

LATIN AMERICA DATA RESPONSE

Chile & Mexico Consumer Prices (Jun.)

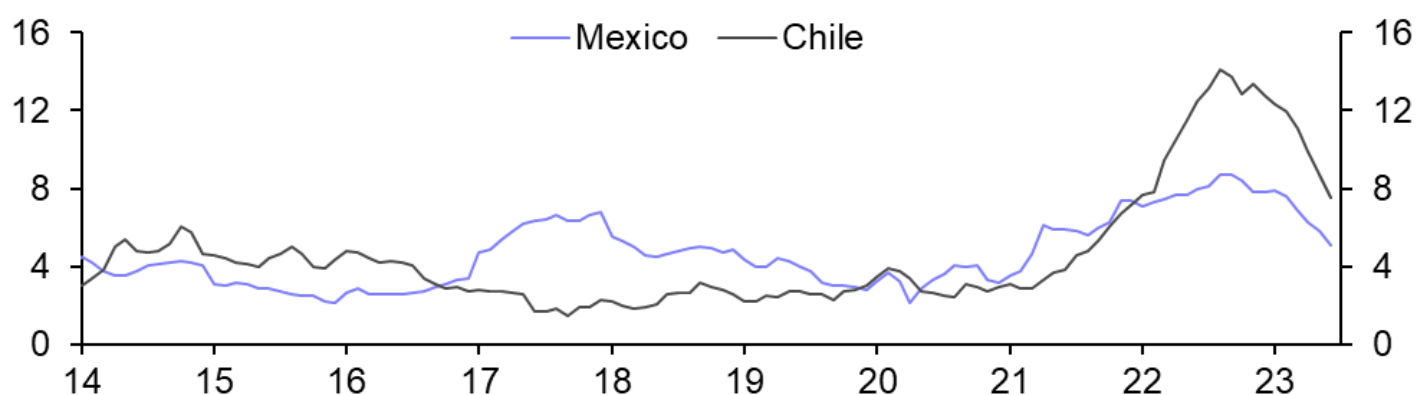
 7th July 2023

Fall in Chilean inflation paves the way for start of easing cycle later this month

- **The larger-than-expected decline in inflation in Chile to an 18-month low of 7.6% in June seals the deal on an interest cut at the central bank's next meeting later this month. If anything, policymakers may deliver a bigger interest rate cut than the 50bp we're currently expecting. Meanwhile, inflation in Mexico eased too last month, but we remain of the view that interest rate cuts there are only likely to come onto the cards around the turn of the year.**
- In Chile, the outturn came in substantially lower than both we and the Bloomberg consensus had expected (8.0% y/y and 7.9% y/y respectively). The reading was down from 8.7% y/y in May and marked the lowest inflation figure since December 2021. (See [Chart 1.](#))
- **The breakdown of the data showed that the fall was broad based across all major categories.** Food inflation dropped from 12.7% y/y in May to 11.8% in June while energy inflation plunged to 2.1% y/y last month (from 5.8% y/y in May). Core price pressures also showed pronounced signs of easing with the core rate falling to 6.9%, the lowest reading since February 2022. (See [Table 1.](#))
- **The fall in inflation in June alongside the central bank's [dovish shift](#) (most recently evidenced by the minutes to last month's monetary policy meeting) mean that an interest rate cut at the next meeting later this month is all but certain.** We expect the BCCh to kick off its easing cycle with a 50bp cut, to 10.75%, with rates set to be lowered to 9.25% by the end of this year. But the risks are tilted towards more aggressive easing this year than we currently anticipate.
- **Elsewhere, inflation in Mexico dropped to a 27-month low of 5.1% in June on the back of a broad based easing of price pressures.** Non-core inflation turned negative as energy deflation deepened and agricultural inflation eased to a 27-month low. Core inflation also dropped on the back of easing goods inflation, although services inflation edged down too, hitting a six-month low.
- Headline inflation should continue to ease over the coming months, but it's likely to be a slow grind lower from here. What's more, rapid wage growth means that services inflation in particular

will remain uncomfortably high. We don't expect inflation to return to within Banxico's 2-4% target range until late-2024. **Against this backdrop, we think that interest rates will be left unchanged at 11.25% until the turn of the year.**

Chart 1: Chile & Mexico Consumer Prices (% y/y)



Sources: Refinitiv, IGBE, INE, Capital Economics

Table 1: Mexico & Chile Consumer Prices (% y/y)

	Mexico				Chile			
	Headline	Housing	Food & Bev.	Transport	Headline	Housing	Food & Bev.	Transport
Mar-23	6.8	1.8	11.0	5.5	11.1	8.5	17.4	9.0
Apr-23	6.3	0.4	10.1	4.8	9.9	8.1	14.8	8.6
May-23	5.8	-0.2	9.2	4.5	8.7	7.2	12.7	5.2

Jun- 23	5.1	-0.5	7.9	4.0	7.6	6.0	11.8	2.0
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Sources: Refinitiv, IGBE, INE

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