LATAM Today: March 17, 2025

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Higher-Than-Expected Inflation in February Driven by Firm Core Inflation Print

Bottom Line: Consumer prices rose 2.4% mom in February, slightly higher than the Bloomberg consensus and the median response in the most recent central bank's expectations survey, which stood at 2.3% mom. The February print was also higher than the 2.2% mom reading in January. Core inflation, in turn, tracked at a higher 2.9% mom in February, above the median response in the central bank's survey at 2.3% mom and printing above headline inflation for the fifth consecutive month. Regulated price inflation eased to 2.3% from 2.6% mom in January. On an annual basis, headline inflation eased to 66.9% yoy from 84.5% yoy in January and core inflation declined to 60.4% yoy from 75.0% yoy in the prior month.

We note that contrary to our expectations that good price inflation would ease towards the 1% exchange rate crawl, good prices rose 2.1% mom in February, accelerating from 1.5% in January and the highest reading since September 2024. Services inflation, however, welcomely eased to 3.1% having remained close or above 4.0% in the prior five months. All in all, the higher-than-expected inflation reading negatively impacts the currency's competitiveness in an environment of already low international reserves. As such, we expect the tight capital controls to persist in the economy over the next few months.

DETAILS:

1. Headline inflation printed at 2.4% mom in February. As a result, annual inflation eased to 66.9% from 84.5% in January. Core inflation printed at a higher 2.9% mom in February, with the annual rate falling to 60.4% yoy from 75.0% in January.
2. Prices in the housing and utilities category increased by a high 3.7% mom due to higher rents and electricity and gas tariffs. Food and non-alcoholic beverages also rose by a firm 3.2% mom due to higher beef prices. Prices in the clothing category, in turn, increased by a low 0.4% mom in February following a 0.7% decline in January.
3. The price of services increased a higher 3.1% mom (down from 3.8% in January), and goods prices rose by 2.1% mom, above the 1.0% monthly depreciation crawl of the exchange rate in February. Administered prices increased by 2.3% mom (below the 2.6% mom in the previous month) and

seasonal items experienced a low -0.8% mom price variation.

4. Regulated prices lost some ground relative to freely determined prices in February with regulated inflation printing at 2.3% mom in the month. Since President Milei took office regulated prices have increased by 288% compared to the 178% increase of core prices.

Data This Week:

Today: Budget Balance (Feb); we expect the government's commitment to fiscal discipline to continue in February.

Wednesday: GDP (4Q24); in line with the EMAE monthly activity indicator, we expect real GDP to have expanded by 1.7% yoy in the fourth quarter of 2024. Sequentially, the EMAE GDP proxy points to a robust 1.3% qoq sa real GDP expansion in Q4.

Wednesday: Trade Balance (Feb); we expect a US$750mn trade balance surplus in February. In January, the trade balance narrowed to a lower-than-expected US$142mn surplus. Imports picked up in September-January after a PAIS tax reduction and its subsequent elimination led the shadow exchange rate to turn more attractive for importers. A recovery of domestic demand is also contributing to higher imports.

SA

BRAZIL

Copom Expected to Hike Selic Rate Another 100bp to 14.25%

The Monetary Policy Committee (MPC; Copom) will meet on Wednesday, March 19. Given the recent domestic and external macro-financial developments, we expect the Copom to honor the guidance provided at the previous meeting and hike the Selic by another 100bp to 14.25%.

In the post-meeting policy statement, we will be paying particular attention to the forecasts for year-end 2025 and 3Q2026 (relevant horizon encompasses 6-quarters ahead) and the magnitude of the deviation from the 3.00% target. These forecasts will be key to calibrate the Selic rate path and depth of hiking cycle.

