

LATAM Market Update

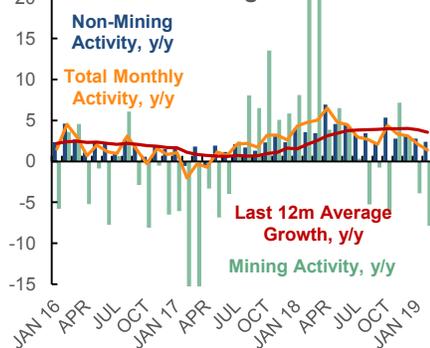
- **Chile: February Activity—Even weaker than expected**
- **Colombia: March inflation came above expectations due to higher foodstuff prices**

CHILE: FEBRUARY ACTIVITY—EVEN WEAKER THAN EXPECTED

As our team reported on time, on Friday we knew the aggregate economic activity for February. The monthly economic activity index expanded only 1.4% y/y, below our forecast and the 2% expected by market consensus, with a narrow growth of non-mining activity (0.1% m/m, seasonally adjusted) and a contraction of 7.8% y/y in mining activity. Non-mining activity continues to be supported by the dynamism of services, since the rest of the sectors, such as trade and manufacturing, remain very weak, which should be the case until June at least. Mining activity decreased 7.8% y/y, less than what was indicated by the National Bureau of Statistics (-9.4% y/y). Although this drop was influenced by rainfalls in the north of the country, the recovery to the production levels seen last year should be slow. Preliminarily, we expect a null growth rate in mining activity for March, according to electricity generation data. With this record so far, it becomes very hard to comply with the Central Bank’s baseline scenario, since March should grow at least 3.8% y/y. Preliminarily, we expect an expansion of around 2% y/y for 1Q19. Accordingly, our team maintains the forecast of GDP 2019 at 3.2%, below consensus. The Survey of Professional Forecasters was expecting 2.5% y/y for February, so we anticipate an additional downward correction in the consensus view for the year.

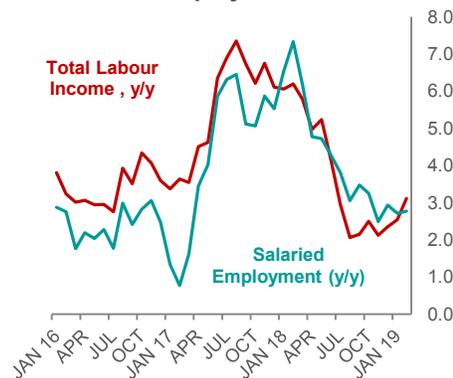
Some salary indices for February were also released, which inched up again decisively influenced by critical sectors for employment, like manufacturing and construction. Total nominal index grew 4.3% y/y, and real change (deflated by inflation) was 2.1%. Despite this relatively positive result, the weak performance of salaried employment probably offset the effect and salaried income though total labour income likely

Chile: Monthly Economic Activity Indicator (IMACEC) Annual % Change



Sources: Scotiabank Economics, Banco Central de Chile.

Chile: Real Salary Index & Salaried Employment



Sources: Scotiabank Economics, National Statistics Office (INE).

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accelerated (better performance of self-employment). However, the velocity of the labour income continues being very low, besides that these combined series must be taken cautiously due to statistical elements in the origin. On the other hand, sluggish performance of the labour market and its indices is aligned with expectation for the short term. However, at the current level it does not seem a game-changer for consumption (as it was in 2018). when the slowdown of the labour income was one critical factor that dented sales of retail companies in H2 2018, and that seems to be the case for H1 2019 again.

All relevant data releases slated for the current week are concentrated today. This morning, we will know the CPI for March that our team estimates increasing 0.3% and excluding foods and energy the estimate is similar. Market is also around 0.3% for the total index (much closer to 0.4% than to 0.2%), which would leave the last 12 month consumer prices inflation at 2.3%. Our team's forecasts a very moderate uptrend of inflation in the coming quarters to end the year at 2.8%, but up to Friday the market was expecting 2.5% and the Central bank 2.6%. In any case, a limited inflationary uptrend. The Central Bank will also release some critical data for March: money growth, loans and the trade balance for Q1. In all cases, results will likely be as weak as have been the previous trend, but not much more. Some additional effect on long term rates may be expected, but the previous correction seems to have done a good part of the task.

