Scotiabank.

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Another Chilean GDP Drop, Peruvian Inflation Rises

- **Chile: Monthly GDP falls 1.5% y/y in July—on the verge of a third consecutive seasonally adjusted contraction in Q3-26, a situation not seen since 2009**
- **Peru: Headline inflation reaccelerates, while core inflation eases slightly**

CHILE: MONTHLY GDP FALLS 1.5% Y/Y IN JULY—ON THE VERGE OF A THIRD CONSECUTIVE SEASONALLY ADJUSTED CONTRACTION IN Q3-26, A SITUATION NOT SEEN SINCE 2009

- **Broad-based sectoral contraction, with utilities as the only exception. El Niño has already had a larger impact on activity than historical episodes, while the BCCh could deliver one of its largest growth forecast revisions between MPR.**

July GDP contracted 1.5% y/y, broadly in line with our expectations (-1.0%) and well below the Economic Expectations Survey forecast (+1.1% y/y). With no working-day differences and comparison bases that were not particularly demanding (chart 1), this print marks the largest y/y decline in more than three and a half years and was clearly affected by the impact of the El Niño phenomenon (chart 2), a factor we have repeatedly highlighted as crucial for both activity and inflation during 2026.

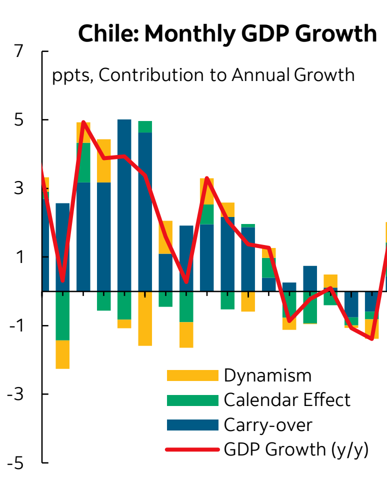
Nevertheless, it is important to note that weaker-than-expected private and public investment execution has also contributed to the economy's lack of momentum this year.

We are raising concerns regarding activity in August, which was also affected by the weather event as it moved into the country's north-central regions, generating additional disruptions in mining activity and several service sectors, including transportation, restaurants and hotels, and personal services, among others.

Should our August forecast materialize, it would become highly likely that the economy fails to emerge from the technical recession that has been underway since June, posting another seasonally adjusted contraction in the third quarter. September's performance will be critical in determining whether Q3-26 GDP posts another seasonally adjusted decline, while Q4-26 will be key in assessing the carry-over effect for GDP growth in 2027.

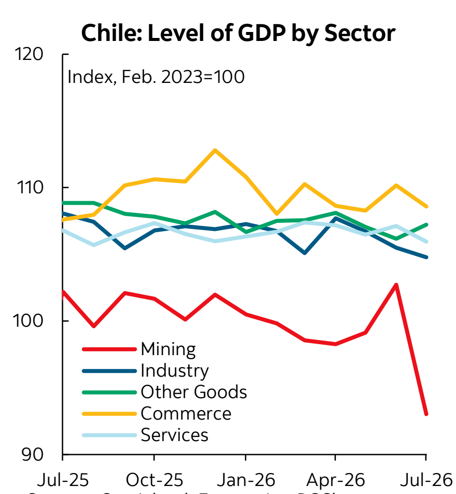
The risk of a third seasonally adjusted GDP contraction in Q3-26 is increasing, a situation not seen since the 2009 subprime crisis. If the economy expands by 1.5% y/y or less in August and September, implying average seasonally adjusted growth of 1.0% m/m or lower, our estimates suggest that, despite one additional working day, the economy would

Chart 1



Sources: Scotiabank Economics, BCCh.

Chart 2



Sources: Scotiabank Economics, BCCh.

once again post a quarterly decline in seasonally adjusted terms during Q3-26. If confirmed, this would mark only the second episode since at least 1996 of such a prolonged recession, surpassed only by the 2009 subprime crisis.