We expect the policy statement to acknowledge the observed further deterioration of inflation expectations, above-target headline and core inflation prints, and mixed but on balance softer real activity signals. At the Jan meeting the Copom provided specific guidance for the Mar meetings: +100bp, with the usual caveat "*if the macro baseline evolves as expected*". Given heightened domestic and external uncertainty, the Copom will likely hint that the hiking cycle has not ended but the magnitude of the policy rate hike(s) will be data dependent with the overall tightening cycle determined by the firm commitment to reaching the inflation target and a function of the "*inflation dynamics, especially the components that are more sensitive to monetary policy and economic activity, on the inflation projections, on the inflation expectations, on the output gap, and on the balance of risks*".

Since the Jan 29 Copom meeting, real activity data has been on balance soft (but with a firm Jan IBC-Br print), with labor market data more resilient but also showing signs of mild easing. Credit growth has been healthy. The Manufacturing PMI improved in Jan-Feb, the Servies PMI weekend in Jan but recovered in Feb, consumer/business sentiment weakened. Real GDP grew a lower than expected 0.17% qoq sa during 4Q2024 (with final domestic demand -0.5% qoq sa), moderating from the above-trend Q1 (0.99%), Q2 (1.32%), and Q3 (0.75%) prints. Real activity during Q4 was dragged down by weak household consumption (-1.0% qoq sa) and impacted by the deceleration of gross fixed capital formation. On the supply side, services activity (0.1% qoq sa) was soft and manufacturing underwhelmed. Net exports contributed negatively to quarterly sequential activity, but investment in inventories added a significant 0.9pt to growth in Q4. With the 4Q2024 print and data revisions, the statistical carry-over for 2025 real GDP growth is at 0.8%. The Jan IBC-Br real GDP proxy was firmer than expected. Jan and Feb IPCA showed intense and disseminated services inflation pressures at the beginning of the year. The BRL/USD is trading at around 5.74 (below the 5.85-5.90 level in the days of the Jan Copom meeting), 5-yr CDS spreads were broadly unchanged at 178, and 1-yr 10-yr UST yields declined by -8bp and +24bp, to 4.07% and 4.29%, respectively. Oil prices (Brent) rose by approximately 7%.

Short- and medium-term inflation expectations deteriorated further since the Jan 29 Copom meeting. The median inflation expectation for end-2025 rose 16bp to 5.66%, for end-2026 rose 26bp at 4.48%, and for end-27 by 10bp to 4.00% (all further sway from the target). Growth expectations for end-2025/26 eased slightly: 1.99% (-7bp)/1.60% (-12bp). Lastly, analysts' expectations for end-2025/26/27 Selic are now at 15.00%/12.50%/10.50% (+12bp).

Firmer Than Expected Jan Real GDP Growth

Bottom Line: *According to the central bank's monthly GDP indicator (IBC-Br), real activity recorded a solid 0.89% mom sa variation in Jan, firmer than consensus for a more moderate increase. Data revisions raised the Dec real GDP level by 0.57pt. On an annual basis, real activity recorded a 3.58% yoy variation in Jan, above consensus. The carry-over for 1Q2025 sequential growth is at 0.56% qoq sa, and for 2025 as a whole at 1.7%.*

Going forward, we expect real activity to continue to benefit from fiscal stimulus (federal fiscal transfers to low-income households with a high propensity to consume), generous increases in the minimum wage, and solid real household disposable income growth; mitigated by tighter domestic monetary conditions, high levels of household indebtedness, low levels of economic slack (unemployment rate at the NAIRU and output gap in positive territory), and lingering policy uncertainty.

DETAILS:

1. According to the central bank's monthly indicator of real GDP (IBC-Br), real activity recorded a solid 0.89% mom sa variation in Jan, above the Bloomberg consensus for 0.30% mom sa. The Dec figure was revised up by 13bp to -0.60% and the Nov figure by 7bp to 0.23%, which jointly with other revisions raised the Dec real GDP level by 0.57pt.

