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Latam Daily: Chilean CPI Undershoot, Mixed Mexican Autos

- **Chile: May CPI (0.2% m/m; 3.9% y/y) supports the monetary policy outlook**
- **Mexico: Automotive industry performance in May shows mixed signals**

CHILE: MAY CPI (0.2% M/M; 3.9% Y/Y) SUPPORTS THE MONETARY POLICY OUTLOOK

- **Limited second-round effect, with food playing a key role in the downside surprise**

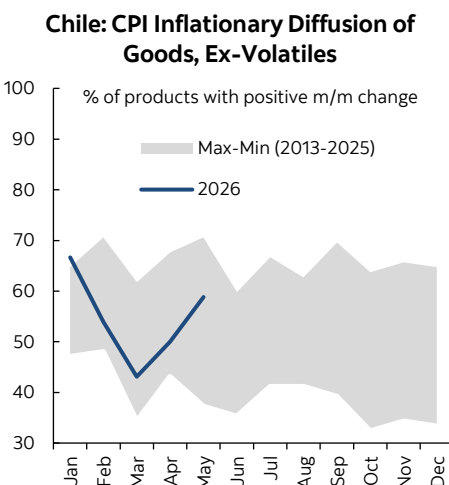
Chile's CPI rose 0.2% m/m (3.9% y/y) in May, coming in well below both market expectations (Bloomberg median: 4.2%) and our forecast, driven by historically large declines in food prices. Monthly inflation was mainly explained by increases in the housing division, reflecting part of the direct pass-through from higher international fuel prices through network gas and LPG tariffs, with a combined incidence of +0.06pp. In contrast, the food division fell 0.8% m/m, subtracting 0.18pp from headline CPI. Nearly half of this negative contribution was explained by a decline in bread prices (-0.08pp), while the remainder was driven by lower prices in fruits and meats. For a May month, this drop in food prices is the most pronounced in at least the past 16 years.

Monetary Policy: weaker activity mix supports easing bias, but no near-term policy signal. From a monetary policy perspective, the activity and labour market backdrop points to a widening output gap, suggesting the need for additional monetary stimulus. The latest inflation print does not provide arguments for near-term changes in the policy rate, nor does it signal any risk of inflation de-anchoring.

However, the international backdrop continues to introduce significant volatility, which we expect to remain the main rationale for a prolonged hold. This is consistent with a scenario in which the Central Bank revises GDP growth downward in the June MPR, while keeping inflation around 4% over the policy horizon.

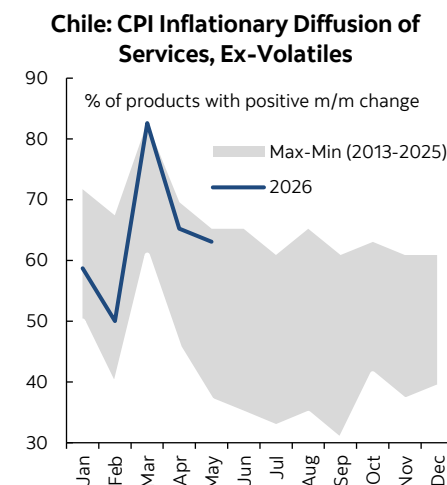
Inflation diffusion: in line with pre-Cyber Day patterns in goods, limited second-round effects in services are observed (charts 1 and 2). Inflation diffusion returned to average levels, with increases in core CPI (excluding volatile items) offset by declines in volatile components, particularly food. Goods diffusion remained elevated but within expected levels for a pre-Cyber month, consistent with patterns observed over the past two years. Services diffusion also remains in the upper range of its historical distribution, but in line with May readings in 2024 and 2025, suggesting no additional inflationary pressure. The main surprise comes from volatile items, whose diffusion has reached a two-month low. This has been driven by volatile food items, which—after three consecutive months below average—posted a historical minimum in May (lowest for any month of the year). This signals that a growing share of volatile food items is now experiencing price declines.

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

Food prices: historically sharp decline, led by an unprecedented drop in bread prices. Despite a significant increase in transportation costs since March, alongside higher international food prices, domestic food prices continue to decelerate, posting a historically large decline for a May print. Nearly half of the negative contribution from the Food division (-0.18pp) was explained by an unprecedented decline in bread prices (-4% m/m). This is difficult to reconcile with the current global backdrop, where international wheat prices have increased, albeit less sharply than in 2022, and remain above levels observed last year. Fuel costs—an important input in bread production—rose in April, reinforcing a cost-push environment. However, in May, despite the absence of significant fuel price declines, bread prices fell sharply, reaching their lowest level since late 2024. One possible explanation is that price-freeze announcements by major supermarket chains on selected staple goods may be playing a significant role. That said, this raises reversal risks, as the international cost environment continues to exert upward pressure on key inputs for bread production.

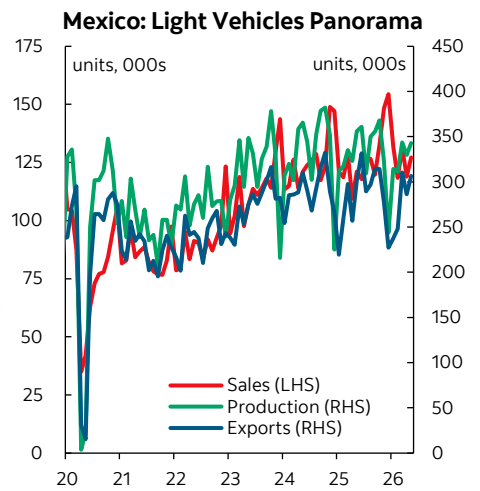
—Anibal Alarcón

MEXICO: AUTOMOTIVE INDUSTRY PERFORMANCE IN MAY SHOWS MIXED SIGNALS

In May, the automotive sector showed mixed signals (chart 3). A total of 342,926 vehicles were produced, representing an annual decline of -3.70% (down from 2.1% previously). Meanwhile, 306,288 vehicles were exported, and 127,107 light vehicles were sold, posting annual changes of 1.74% (down from 11.4%) and 4.95% (down from 8.6%), respectively. In cumulative terms for January–March, production reached 1,642,083 vehicles, an annual variation of -0.09%; sales totaled 627,616 units, with a variation of 4.86%; and exports stood at 1,388,236 units, with an annual increase of 4.01%.

—Rodolfo Mitchell, Miguel Saldaña & Martha Cordova

Chart 3



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