Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Mexican and Chilean CPI Slows, Peruvian Confidence Improves

- **Chile: July CPI at 0.1% m/m (3.5% y/y), in line with consensus**
- **Mexico: Inflation continues to ease; Mixed signals in the automotive sector**
- **Peru: Business confidence improves, but inflation expectations rise**

CHILE: JULY CPI AT 0.1% M/M (3.5% Y/Y), IN LINE WITH CONSENSUS

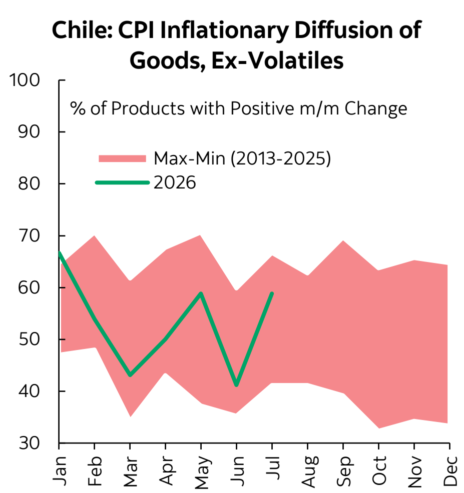
- **But showing early signs of climate-related pressures and, for now, only limited second-round effect**

July CPI came in at 0.1% m/m (3.5% y/y, from 4.3% y/y), broadly in line with market expectations (fwd: 0.16%; BCCh economists survey: 0.2%; BCCh traders survey: 0.1%). The print surprised us relative to our point forecast (0.17%) due to a smaller-than-expected increase in electricity tariffs, which was roughly half of the adjustment announced by the National Energy Commission (CNE). Beyond the headline figure, which was largely shaped by the negative contribution from fuels (-0.4%), the composition of the basket provides a more relevant signal. Early impacts from adverse weather conditions and some second-round effects are becoming visible in selected items, although they remain far from generalized, as weak demand continues to limit broader pass-through.

Inflation diffusion increased significantly (chart 1 and 2), in line with expectations, while the magnitude of price increases was surprisingly elevated. The rebound in non-core goods prices following June's Cyber sales partly explained the broader inflation diffusion observed during the month, together with price increases within the volatile CPI basket. In services, while inflation diffusion remained below historical averages, the magnitude of price changes was above the historical range typically observed in July, suggesting that several relevant services recorded substantial increases, including rents and domestic services, among others. Thus, while generalized service price increases are not yet evident, those categories experiencing inflation are posting relatively large increases.

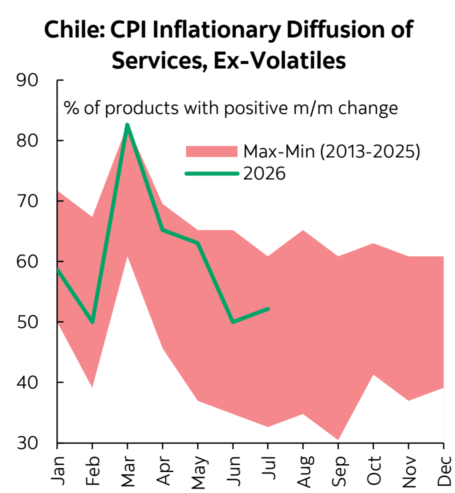
Although headline inflation was in line with consensus expectations, new cost shocks affecting households and firms continue to emerge. The INE reported a 2.4% increase in electricity tariffs (0.08pp contribution), below the 4.9% adjustment announced by the CNE, adding to the 0.6% increase in rents, the second-largest rise on record for this item. Within goods, bread prices increased again (0.7% m/m), standing around 3% above February levels, while fresh vegetables posted an initial acceleration (3.4%; 0.05pp contribution) during a month when the effects of the El Niño phenomenon began to

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

materialize. These developments come on top of the 1.0% m/m increase in wages registered in June and the one percentage point increase in mandatory pension contributions introduced in August, both of which add to labour costs for firms employing formal workers.