2. In annual terms, real GDP recorded a 3.58% yoy (3.69% yoy sa) variation in Jan (above the 2.35% Bloomberg consensus), vs. 2.60% yoy (2.41% yoy sa) in Dec.
3. The carry-over for 1Q2025 sequential growth is at 0.56% qoq sa, and for 2025 as a whole at 1.7%.

Slight Uptick in 2026 and 2028 Inflation Expectations, Softer Growth, Stable Selic Rate Expectations

Bottom Line: *Inflation expectations for 2026 and 2028 moved further up in the latest weekly central bank Focus survey (unchanged for 2027) and growth expectations for 2025-26 deteriorated slightly. Year-end 2025 inflation expectations declined a minor 2bp to 5.66% (still significantly above the 3.0% target) but for 2026 rose 8bp to 4.48% (unchanged at 4.00% for 2027, and up 3bp to 3.78% for 2025). The expectations for 2025/26/27 real GDP growth are now at 1.99% (-2bp)/ 1.60% (-10bp)/2.00% (unchanged). The expected Selic path for end-2025/26/27/28 remained at 15.00%/12.50%/10.50%/10.00%. The median expectation for the primary fiscal balance of 2025/26/27/28 remains in negative (deficit) territory: -0.60%/-0.65%/-0.40%/-0.22% of GDP; contrary to the government's targets of non-negative prints, attesting to the low credibility and weak anchoring effect of the fiscal framework. The nominal fiscal deficit is expected to remain deep in the red over the medium term: 8.97%/8.50%/7.15% for 2025/26/27. Prolonged above-target medium-term inflation expectations (2026-28) harden price-formation mechanisms and make it more costly for the central bank to deliver inflation at the target.*

DETAILS:

1. According to the central bank's weekly survey of market analysts, the median inflation expectation for year-end 2025 declined 2bp to 5.66% (still well above the 3.0% target). 12-month ahead inflation expectations declined 7bp to 5.23%.
2. The median inflation expectation for 2026 rose 8bp to 4.48%, for 2027 remained at 4.00%, and for 2028 rose 3bp to 3.78%.
3. The median market expectation for the Selic for end-2025/26/27/28 remained at 15.00%/12.50%/10.50%/10.00%.
4. The expectation for real GDP growth in 2025 is at 1.99% (2.01% a week ago), and for 2026 at 1.60% (1.70% a week ago).
5. The median expectation for the primary fiscal balance remains in the red through 2028: -0.60%/-0.65%/-0.40%/-0.22% of GDP, contrary to the government's path of rising primary surpluses. This is consistent with the expectation of continuously rising public sector debt.
6. The BRL/USD median expectation for year-end 2025 is at 5.98 (5.99 a week ago) and for year-end 2026 at 6.00 (6.00 a week ago).

Data This Week:

Wednesday: Monetary Policy Committee (MPC; Copom) meeting; we expect the Copom to honor the guidance from the previous meeting and hike the policy rate by another 100bp to 14.25%.

AR

CHILE

MPC to Keep Policy Rate Unchanged at 5.0% and Maintain Cautious Guidance

The monetary policy committee (MPC) will meet on Friday, March 21. We expect the MPC to keep its policy rate unchanged at 5.0% and to maintain a cautious and data dependent forward guidance.

At its last meeting, in January, the central bank held its policy rate unchanged at 5.0%. The decision was unanimous. Forward guidance from the MPC had a hawkish connotation with Directors emphasizing that "risks for inflation had increased" and the need for caution. In the minutes from the January monetary policy meeting, Directors also expressed discomfort with some measures of two-year ahead inflation expectations (e.g., traders survey and break evens) moving above the central bank's 3% inflation target. One MPC member even commented that, while it was not the most probable scenario, the MPC would be willing to hike rates if needed.

In our assessment, the evolution of the macroeconomic backdrop has been in line with what was considered in the December IPoM. Beyond the mining sector's outperformance, and strong cherry exports and related activity in December and January, the economy is growing around potential, and we expect the output gap to remain around zero. The January inflation print, in turn, was somewhat higher than expected due to the non-core volatile component and printed in-line with expectations in February. Core inflation, however, was below our expectations in January driven by lower-than-expected core goods inflation, and consistent with our forecast in February. Core services inflation, the stickier component of inflation, also moderated.

