

## LATAM Market Update

- **Chile: Null inflation in September due to specific factors; Air transport service and beef meat surprise significantly to the downside**

September's CPI flat at 0% m/m (2.1% per year), surprising downward our projection and market expectations. As rarely, only a couple of products manage to explain the surprise, experiencing substantively higher declines than their historical seasonality. On the one hand, air transport service fell 20.7% m/m (inc. -0.15 pp) responding to sales on domestic flights and the lagged effect of the drop in boarding rates decreed last July. On the other hand, Beef meat decreased 3.7% m/m (inc. -0.07 pp) in response to the supermarket policy to improve trade sales. In fact, Meat was the leading segment of sales in September, with opaque sales in the other categories.

Since a very small set of products explained the surprise, the diffusions of the basket do not show disinflationary anomalies. The inflationary diffusion of core services is over historical ranges despite the fact that the CPI of core services decreases 0.1% m/m, greatly influenced by air transport (Chart 1). The inflationary diffusion of core goods is in the historical range and its CPI increased 0.3% m/m, responding to the exchange rate increase. In fact, the inflation of core goods has accelerated significantly and it is close to the lower bound of the target range, with a growth of 1.9% y/y, which has not been seen since the end of 2016 (Chart 2).

Despite this negative surprise in our inflationary outlook, due to the temporary nature of the shock, we continue to anticipate inflationary recovery from October to April 2020, where the annual CPI inflation would approach 3.4%. Given the transitory nature of the decline in beef in September, we anticipate a rise somewhat above the historical print for the CPI in October, which we project with an increase of 0.6% m/m. The annual 2019 inflation would end at 3% y/y, slightly lower than the 3.1% we raised a few weeks ago, acknowledging the surprise of air transport service that would not have inflationary payback during the next months, since it responds mainly to a permanent tax adjustment.

We expect the Central Bank to have a mixed interpretation of recent activity and inflation data. We believe the BC will indicate that activity is in line with its projection, while inflation has increased less than expected but affected by temporary/specific factors. That being said, we continue to forecast a new cut of 25 bp. at this month's meeting, which we hope will be the beginning of a prolonged period with no movements in the reference rate. We anticipate the BC will express a conditional downward bias due to further deterioration of the external scenario.

Regarding the products, particular is the fall of beef meat, which after this decline of 3.7% m/m reached a level not seen since 2014. We attribute this to commercial strategies implemented by retailers for the national holidays and price adjustments in the main exporters. We see little additional room for further drops in this product. Moreover, we expect price levels to begin to normalize as of October, positively affecting monthly inflation.

—Jorge Selaive, Carlos Muñoz & Waldo Riveras

### CONTACTS

**Eduardo Suárez, VP, Latin America Economics**  
52.55.9179.5174 (Mexico)  
Scotiabank Economics  
[eduardo.suarez@scotiabank.com](mailto:eduardo.suarez@scotiabank.com)

**Guillermo Arbe**  
511.211.6052 (Peru)  
Scotiabank Peru  
[guillermo.arbe@scotiabank.com.pe](mailto:guillermo.arbe@scotiabank.com.pe)

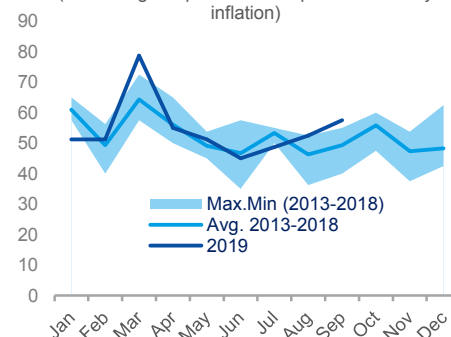
**Mario Correa**  
52.55.5123.2683 (Mexico)  
Scotiabank Mexico  
[mcorrea@scotiabank.com.mx](mailto:mcorrea@scotiabank.com.mx)

**Sergio Olarte**  
57.1.745.6300 (Colombia)  
Scotiabank Colombia  
[sergio.olarte@co.scotiabank.com](mailto:sergio.olarte@co.scotiabank.com)

**Jorge Selaive**  
56.2.2939.1092 (Chile)  
Scotiabank Chile  
[jorge.selaive@scotiabank.cl](mailto:jorge.selaive@scotiabank.cl)

### Chile: Inflationary Diffusion of CPI Core Services—Above Historical Range

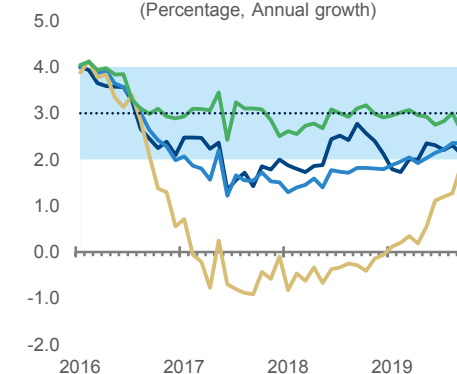
(Percentage of products with positive monthly inflation)



Sources: INE, Scotiabank Economics.

### Chile: Annual Inflation by Components—CLP Pass-Through in Recovery

(Percentage, Annual growth)



Sources: INE, Scotiabank Economics.

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