Fresh vegetable prices are beginning to reflect the impact of weather-related events associated with the El Niño phenomenon. While adverse weather conditions intensified in southern Chile starting in June, northern regions were primarily affected during the second half of July. Differences in the geographic concentration of agricultural production suggest heterogeneous effects across products. Potatoes and onions, which are sourced mainly from southern regions, have displayed a noticeable acceleration in prices over recent months. Tomatoes, meanwhile, registered a decline in July, although recent rainfall and road disruptions in northern Chile point to upside risks for their price trajectory in the coming months.

From a monetary policy perspective, we do not see direct short-term implications from this release. On the one hand, new increases in labour and energy costs are clearly entering the economy, particularly electricity tariffs, whose impact is more persistent in nature. On the other hand, the headline inflation reading did not surprise and showed no evidence of generalized second-round effects. For now, we expect the Central Bank to maintain its cautious stance and present a baseline scenario featuring higher inflation and lower GDP growth for 2026 in the September 8th Monetary Policy Report.

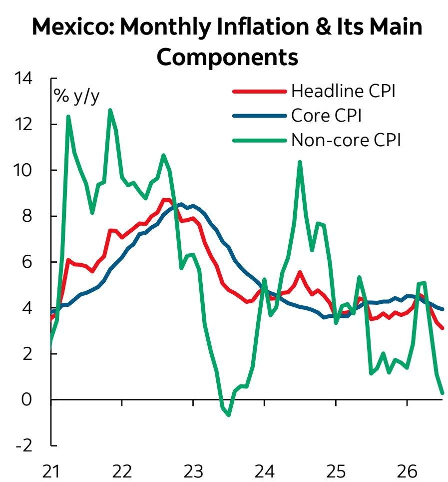
—Anibal Alarcón

MEXICO: INFLATION CONTINUES TO EASE

In July, headline inflation continued to ease, declining from 3.37% to 3.12% (chart 3), in line with consensus and reaching its lowest level since May 2020. Core inflation eased from 4.03% to 3.95%, slightly above consensus expectations of 3.94%. Within the core component, goods inflation moved from 3.55% to 3.52%, while services eased from 4.49% to 4.36%—with education at 5.93% and housing at 3.62%. Meanwhile, non-core inflation slowed again, moving from 1.11% to 0.29%, as agricultural products fell to -3.34%; fruits and vegetables stood at 2.10%, while livestock products came in at -6.89%. Energy and government-regulated tariffs stood at 3.31%.

Among the products with the largest upward impact—ranked by incidence—were onions, with a monthly change of 18.97%; owner-occupied housing, at 0.26%; small restaurants, diners, and taco shops, at 0.37%; and other prepared foods, at 0.81%. In contrast, tomatoes, LP gas, and automobiles posted price declines this month. On a sequential monthly basis, headline inflation rose 0.03%, core inflation increased 0.23%, and non-core inflation fell -0.67%.

Chart 3



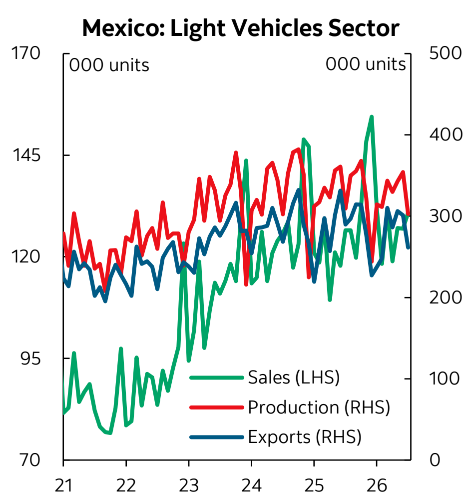
Sources: Scotiabank Economics, INEGI.

MIXED SIGNALS IN THE AUTOMOTIVE SECTOR

In July, the automotive landscape showed mixed signals (chart 4). A total of 302,673 vehicles were produced, representing an annual decline of -2.2% (from -1.87% previously). Exports also posted declines, with 261,534 vehicles exported, a -9.7% difference (from -9.2%) compared with July of last year. Meanwhile, 130,835 light vehicles were sold, showing annual growth of 3.4% (from 7.7%). In the January–July cumulative period, production totaled 2,298,977 vehicles, an annual change of -0.65%; sales reached 885,353 units, with a 5.04% increase; and exports totaled 1,950,779 units, with an annual change of -0.26%.