Lastly, we note that since the January meeting, the exchange rate has appreciated over 7% (from slightly below 1,000 Pesos per Dollar to around 930), the traders' survey showed encouraging signs, with one-year inflation expectations falling by 45bp and two-year ahead expectations by 20bp to 3.3%, breakeven inflation has declined, and inflation expectation stemming from the central bank survey of economists remained anchored at 3.0%. As such, while we expect the MPC to maintain a cautious and data dependent forward guidance, we believe that a softer tone that the hawkish one conveyed at the January meeting is also likely.

Data This Week:

Tuesday: GDP (4Q24); in line with the IMACEC preview, we expect real GDP to have risen 3.7% yoy in the fourth quarter of 2024. Sequentially, we expect real activity to firm 0.4% qoq sa.

Tuesday: Current Account Balance (4Q24); we forecast a US$1.5bn current account deficit in the fourth quarter of 2024. Solid terms of trade and strong mining exports led to a US$5.2bn trade balance surplus in Q4 (up from US$3.8bn last year) which support the current account.

Friday: Monetary Policy Committee (Mar); we expect the MPC to keep policy rate unchanged at 5.0%.

SA

COLOMBIA

Data This Week:

Tuesday: Economic Activity (Jan); we expect real economic activity as measured by the ISE monthly indicator to expand 1.0% yoy in January, down from 2.9% in the previous month. On a sequential basis, activity rebounded by 1.5% mom sa in December, up from -1.0% mom sa in the previous month. Accounting for all data revisions, the Nov. activity level was upgraded by 80bp. With the December print, the carryover for 1Q25 stands at +0.6% qoq sa.

Wednesday: Trade Balance (Jan); we expect the trade balance to print a US$1.46bn deficit in January. The trade balance has not recorded a surplus since December 2017. On a 12-month basis, the trade deficit edged up to US$10.8bn in December, but remains significantly below the cyclical-high US$16.8bn in Mar-2022.

ST

ECUADOR

Firm Trade Balance Surplus in January

Bottom Line: Ecuador's trade balance registered a US$715mn surplus in January. The monthly reading was firmer than the US$673mn surplus in December and the US$441mn surplus posted a year ago. Exports increased 21.5% from a year ago and imports increased by 13.2%. Crude oil exports rose to US$827.3mn from US$678.1mn in December and were above the US$785.3mn a year ago (5.4% yoy).

The trade balance printed a firm surplus in January driven by higher oil exports and well bid cacao prices. Going forward, however, lower commodity prices (oil and cocoa for example) as well as the closure of important oil pipeline infrastructure due to landslides could negatively impact exports. Domestic demand, however, remains soft which should moderate pressures from higher imports.

DETAILS:

1. The trade balance printed a US$714.8mn surplus in January. Crude oil exports printed at US$827.3, notably above the US$678.1mn in December and the US$785.3mn a year ago (5.4% yoy).
2. Exports rose 21.5% year-on-year in January driven by 32.1% yoy higher non-oil related exports as oil related exports rose only 0.4% yoy. Cacao exports were up 331.7% yoy in January to US$517.2mn, shrimp exports increased by 31.0% yoy to US$596.2mn and banana exports increased by 6.8% yoy to US$353.3mn. Mining exports, in turn, fell by 13.1% to US$272.3mn.
3. Imports rose by 13.2% yoy in January, driven by a large 39.9% yoy expansion in fuel imports as well as a 14.5% yoy increase in capital goods imports and a 5.0% yoy

increase in primary goods imports. Consumer goods imports, in turn, decreased 3.5% yoy.

