/y despite some reductions in leisure-related prices. Services are believed to contribute around 65% of total annual inflation.

—Jackeline Piraján & Valentina Guio