We estimate that the Central Bank will revise its 2026 GDP growth forecast significantly lower in next week's Monetary Policy Report (MPR), moving from the current 1.0%–1.75% range to between 0.25% and 0.75%. Such a downward revision would represent the largest adjustment between MPRs since December 2020, when the GDP growth outlook was lowered by 1 percentage point. At Scotiabank, we maintain our GDP growth forecast at 0.7%, as we anticipate a further decline in economic uncertainty following the completion of the Mega Reform, somewhat more favourable conditions in primary sectors such as fishing, transportation, and personal services, as well as a gradual improvement in consumer confidence. In addition, we expect a stronger pickup in residential investment as a result of the recent measures implemented by the government toward year-end.

—Aníbal Alarcón

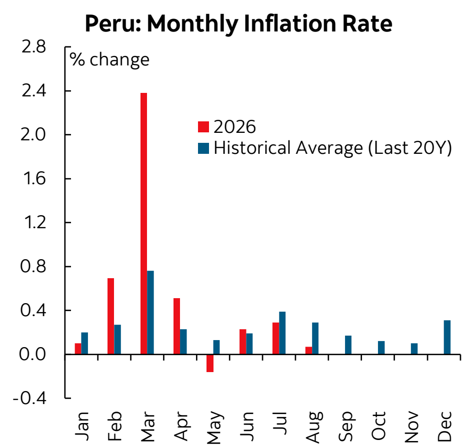
PERU: HEADLINE INFLATION REACCELERATES, WHILE CORE INFLATION EASES SLIGHTLY

Headline inflation rose 0.07% month-on-month in August (chart 3), slightly above Bloomberg consensus expectations of a 0.04% increase. As a result, annual inflation increased from 4.1% in July to 4.4% in August, remaining above the Central Bank's target range (1%–3%) for the sixth consecutive month.

This acceleration in annual inflation is largely explained by a base effect, as monthly inflation in August 2025 stood at -0.3%, compared with the historical average of 0.2% for that month over the past 20 years, excluding the pandemic period. In fact, recent monthly inflation dynamics do not point to significant inflationary pressures. Monthly inflation readings in May, June, and July were broadly in line with their historical averages, while the August figure came in slightly below its historical norm.

Regarding core inflation, prices increased by 0.02% month-on-month in August. Nevertheless, the annual rate edged down from 4.6% in July to 4.5% in August. This suggests that inflationary pressures in non-volatile components have moderated somewhat, although they remain elevated. However, it is important to note that the conventional core inflation measure includes the transportation category, which has been influenced by higher international oil prices.

Chart 3



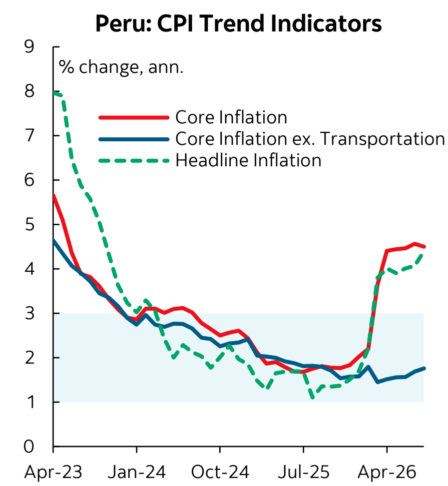
* The Figure for August 2026 is an Estimate
Sources: Scotiabank Economics, INEI.

Excluding transportation from the core inflation basket provides a cleaner measure of underlying inflationary pressures. Under this alternative metric, inflation stood at 1.8% y/y in August, within the target range and even below its midpoint (2%), indicating that underlying domestic inflationary pressures remain contained (chart 4).

At a more disaggregated level, the main contributors to the overall inflation outcome were:

1. **Housing, water, electricity, gas, and other fuels:** Prices increased by 0.9%, primarily driven by higher electricity tariffs.
2. **Transportation:** Prices rose 0.3%. Although interprovincial bus fares corrected following the seasonal increase observed in July during the Independence Day holiday period, upward pressure came from higher gasoline prices.
3. **Restaurants and hotels:** Prices increased 0.3%, extending the uptrend observed since March.
4. **Food and non-alcoholic beverages:** This category partially offset the overall inflation result, declining 0.7% due to lower prices for chicken and certain fruits.

Chart 4



Sources: Scotiabank Economics, INEI.

Looking ahead, El Niño could generate additional inflationary pressures toward the end of 2026 and the beginning of 2027. Nevertheless, the likelihood of inflation returning to the target range by March 2027 remains high, supported by a favourable base effect.

—Ricardo Avila