Latam Weekly: Regional CPI, BCCh and BCRP to Hold

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Juan Manuel Herrera, Director +52.55.2299.6675 juanmanuel.herrera@scotiabank.com

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Key CPI releases across the Americas are on tap next week, with a couple of regional central bank announcements to boot, and a new episode in the U.S.-Canada trade war with the latter's retaliatory tariffs scheduled to kick in on Tuesday. In Latam, we'll have August inflation data from Brazil, Chile, Colombia, and Mexico that will accompany the global week's main event, U.S. CPI on Friday. Central bankers in Chile and Peru are widely expected to leave policy settings unchanged on Tuesday and Thursday, respectively, but the European Central Bank is almost certain to hike at its Thursday announcement.

Starting with Chile, we estimate that headline inflation reaccelerated in August to 3.8% y/y from 3.5% y/y in July (when it slowed from 4.3% in June) on the back of a 0.3% m/m rise in prices. According to our economists, food will be the main driver of the monthly gain, accounting for about two-thirds of the rise, and with the impact of El Niño likely to be more clearly seen in higher agricultural prices in the months to come. Gasoline prices will account for most of the remainder, and with greater impact in September inflation given the recent behaviour of international oil prices and the CLP. Setting aside variations in food and energy, inflation ex. volatiles is seen at a more modest 0.1% m/m which would translate into a slight increase in the y/y pace to 3.2% from 3.1% with muted domestic demand amid labour market sluggishness acting to contain second-round effects of higher volatile goods prices.

That same day, the BCCh is set to leave its overnight rate steady at 4.50%, balancing inflationary risks on one hand—ongoing in energy prices and likely to grow in relation to El Niño—against continued disappointments in growth figures on the other. Data released earlier this week showed the Chilean economy contracted by 1.5% y/y in July, reflecting a building impact from El Niño which disrupted mining activity, and some services such as transportation or the tourism industry. In the year-to-date, Chilean GDP has contracted by 0.4% y/y compared to same period last year, and there is a risk that GDP will contract q/q for a straight third quarter in Q3-26.

Next week, the BCCh will publish updated forecasts in its Monetary Policy Report, and we believe the central bank will slash its 2026 growth rate projection of 1-1.75% (June MPR) to 0.25-0.75%. This weaker growth forecast and an assessment that inflation upside is generally transitory (at least for now) would mean the BCCh can stand pat for the time being and conditions may favour slight policy easing next year, although we shall see how the balance of economic conditions looks then as we anticipate that activity should begin to strengthen from the latter part of 2026 (supported by public and private investment).

In today's report, the team in Peru goes over their expectations for the BCRP to keep its reference rate unchanged at 4.25% at its Thursday announcement and also outline the Ministry of Economic and Finance's latest projections. On Tuesday, the INEI published CPI figures that showed headline inflation accelerated to 4.4% y/y in August, from 4.1% in July and well above the 1.5% y/y print with which it closed 2025. The reading was in line with expectations and mainly owed to a low base of comparison as the 0.1% m/m rise was relatively mild, but the y/y result still marked its highest reading since September 2023 and over double the BCRP's 1-3% target range midpoint.

However, as argued by our economists, the BCRP has to take into account the drivers and risks to inflation, not just the latest elevated prints. Supply side transitory shocks (Hormuz, domestic natural gas disruptions) would fall out of the realm of developments that central banks typically respond to, preferring to focus on demand-side pressures and the degree of pass-through—which so far appears limited based on core ex. transportation measures. The duration of the international energy prices and El Niño shocks will be key to the convergence of inflation to target, but as of last month's forecast update the BCRP did not see a prolonged deviation. However, the BCRP may show greater concern in the coming months regarding a sustained period of elevated inflation expectations (currently at 3.1% in 12-months ahead terms) and would perhaps eventually considering an adjustment towards a more balanced real rate.

Mexico and Brazil publish August inflation data on Wednesday and Friday, respectively, but as always there is little room for surprise considering that we get mid-month prints from both countries. In the case of Mexico, headline inflation likely accelerated to around 3.3% from 3.1% while core inflation holds marginally below the 4% level as teed up by H1-Aug data. In today's report, the team in Mexico covers the latest trends in household incomes, with supports from minimum wage increases but a moderation in formal employment growth.

As for Brazil, headline inflation should tick lower to around 4.3% from 4.4% that should be given back in September as August's one-time electricity bills credit drops out. Nevertheless, there is room for the BCB to lower its Selic rate at its September 17 decision (with core inflation measures generally cooperating) by 25bps to a still-high 13.75%—fully priced-in by markets that are leaning towards another final quarter-point reduction by year-end. Finally, Colombian CPI due at the start of the week is seen rising by around 0.2ppts in headline and core terms to 6.2% and 6.3% y/y, respectively.

