

Contributors

**Juan Manuel Herrera**

Senior Economist/Strategist  
Scotiabank GBM  
+44.207.826.5654  
[juanmanuel.herrera@scotiabank.com](mailto:juanmanuel.herrera@scotiabank.com)

**Guillermo Arbe**, Head Economist, Peru  
+51.1.211.6052 (Peru)  
[guillermo.arbe@scotiabank.com.pe](mailto:guillermo.arbe@scotiabank.com.pe)

**Sergio Olarte**, Head Economist, Colombia  
+57.601.745.6300 Ext. 9166 (Colombia)  
[sergio.olarte@scotiabankcolpatria.com](mailto:sergio.olarte@scotiabankcolpatria.com)

**Jorge Selaive**, Head Economist, Chile  
+56.2.2619.5435 (Chile)  
[jorge.selaive@scotiabank.cl](mailto:jorge.selaive@scotiabank.cl)

**Eduardo Suárez**, VP, Latin America Economics  
+52.55.9179.5174 (Mexico)  
[esuarezm@scotiabank.com.mx](mailto:esuarezm@scotiabank.com.mx)

TODAY'S CONTRIBUTORS:

**Aníbal Alarcón**, Senior Economist  
+56.2.2619.5465 (Chile)  
[anibal.alarcon@scotiabank.cl](mailto:anibal.alarcon@scotiabank.cl)

**Mario Guerrero**, Deputy Head Economist  
+51.1.211.6000 Ext. 16557 (Peru)  
[mario.guerrero@scotiabank.com.pe](mailto:mario.guerrero@scotiabank.com.pe)

## Latam Daily: Chile's August GDP Disappoints; September Inflation Surprises in Peru

- **Chile: August GDP (-0.9% y/y; -0.5 m/m) disappoints market expectations**
- **Peru: Lower inflation surprises but El Niño is coming**

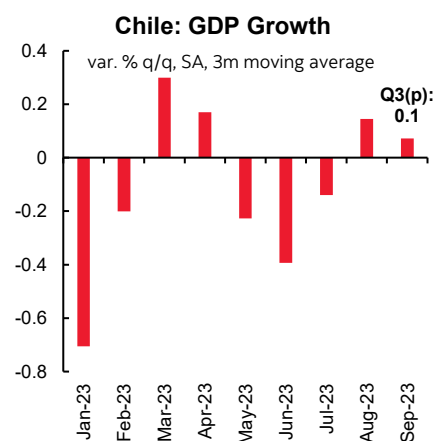
### CHILE: AUGUST GDP (-0.9% Y/Y; -0.5 M/M) DISAPPOINTS MARKET EXPECTATIONS

- **Close to seeing a technical recession in the third quarter**

On Monday, October 2<sup>nd</sup>, the central bank (BCCh) released August GDP, which fell 0.9% y/y, below market expectations (Economist Survey: -0.2%; Bloomberg: -0.1%), but very close to ours (-0.6%), the most pessimistic in the market. We expect the consensus to move towards our projection of annual GDP contraction for 2023 of 0.5%, at the floor of the range of the last BCCh IPoM and far from the MoF's zero growth projection. We reiterate a likely scenario of technical recession in Q3-23 as, with a moderate contraction of 0.3% m/m in September, we would have a seasonally adjusted decline in Q3 coming on the heels of the 0.4% q/q decline in Q2-23.

Non-mining activity performed poorly as it contracted by 0.5% m/m, mainly due to a 0.9% m/m drop in the services sector (45% of total GDP). Although we expected a drop in personal services activity (education), due to the weather effects during the month in some regions, this decline could reveal a more generalized weakness in other services sectors linked to the slow execution of public and private investment. With this, the services aggregate fell to its lowest GDP level of the year, the lowest since December 2022 (in seasonally adjusted terms, chart 1).

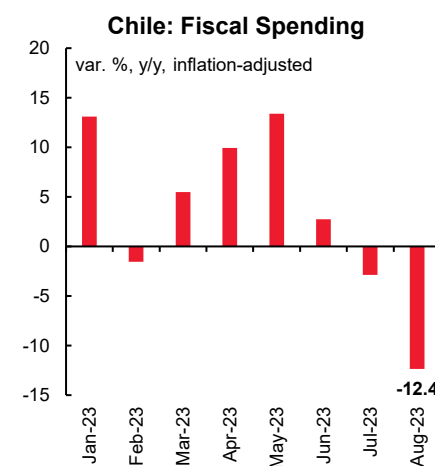
Chart 1



(p): Projection.

Sources: Scotiabank Economics, BCCh.

Chart 2



Sources: Scotiabank Economics, Budget Office.

