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Latam Daily: Chile CPI Jumps on Fuel Prices

CHILE: MARCH CPI CAME IN AT 0.96% M/M (2.8% Y/Y)

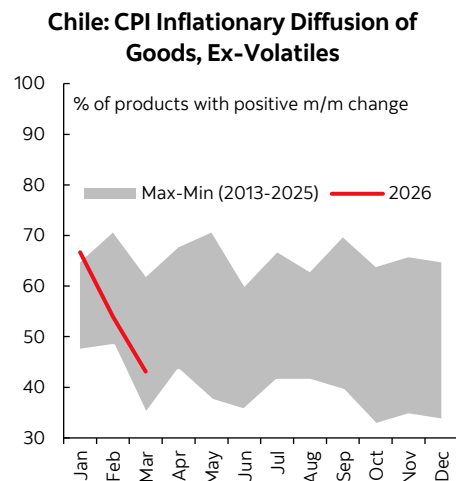
- **Fuel price shock to be felt more forcefully in April CPI; reversal would be partial and no earlier than May**

March CPI increased by 0.96% m/m (2.8% y/y), slightly above our forecast (0.89% m/m) and market expectations. The result reflects only part of the direct effects from higher fuel prices, with limited evidence so far of indirect or indexation-driven effects. As anticipated, positive contributions were led by transport and education, alongside some upside surprises in volatile items, while core CPI (excluding volatiles) rose by 0.5% m/m, broadly in line with expectations. Although international fuel prices have come down today following yesterday's ceasefire announcement, we believe the net inflationary impact within the year will remain positive, given the persistence of second-round effects. As a result, inflation is likely to remain at or above 4% over the remainder of the year.

Looking ahead, we preliminarily estimate a direct fuel-related contribution (diesel and gasoline) of around 1.1ppts to April CPI, together with second-round effects through transportation services and food, as well as indexation effects other services. These effects are expected to materialize despite the recent decline in international fuel prices, as local prices would only begin to adjust in the May 7th price-setting. Should the conflict come to an end in the coming weeks and oil prices normalize, we estimate that fuel prices could make a negative contribution starting in May, depending on whether the government opts for a faster pass-through via MEPCO (fuel stabilization mechanism)—as was the case during the upswing—or a more gradual adjustment.

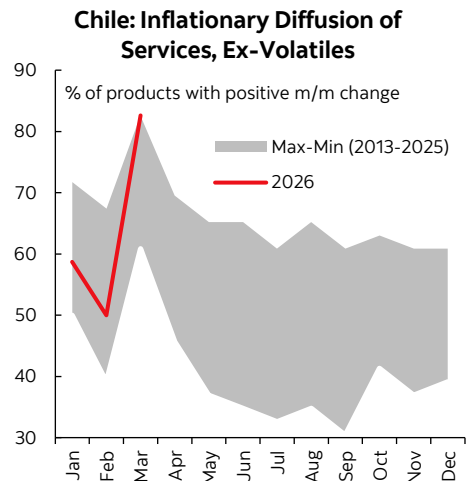
Inflation diffusion stood at 54.8%, close to its historical average (charts 1 and 2), suggesting that a large share of the fuel-related inflation shock will be concentrated in April and May. In March, diffusion for both headline and core CPI remained stable around their historical means, as lower diffusion in goods was offset by higher diffusion in services. Given that the fuel shock is expected to be stronger and more widespread in April, we project inflation diffusion to move toward the upper end of its range in the coming months, particularly in services, before normalizing toward mid-year.

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

—Aníbal Alarcón

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