Mexico will also publish July industrial production data on Friday and Banxico releases its regional economy report on Thursday, where it will be interesting to see if the bank publishes some data on the scale of manufacturing or assembly of technology products for export to the U.S. State-level international trade data (only available to Q1-26) show that Chihuahua and Jalisco have massively increased their exports of these goods to the U.S., but we're curious about how much investment or hiring are accompanying this exports surge. While Canada will likely go ahead with tariffs on the U.S. on Tuesday, we'll keep an eye out for possible developments on the Mexico-U.S. front where tensions are certainly not as high as with Canada but the two sides seemingly remain deadlocked, with no signs that Economy Minister Ebrard's visit to the U.S. earlier this week to meet with U.S. Comm Sec Lutnick resulted in significant progress.

Mexico—Incomes Improve, but Employment Picture Not So Much

Rodolfo Mitchell, Director of Economic and Sectoral Analysis +52.55.3977.4556 (Mexico) mitchell.cervera@scotiabank.com.mx

Miguel Saldaña, Economist +52.55.5123.1718 (Mexico) msaldanab@scotiabank.com.mx

Martha Cordova, Economic Research Specialist +52.55.5435.4824 (Mexico) martha.cordovamendez@scotiabank.com.mx

In previous editions, we have discussed the relationship between the growth of consumer credit and private consumption amid sluggish labour market dynamics. However, to gain a deeper understanding of consumption trends, it is also relevant to analyze what has happened to household income and domestic residents' purchasing power. Therefore, we start from the results of the National Household Income and Expenditure Survey (ENIGH) to analyze the evolution of monthly current income, as well as the challenges that persist in the labour market.

According to our analysis based on ENIGH data, average monthly income per person grew by 21.1% in real terms from 2016 to 2024, equivalent to annual growth of 2.4%; between 2022 and 2024, the increase was 13.2%. The per capita improvement was broad-based across income deciles, although wide differences remained in both levels and growth rates. The link between wage gains and the labour market is direct, though not exclusive: labour income accounts for around 65% of current income, while transfers represent 17%. Therefore, the minimum wage, employment, and formalization explain only part of the improvement; remittances and government support are also relevant to the analysis.

The minimum wage has been one of the main factors behind the recovery in labour income. Between 2016 and 2026, the general minimum wage rose from 73.04 to 315.04 pesos per day, a nominal increase of more than 330%, with significant gains in real terms. This progress helped restore purchasing power even amid the price increases of recent years, although its impact is heterogeneous: it directly benefits workers covered by the minimum wage, but does not necessarily translate to the rest of the workforce to the same extent, particularly those in informal employment.

By the second quarter of 2026, the economically active population reached 61.7 million people, 612 thousand more than in the same quarter of the previous year, with an average unemployment rate of 2.7%, which remains relatively low compared with figures from 2015 to 2020. However, informal employment in all its forms—whether self-employment in the informal sector, paid domestic work, agricultural work, or employment in companies, government, and institutions—totaled 33.1 million people, representing 55.1% of the population and an annual increase of 495 thousand people.

On the formal employment side, growth has lost momentum compared with previous years. The IMSS reported 22.76 million jobs at the end of July 2026, representing annual growth of 1.5%, although the

243 thousand jobs created during the first seven months of the year are below the pace observed in prior years. This has been accompanied by a decline in employer registrations, which have shown negative annual variations since late 2023, pointing to weaker momentum in the base of formal employers. However, this last figure should be interpreted with caution, since an employer registration does not necessarily correspond to a company, and its decline may also reflect IMSS administrative and data-cleaning processes.

In this context, the sharp increase in the minimum wage has raised the income of covered workers, but it has also increased companies' labour costs. This opens the discussion around a potential crowding-out effect: when the higher cost of formal hiring may reduce the hiring of certain workers, encourage their substitution, or favour transitions toward informal employment. Evidence for Mexico may suggest that these trends of lower hiring among some groups and changes in flows between formality and informality can be explained, in part, by the increase in the minimum wage and higher labour costs, as well as by slower economic growth, negative investment trends since around that period, sectoral composition, and even other factors such as corruption, contract enforcement issues, and the deterioration of the rule of law, among others.

Peru—Inflation Reaches a Three-Year High, but the Policy Rate is Likely to Remain at 4.25%

Pablo Nano, Deputy Head Economist pablo.nano@scotiabank.com.pe

Ricardo Avila, Senior Analyst ricardo.avila@scotiabank.com.pe

The Central Reserve Bank of Peru (BCRP) is set to hold its monetary policy meeting next Thursday, September 10th, during which it will decide on the level of its policy interest rate. We expect the rate to remain unchanged at 4.25% for a twelfth consecutive month.

