Inflation Observatory

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Chile

Economic Analysis

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January Consumer Price Index: 0.3% change

In line with our expectations, price levels changed 0.3% in January, while the change over 12 months was 2.7%. The main impacts came from rises in fuel and cigarette prices, partly offset by falls in fresh food, clothes and shoes.

We forecast 0.1% and 0.5% increases for February and March respectively, and 3.9% inflation for 2011.

This supports our view of the need for the central bank to resume the monetary stimulus normalization process. We therefore expect an increase of 25 bps at the February meeting.

Seven of the twelve divisions recorded price increases, especially alcoholic beverages and tobacco (3.9%), transport (1.3%) and housing, water, electricity, gas and other fuels (1.3%), which contributed 0.085 pp, 0.271 pp and 0.169 pp respectively.

Five divisions posted negative results, including clothing and shoes (-3.5%) and food and non-alcoholic beverages (-0.8%), contributing -0.132 pp and -0.149 pp respectively.

Core inflation (IPCX), which excludes fruit, fresh food and fuel prices, saw a 0.1% change in January, accruing a 2.0% change over 12 months. In turn, the CPIX1, which also excludes meat and fresh fish prices, regulated index-linked prices and financial services, posted a 0.2% change, accruing 0.5% for the year.

Two factors that drove inflation in January, the rise in cigarette and fuel prices, will not apply in February. We therefore expect it to record 0.1% this month. In March, seasonal factors, in particular education, will drive inflation to 0.5%. In 2011 inflation will reach the ceiling of the central bank's range, recording 3.9%.

There are still signs of greater inflationary pressures. Yesterday the National Institute of Statistics reported that the Wage Index and the Labor Cost Index posted the highest results for the year, 1% and 1.5% respectively. Non-tradable goods inflation stood at 0.4% in January and the Produce Price Index increased 3.6%, accruing a 13.2% change over 12 months. We therefore think that the central bank should resume the monetary policy rate upward cycle at its February meeting, when we expect the reference rate to rise by 25 bps.