The contribution of public spending was negative in August and would continue to be so in the coming months. Total spending contracted by 12.4% y/y, with a 14% drop in current spending due to lower subsidies and a 0.9% drop in capital spending due to lower housing subsidies. With this, public spending accumulated an increase of 2.9% y/y between January and August (adjusted for inflation), and is expected to continue falling in the last 4 months of the year, considering the fiscal adjustment announced by the government a few weeks ago and the strong increase observed in the first part of the year (chart 2).

—Aníbal Alarcón

October 3, 2023

**PERU: LOWER INFLATION SURPRISES BUT EL NIÑO IS COMING**

Inflation continues to surprise. This time it surprised on the downside, unlike August, which went up. The Lima CPI was practically zero (+0.02% m/m), below all forecasts, including the market consensus (according to a Bloomberg survey) and Scotiabank (0.25%); the historical average of the last 20 years (0.22%), and even official estimates. With this, year-on-year inflation continued to slow, going from 5.6% to 5.0%, reaching our forecast for the year-end, ahead of time.

The inflation surprise in September came from the price reversal of some perishable foods and the sharp decline in poultry prices (post avian flu), which together contributed to a decrease of 0.35 percentage points. This made it possible to offset the sharp rise practically completely in citrus and fuel prices.

The El Niño effects were observed in the sharp rise in the price of lemons (which contributed 0.30 percentage points) and tubers (which contributed 0.05 percentage points). Adverse weather conditions have continued to affect the supply of perishable products, as well as transportation problems, reflected in the number of roads with restricted traffic, which continued to increase, going from 42 in August to 55 in September, on average. The probabilities of El Niño have been increasing month by month. The latest reading confirms a moderate/strong scenario as the most likely for Q1-2024.

With inflation data from September, there are 28 months in which inflation remains above the upper limit of 3% of the inflation target (table 1). Inflation at the national level (not just in Lima) went from 5.8% to 5.3%, exceeding Lima's inflation for 25 consecutive months. In September, of the 586 products that make up the consumption basket (2021 base), 315 increased (54%), 153 decreased (26%) and 118 remained unchanged (20%). This composition shows that the slowdown in inflation remains structurally slow. Core inflation rose 0.13%, slightly above its historical average (0.10%, last 20 years). In year-on-year terms it went from 3.8% to 3.6%, slowing for the sixth consecutive month (chart 3). Cost pressures remained low, with year-on-year variations close to zero. The PEN continued to depreciate in September, although in year-on-year terms it accumulated an appreciation of 5%, which helped keep the imported component of inflation low.

Looking ahead, we expect inflation to stabilize around 5% in October, due to a comparison base effect, since October 2022 inflation (0.35%) was the lowest in Q4-2022. With these results, we would be tempted to reduce our inflation forecast of 5.0% for end-2023, if not for the caution produced by the proximity of a strong El Niño scenario, recently warned by the governor of the central bank, who also pointed out which expects the agricultural sector to record its worst performance in 30 years. Therefore, our 5% forecast has a downward bias, depending on the intensity of El Niño in the last three months of the year. The BCRP indicated that El Niño could imply an impact on prices that renews inflationary pressures on the supply side, delaying reaching the inflation goal, initially planned by the BCRP for the first months of 2024, for a few more months.

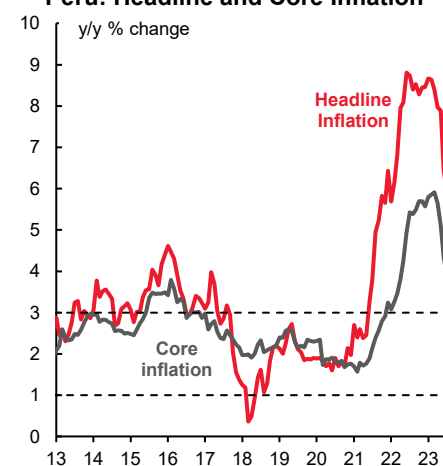
—Mario Guerrero

**Table 1: Peru—Lima CPI Basket—September 2023**

Groups of consumption	Base 2021	% m/m	% y/y
1. Food and non-alcoholic beverages	22.97	-0.68	8.8
2. Alcoholic beverages, tobacco, drugs	1.61	0.22	4.5
3. Apparel and footwear	4.20	0.11	3.4
4. Housing, water, electricity, gas and others	10.55	0.12	-2.4
5. Furniture and home maintenance	5.11	0.12	2.4
6. Health	3.48	0.17	3.1
7. Transport	12.40	0.56	3.2
8. Communications	4.77	-0.05	0.5
9. Recreation and culture	3.96	0.02	4.8
10. Education	8.61	0.01	6.5
11. Restaurants & hotels	15.89	0.43	7.7
12. Other goods and services	6.47	0.32	5.3
<b>Total CPI</b>	<b>100.00</b>	<b>0.02</b>	<b>5.0</b>

\*Adjusted base to 12 from 8 groups of consumption.

Sources: Scotiabank Economics, INEI.

**Chart 3****Peru: Headline and Core Inflation**

Sources: Scotiabank Economics, BCRP.

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