—Rodolfo Mitchell, Miguel Saldaña & Martha Cordova

Chart 4



Sources: Scotiabank Economics, INEGI.

PERU: BUSINESS CONFIDENCE IMPROVES, BUT INFLATION EXPECTATIONS RISE

The Central Reserve Bank of Peru (BCRP) recently released its July survey of macroeconomic expectations. The results point to a notable improvement in business confidence, with indicators surpassing pre-pandemic levels (chart 5). At the same time, however, inflation expectations have come under greater upward pressure (chart 6).

Following Keiko Fujimori's victory in the presidential runoff election, which was widely perceived as supporting continuity in economic policy, all business confidence indicators have continued to improve, reversing the deterioration observed during April and May after the first -round election results.

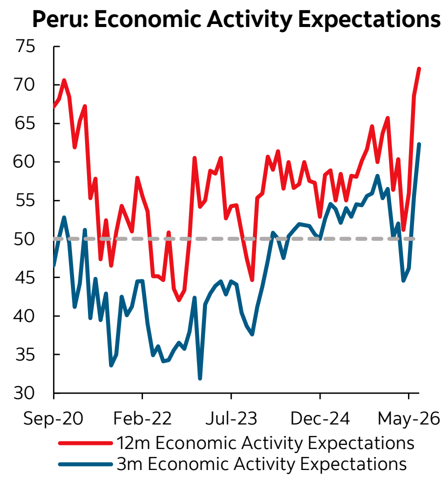
In particular, expectations regarding the economy over the next three months returned to optimistic territory (above 50 points) in June and continued to strengthen in July, reaching their highest level since November 2017. Likewise, 12-month economic expectations have recorded a significant recovery, rising to their highest level since February 2019.

The survey also revealed an improvement in economic agents' expectations for the main macroeconomic indicators:

- 12-month inflation expectations: Increased from 2.8% to 3.0%, reaching the upper bound of the central bank's target range and marking the highest reading since December 2023. This reflects a context of increased probability of a strong to extraordinary El Niño event during the southern hemisphere's summer season, as well as the recent escalation of the conflict in the Middle East, which has renewed upward pressure on oil prices.
- Inflation expectations for 2026: Both the range and the degree of dispersion increased, from 2.8%–3.2% to 3.0%–3.85%. These figures remain below our forecast of 4.2%.
- Economic growth expectations for 2026: Expectations edged up from a range of 3.1%–3.2% to 3.1%–3.3%. Our forecast remains higher at 3.5%. While El Niño-related weather conditions could negatively affect certain sectors of the economy, the resilience of activities linked to domestic demand continues to support a favourable outlook for economic growth.
- Exchange rate expectations for end-2026: Expectations declined once again, from a range of PEN 3.36–3.44 per U.S. dollar to PEN 3.35–3.40 per U.S. dollar. This is consistent with stronger confidence among economic agents and a perception of lower political risk. Our forecast remains unchanged at PEN 3.35 per U.S. dollar.

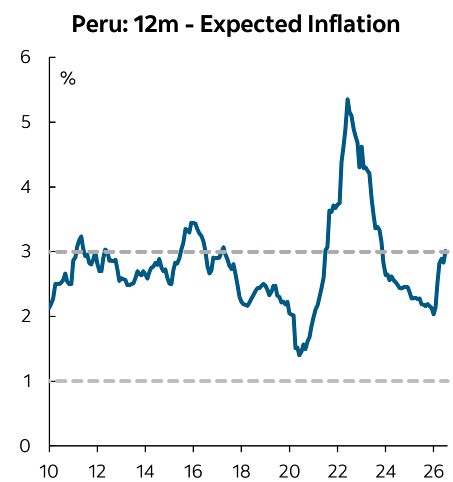
—Ricardo Avila

Chart 5



Sources: Scotiabank Economics, BCRP.

Chart 6



Sources: Scotiabank Economics, BCRP.