COLOMBIA: MARCH INFLATION CAME ABOVE EXPECTATIONS DUE TO HIGHER FOODSTUFF PRICES

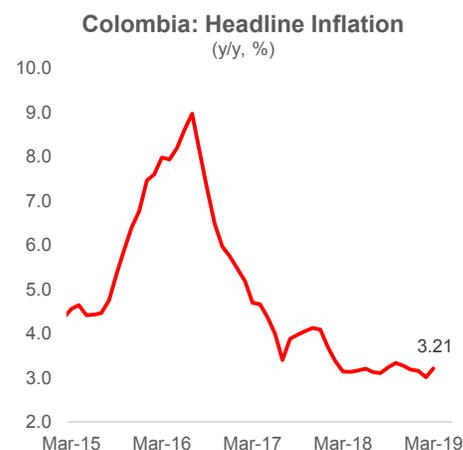
Dane released March 2019 CPI (recall Dane published a new base and some methodological changes). The figure came in at 0.43% m/m or 3.21% y/y, higher than market expectations of 0.32% m/m (according to Bloomberg), we had 0.39% m/m. The big upward surprise came from foodstuff that expanded 0.95% m/m, while market had 0.36% m/m. March Foodstuff CPI reverted, partially, downward surprises shown in January and February this year. Despite the upward surprise, we still think inflation in Colombia is under control. We believe March inflation will not change much inflation expectations or change BanRep's base case scenario.

March ex-food inflation came in at 0.34% m/m or 3.27% y/y, which although is 5bps higher than last month is the second lowest in more than two years. 2019 core inflation behaviour is showing that indexation effects this year are helping inflation down. The only black sheep in March inflation, although expected, continued being energy prices (regulated, as gas bill, power bill and gasoline prices), which came in at 8.1% y/y, way above core and headline prints.

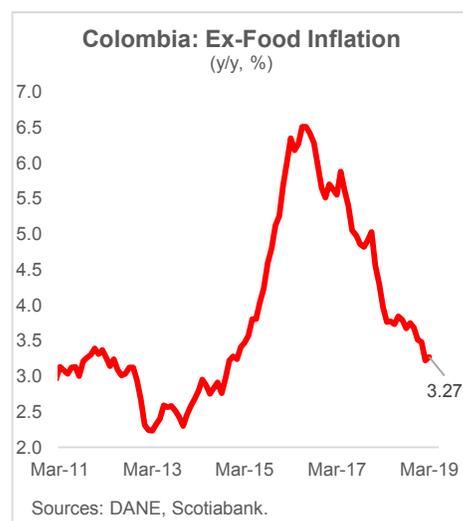
Food prices came in higher than expected due to some perishable goods, as eggs (+1.13% m/m), cheese (+0.95% m/m), fruits (+10.2% m/m), potatoes (+6.53% m/m), among others. March perishable goods upward behaviour, in our opinion, was due to a reversal of January and February low prices and some increments in transportations costs. Having said that, we do not think that recent road blocking in the south of Colombia affected significantly food prices. In fact, CPI by cities showed that higher inflation came from the north of Colombia, which is not affected at all by the strikes in el Cauca (south).

Bottom line, March inflation surprised to the upside due to higher foodstuff inflation. Having said that, since core inflation continues being under control we are keeping our forecasts of 3.15% y/y for 2019, and attribute upward surprise to the normal volatility that foodstuff prices have in Colombia.

In terms of monetary policy, March 2019 inflation data, in our opinion, will not change BanRep's base case scenario. Headline continue close to target and core inflation is under control. Therefore, we think BanRep has no rush to start the hiking cycle, especially with negative output gap.



Sources: DANE, Scotiabank.



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