LATAM Market Update

- **Chile: We project CPI of 0.4% m/m for January**
- **Colombia: November's Imports growth continues to be boosted by raw materials and capital goods imports**
- **Mexico: The unemployment rate averaged 3.5% during 2019**

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CHILE: WE PROJECT CPI OF 0.4% M/M FOR JANUARY

Increase in fuels and currency depreciation would boost inflation in January. We estimate a monthly inflation of 0.4% (3.3% y/y), slightly above forward prices and the survey of financial operators. January would be the third consecutive month in which there would be increases in fuels, explained by the recent depreciation of the exchange rate and a higher international price of crude oil due to tensions in the Middle East. Also, increases in cigarettes and in co-ownership expenses, coupled with higher prices of some fruits and vegetables (lemon, apple), would explain this high record. All in all, we project a core CPI of 0.4% m/m (2.5% y/y), with goods increasing 0.4% m/m (2.4% y/y) and services 0.3% m/m (2.6% y/y).

The division that would contribute the most this month would be transportation, contributing about 0.11pp, followed by non-alcoholic beverages and tobacco, with a contribution of 0.07pp. For transportation, only the fuel increase would contribute with about 0.07pp, given a depreciation of the peso and a higher international price crude oil prices. Out of the twelve divisions of the basket, only clothing and footwear would show a decline, explained by the seasonality of these products, which historically fall in January, which would subtract around 0.03pp from monthly inflation.

Other products that would show increases would be cigarettes (+0.05pp), given the seasonal adjustment in January, and co-ownership expenses (+0.03pp), given by the increase in expenses due to end of year holidays. Likewise, Odepa's pricing takes account of significant increases in lemons and apples, which together would contribute around 0.05pp. On the other hand, within the main decreases would be the air transportation services and some fruits, such as bananas, products that historically decrease in price in January.

Thus, throughout the first quarter, we anticipate inflationary recovery that would leave annual inflation at around 3.4% by March. The pending exchange transfer would continue, but in a limited way given the weakness of domestic demand. In the short term, for the February CPI we project a monthly record between 0.1 and 0.2% m/m, where the main positive contributions would come from the rise in the price of fuels and transportation services.

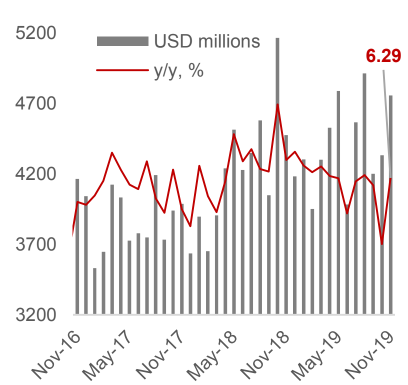
—Carlos Muñoz

COLOMBIA: NOVEMBER'S IMPORTS GROWTH CONTINUES TO BE BOOSTED BY RAW MATERIALS AND CAPITAL GOODS IMPORTS

November's imports data came in at US$4.8bn, above the YTD average (US$4.3bn), which meant an expansion of 6.3% y/y. Raw materials explained most of y/y imports growth in November; fuel-related imports grew 82.7% y/y, offsetting the contraction of raw material imports for industrial and agriculture sectors, -7.03% y/y and -5.04% y/y, respectively. Capital imports grew 12.37% y/y, especially in the transportation sector (53.6 %y/y), industrial sector imports contracted by 1.19%y/y. Consumption imports fell by 1.5% y/y due to non-durable goods imports (-3.4% y/y), interrupting four months in a row of strong expansions; durable goods imports remained weak (+0.53% y/y). November's imports data confirmed that external deficit continued to widen. In fact, November's trade deficit was US$1.7bn, the worst since July-2015. YTD, the deficit increased by US$3.88bn to US$10.34bn.

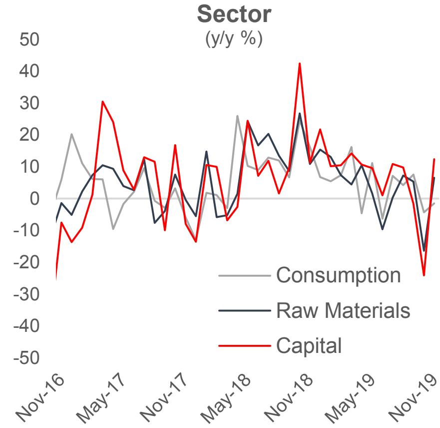
Imports grew again after the contraction of 16.1% y/y in October; it is worth to note that import's level in USD remained strong due to fuel-related imports; in contrast, other import items such as consumption imports contracted which could be partially associated with the FX depreciation effect. The external deficit continues to be a major concern, since points to a current account deficit above 4.0% for longer, although the deterioration rate has diminished, and so far, the external deficit has been financed via a healthy FDI. As we mentioned in previous reports, the expansion of non-durable goods imports is not sustainable in time. Having said that, the recent moderation on those imports could be a good signal of adjustment.

Colombia: Imports
(USD millions, y/y %)



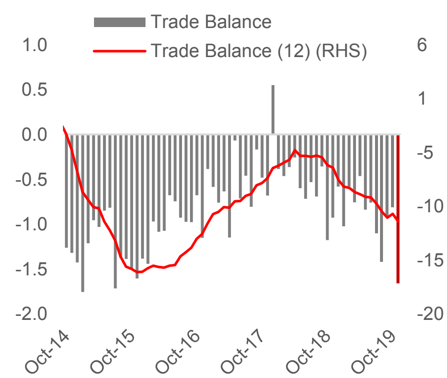
Sources: DANE, Scotiabank Economics.

Colombia: Imports by Economic Sector
(y/y %)



Sources: DANE, Scotiabank Economics.

Colombia: Trade Balance
(USD millions)



Sources: DANE, Scotiabank Economics.

—Sergio Olarte & Jackeline Piraján

MEXICO: THE UNEMPLOYMENT RATE AVERAGED 3.5% DURING 2019

Unemployment rate averaged 3.5% in 2019, this was the highest level since 2016, when the year averaged 3.9%. However, monthly series surprisingly showed a positive behaviour slowing down from 3.4% in November to 2.9% in December in original figures. Meanwhile, seasonally adjusted series also decreased from 3.5% in November to 3.1% in December. Unemployment data highly contrasts with the deceleration in formal job creation reported in December. In this respect, 382,210 worker positions were lost in the last month of 2019, in addition, the creation of employment over the last 12 months was the lowest since 2009. The annual growth rate remained at 1.7%, along with that of November, the weakest since February 2010.

Overall, the report suggests that although the labour market remains robust, it seems to be cooling down amid a less buoyant economic outlook and an acceleration in wage growth.

—Paulina Villanueva