4. The cumulative trade surplus over the last 12 months increased to US$7.0bn, roughly 5.7% of GDP. Cumulative exports rose by 11.4% yoy to US$35.0bn and imports fell by 3.4% yoy to US$28.0bn.

SA

MEXICO

Data this Week:

Thursday: Real GDP (4Q2024; Demand Side); according to the quarterly real activity 2nd-vintage estimate, real GDP decelerated sharply during 4Q2024: to -0.63% qoq sa in 4Q2024. The weak Q4 print follows the off-beat strong 3Q24 print (0.92% qoq sa) which broke the 3-quarter sequence of soft real activity prints: 4Q23 (0.37% qoq sa), 1Q24 (-0.03% qoq sa) and 2Q24 (0.29% qoq sa) prints.

Real activity during 4Q24 was impacted by the contractions of the secondary (1.5% qoq sa) and the sluggish performance of labor-intensive services (0.2% qoq sa) sectors. The low-weight primary sector declined 8.5% qoq sa.

We expect the demand side print to show negative contributions from both household consumption and gross fixed investment (with a sizeable contraction of construction).

AR

PERU

Modest GDP Expansion in January Led by Construction; Soft Services and Agriculture; Positive Q1 Momentum

BOTTOM LINE: Real GDP as measured by INEI's monthly indicator rose by 4.1% yoy in January, just 10bp above the Bloomberg consensus. Under the original series, sequential real activity expanded by 0.3% mom sa, offsetting the 0.2% mom sa contraction from the previous reading. Activity was boosted by construction and fishing, but dragged by agriculture, mining, and restaurants. Most services sectors were soft, either growing at a below-trend rate or contracting. With the Jan. print, the carryover for 1Q2025 stands at 0.6% qoq sa, and for the whole of 2025 at 2.1%. We still forecast flat annual growth at 3.3% for 2025. In all, activity during 2024 was stronger than what we anticipated, but we still see a moderate deceleration of growth to a below trend-rate over the coming months as some transitory tailwinds lose steam (see our analysis here: Peru: Growing and Growing Feels Like Flying?).

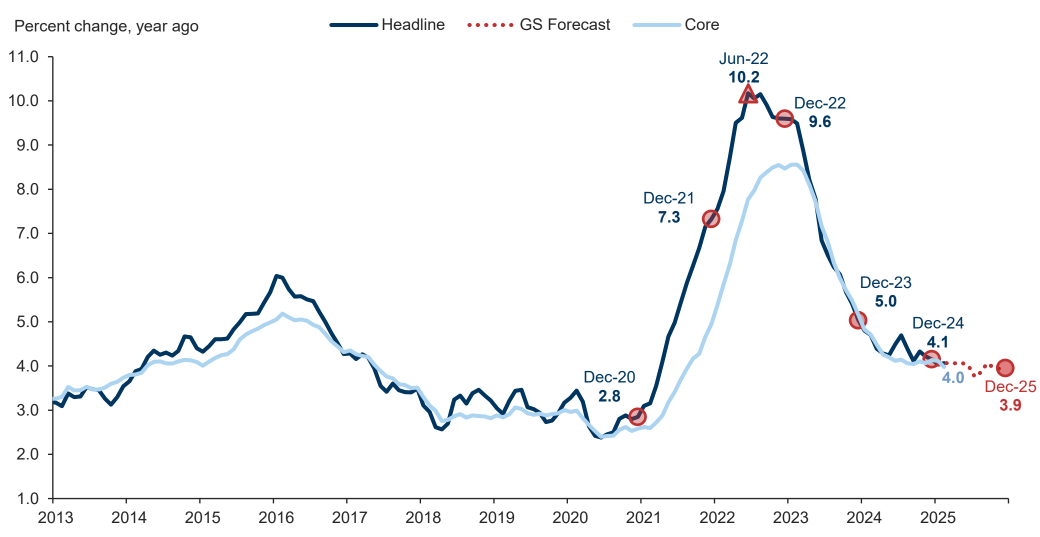
DETAILS:

1. Real GDP expanded by a modest 0.26% mom sa in January, offsetting a 0.23% mom sa contraction in the previous month. Activity entered 2025 with positive momentum: with the Jan. print, the carryover for 1Q2025 stands at 0.6% qoq sa, and for the whole of 2025 at 2.1%.