Annual inflation accelerated to 4.4% in August (chart 1), according to the report published by the National Institute of Statistics and Informatics (INEI) on September 1st. This marks the highest inflation rate recorded in almost three years, since September 2023. Moreover, inflation has remained above the target range (1%–3%) since March 2026, accumulating seven consecutive months outside the official band.

However, central banks do not react solely to the current level of inflation. They also assess a range of factors to determine whether inflationary pressures are temporary or persistent and whether they warrant a monetary policy response. Among the main considerations, we highlight the following:

A significant share of the increase in inflation observed in recent months originated in March and April, when two major events coincided: the outbreak of conflict in the Middle East and the temporary disruption to domestic natural gas supply following an incident in Cusco. Both factors contributed to higher fuel prices. International oil prices also remain elevated, reflecting continued disruptions to energy supply and uncertainty surrounding negotiations between the United States and Iran.

These factors represent supply-side shocks rather than pressures stemming from stronger domestic demand, where monetary policy tends to be more effective in containing inflationary pressures.

We consider the impact associated with the conflict in the Middle East to be temporary for the time being. Nevertheless, the effects of El Niño must also be considered, as its impact could intensify during the summer of 2027.

Even so, we expect inflation to return to the target range during the first half of 2027, supported by a strong base effect and the gradual dissipation of pressures associated with the climatic anomaly. Under this scenario, inflation would end 2027 at around 2.3%.

The BCRP appears to share a similar assessment. In its latest monetary policy statement, published on August 13th, the central bank continued to project inflation at around 2% (the midpoint of the target range) over its forecast horizon (2026–2027). That said, upside risks remain, particularly if El Niño causes greater disruptions to agricultural production or if the conflict in the Middle East escalates further.

3. Pass-Through of the Shock to Other Consumer Basket Prices

If we examine underlying inflation indicators, such as inflation excluding food, energy, and transportation, we observe that it remains below the midpoint of the target range at 1.8%. In addition, monthly inflation readings between May and August have not shown significant inflationary pressures, as they remain broadly consistent with their historical averages over the past twenty years, excluding the pandemic period.

This is likely one of the indicators that the BCRP will monitor most closely in the coming months. Currently, twelve-month inflation expectations stand at 3.05% (chart 2), slightly above the upper limit of the target range. A prolonged period above that threshold would increase the likelihood that the BCRP adopts a more restrictive monetary policy stance to preserve price stability.

Meanwhile, the Multiannual Macroeconomic Framework (MMM) for 2027–2030 was recently published, outlining the Ministry of Economy and Finance's (MEF) key projections (table 1).

In our view, the most significant points are:

• The upward revision of the average annual GDP growth forecast for 2028–2030 from 3.2% to 4.0%, driven primarily by strong private investment. This is a challenging yet achievable target, particularly if mining and infrastructure projects are unlocked.

• The GDP growth projection for 2026 was raised from 3.2% to 3.4%, a level close to our own forecast of 3.5%. This improvement is largely due to momentum in sectors linked to domestic demand. Conversely, primary sectors—specifically agriculture and fishing—are expected to subtract 0.4 percentage points from GDP growth in 2026.

• For 2027, the MEF projects growth of 3.4%, similar to its 2026 forecast and slightly above our forecast of 3.3%. This outlook reflects a slight improvement in primary sectors—considering that the El Niño event would still impact GDP in the first half of 2027—alongside a slowdown in sectors linked to domestic demand, due to the high base of comparison from 2026.

• Regarding fiscal figures, the MEF forecasts a deficit of 1.8% of GDP in 2026 and 1.4% of GDP in 2027, in line with fiscal rules. While we believe the target will likely be met again this year, the 2027 projections clearly do not account for a strong or extraordinary El Niño event. Should such an event occur, it would necessitate requesting Congressional approval for a new fiscal consolidation law, as the current target of 1.4% of GDP would be exceeded. In addition, the MEF will establish a commission aimed at improving the quality of public spending and reducing the number of unfinished projects. The ministry also plans to promote measures to reduce spending rigidities, including the use of constitutional mechanisms to safeguard fiscal balance (potential new laws from Congress increasing expenditure would be referred to the Constitutional Court).

• High international trade surplus levels are expected to persist (around US$ 48 bn in 2026 and 2027), driven by record terms of trade this year, although the rise in export prices is projected to moderate by 2027. This surplus would allow for an increase in international reserves of nearly US$ 15 bn in 2026, pushing the total above US$ 100 bn (28% of GDP)—one of the highest reserves-to-GDP ratios globally.

Source: https://www.scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.latam-weekly.latam-weekly--september-4--2026-.html