

Chile Watch

Underlying inflation steady. We delay our rate cut forecast.

Sticky underlying inflation

Underlying inflation remains very high in Chile, which, coupled with resilient economic activity, removes pressure from the central bank (BCCh) to cut rates.

Chile inflation was 0.3% mom in April, below the 0.4% expected by Bloomberg Consensus and down from 1.1% mom in the previous month. However, ex-volatile inflation (BCCh preferred measure) was still very high at 0.7% mom, down from 1.6% previously (high education seasonality in March). Core ex-energy and food was 0.4% mom, down from 1.4%.

In the last 12 months, headline inflation fell to 9.9% from 11.1%. However, underlying inflation ex-volatiles is still high at 10.3%, down from 10.8%, showing little progress from the peak 11.1% seen in September. Core ex-energy and food was down to 8.7% (from 9.4%).

Main inflation drivers: healthcare services led inflation, +1.5% mom (0.11pp incidence), followed by transport up 0.8% (0.10pp incidence, with air transport at 0.07pp), housing +0.7% (0.10pp incidence). Rent prices were up 0.9% mom (+0.05pp incidence), while electricity rose 2.6% mom (0.05pp incidence). Inflation is still widespread, with increases in 8/12 categories (from 9/12 previously), but diffusion is declining.

Factors putting less pressure include culture & recreation -1.7% (-0.12pp, incidence, due to tourist package, -0.14pp) and food & non-alcoholic beverages flat at 0%.

Expect BCCh to remain on hold for longer

Underlying inflation remains very sticky, around 0.7% mom average in the last 7 months (excluding education), and slowly declined to 10.3% yoy from September 11.1% in September, reflecting inertia and indexation. This is in line with strong services sector activity and steady wage increases around 11% yoy. Headline inflation showed the most significant decline but fully explained by volatile factors, with very low tradable inflation (0%) amid CLP appreciation in recent months (including flat food prices).

Given the lack of progress in ex-volatile inflation and resilient activity, we postpone our first rate cut forecast to September (-75bp) from July before. We see the policy rate at 9.25% by year-end (from 9% before) and declining to 6.5% in 2024, above the center of the policy corridor. BCCh has reiterated that the economy needs an adjustment and plans to maintain the policy rate at 11.25% until inflation convergence consolidates, with lack of clear evidence so far.

(Continues inside)

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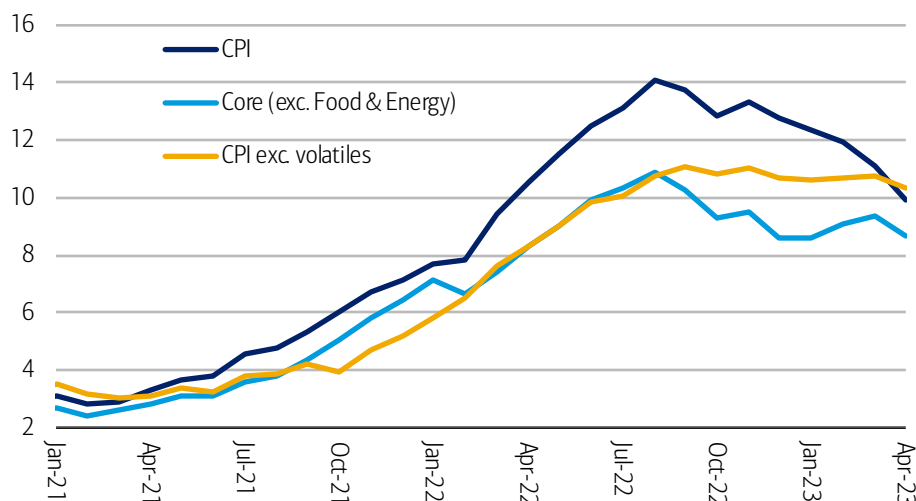
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Exhibit 1: Headline, ex-volatiles and core inflation (in %)

Underlying inflation remains very sticky



Source: INE, BCCh and BofA Global Research.

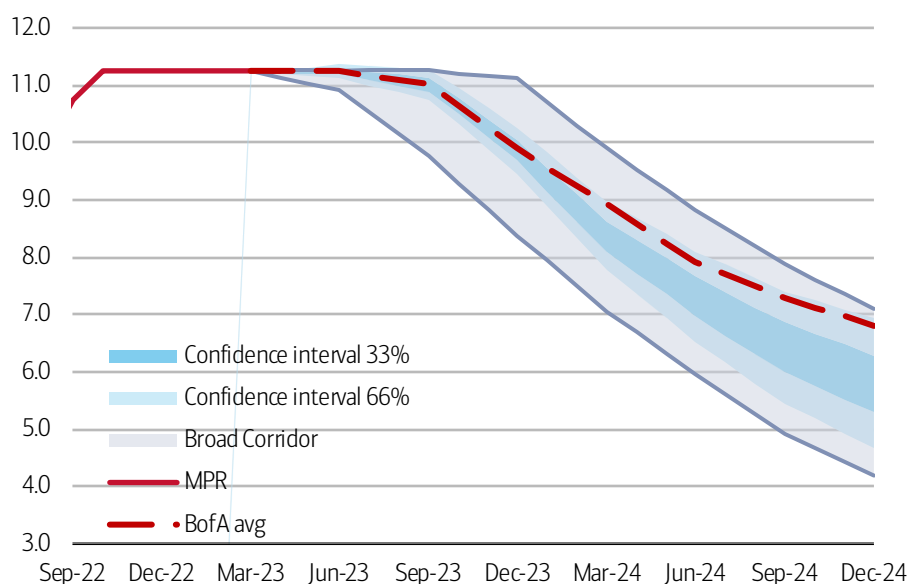
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BCCh believes that activity has been resilient as the spending adjustment is slower than anticipated (consumption revised upward), slowing the inflation convergence (see our [Very hawkish monetary policy report](#)). BCCh sees the output gap as positive around 3% in 1Q and turning negative for first time in 4Q.

We forecast inflation at 5.8% this year (6.7% core inflation) and down to 4% in 2024. BCCh sees ex-volatile inflation at 6.9% this year. A resilient economy amid declining policy uncertainty (see our report, [Constitutional election: Right parties majority reinforces policy moderation](#)) and fiscal policy turning expansionary could delay the disinflation. An unfreezing of electricity prices and a potential minimum wage hike (15% this year) could add some pressure in coming months.

Exhibit 2: BCCh interest rate corridor (in %), quarterly average.

We now expect a first 75bp cut in September (from a 50bp cut in July)



Source: BCCh, BofA Global Research. BofA forecast and corridor data is average quarterly.

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