2. On an annual basis, real GDP expanded by 4.1% yoy, slightly above the Bloomberg consensus for a 4.0% yoy variation.
3. Primary activities were dragged by declines in agriculture (-1.5% mom sa) and mining (-0.4% mom sa), but benefited from fishing (9.4% mom sa). Secondary activities were mixed, with strong construction (3.0% mom sa) but flattish manufacturing (+0.1% mom sa). Electricity and energy generation firmed moderately (+0.3% mom sa). Most services were soft, either growing below trend or retrenching: telecommunications (-2.0% mom sa), restaurants & hotels (-0.4% mom sa), commerce (+0.1% mom sa), and transport (+0.2% mom sa). Services to businesses (1.2% mom sa) and financial services (0.9% mom sa) were the exceptions to this pattern.
4. The unemployment rate (Lima metro area; 3mma) printed at 6.3% in February (vs. 6.2% in the previous month), below the 7.3% reading from a year ago. Employment increased by 2.6%, adding +136.5 thousand jobs since February 2024.
5. We expect the activity momentum to slow to slightly below trend-growth over the next readings as some transitory headwinds dissipate. Beyond that, the increased risk of political volatility in 2025 may weigh on business sentiment and private investment, whereas global geopolitical tensions may impact a hitherto very strong external demand. On the positive side, activity will benefit from robust exports, a benign inflation backdrop, and a resilient labor market.

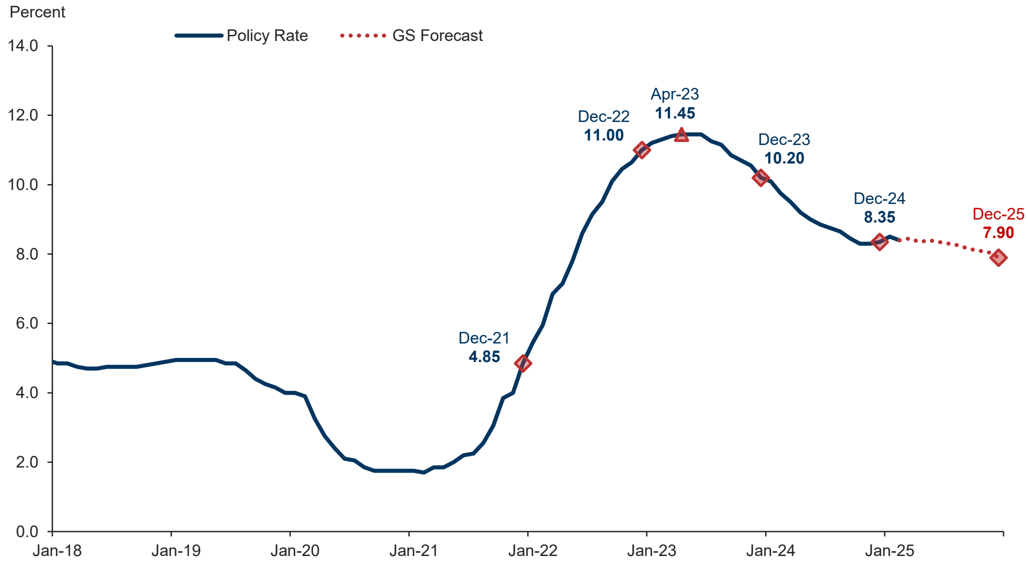
ST

LA-IT5 Headline Inflation
Simple Average



Source: Goldman Sachs Global Investment Research

LA-IT5 Policy Rate
Simple Average



Source: Goldman Sachs Global Investment Research

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