

Chile

4Q24 Monetary Policy Report: Emphasis on near-term inflation risks

Following the monetary policy decision yesterday (see [note](#)), the 4Q Monetary Policy Report was published today. As expected, inflation took the spotlight both in terms of the narrative and central scenario projection revisions, with the Board noting that the balance of risks for inflation is tilted to the upside in the short term, highlighting the need for caution.

Delving into the inflation discussion, headline CPI printed above what was anticipated a few months ago, converging to 4.2%*o*ya in November, and is expected to close the year at 4.8%, and fluctuate around 5% during the first half of 2025. This higher short-term inflation trajectory is due to a combination of cost factors. On the one hand, there is the global appreciation of the dollar—which has raised the exchange rate—caused by increased global uncertainty. On the other hand, there is the rise in local labor costs. These shocks have occurred simultaneously, contributing to the narrowing of firms' margins and leading to a higher-than-previously-expected passthrough to final prices.

On labor costs, wage indicators have shown significant expansion rates despite the weakness in the employment outlook. Yet, the slower growth of private consumption is occurring in a context of low dynamism in job creation. The slow pace of job creation is contributed to by the low investment recorded over several quarters in non-mining sectors, the evolution of activity in the most employment-demanding sectors—such as construction—and the rise in labor costs. The real wage mass has tended to moderate its recovery, affecting the disposable income available for consumption.

In the medium term, cost pressures are expected to ease, and the evolution of inflation will be determined by the behavior of domestic demand, particularly by a weaker performance in household consumption. This remained rather flat in the second and third quarters of this year (Figure 4), amid low job creation, the real peso depreciation, and persistently pessimistic expectations. Relatedly, compared to what was considered in September, slightly more negative values are estimated for the activity gap until the end of 2025, which will help mitigate inflationary pressures.

On the quantitative discussion, in the central scenario headline inflation was revised higher to 5.0% (from 4.5%, previously), and core CPI to 4.2% (from 3.5%) by 2Q25. But headline CPI was maintained at 3.8% for 4Q25, even though core was revised higher by 20bp to 3.4%. On activity, the 2025 GDP projection was kept stable in the 1.5%-2.5% range, though domestic demand is lower. The output gap was again revised to include more slack, with the average 2025 slack estimated at -0.4% (compared to -0.1% in the prior base case).

Regarding the forward guidance, the mid-point of the corridor for 4Q25 was revised higher by 25bp, to 4.41%. Convergence to 4% levels, which back in September was anticipated by 1Q26, is now basically projected by the policy horizon (4.1% average rate for 4Q26).

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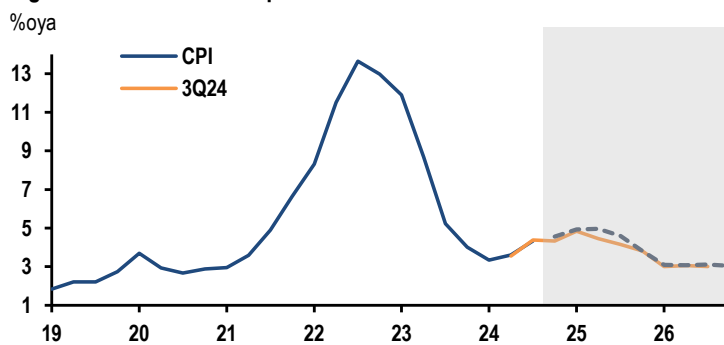
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Overall, the revision presented for the central scenario aligns well with our own base scenario, which is characterized by high inflation in the first half of 2025 (averaging 4.8% in the second quarter) and converging to 3.9% by year-end. Our point estimate for 2025 GDP growth is 2.0%, which is the midpoint of the CBC’s central scenario. We have also highlighted the evolution of wages and labor costs as a factor impacting core prices, thereby limiting the central bank’s ability to return to neutral levels as envisioned in the previous Monetary Policy Report.

We also align with the emphasis on the near-term risk distribution, noting that the balance of risks for inflation is tilted to the upside in the short term due to greater cost pressures. An intensification of these pressures and/or a higher pass-through to final prices could lead to higher inflation scenarios, increasing second-round effects and the possibility of greater persistence. Our base case scenario remains a new 25 basis point policy rate cut in March, in tandem with the Fed. However, if such a risk scenario materializes, the pause could extend for a longer period.

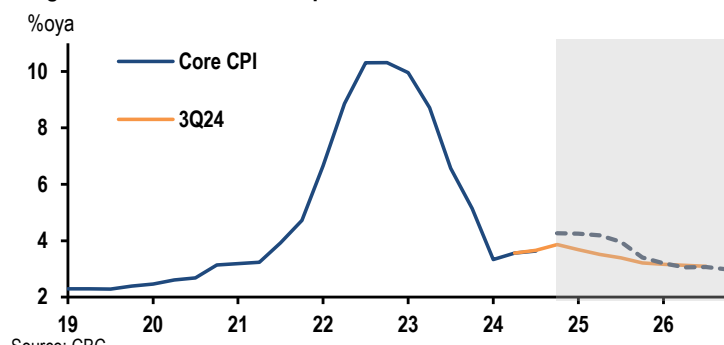
On the other hand, it’s important to consider the potential negative effects of increased uncertainty and weakness in the international scenario on domestic spending. A more pronounced deterioration in global financing conditions, associated with heightened uncertainty, would further reduce domestic spending, particularly in investment and employment. While we forecast activity close to its potential, we recognize the nature of the different risks to inflation in the near term (such as tighter global financial conditions and higher labor costs affecting employment) and in the medium term (such as uncertainty impacting global sentiment and capital expenditures later this year). These factors are negative for the medium-term evolution of domestic spending, leading us to lower our projected terminal rate level by 25bp, to 4.25% by the end of 2025.

Figure 1: Headline CPI as per CBC's central scenario



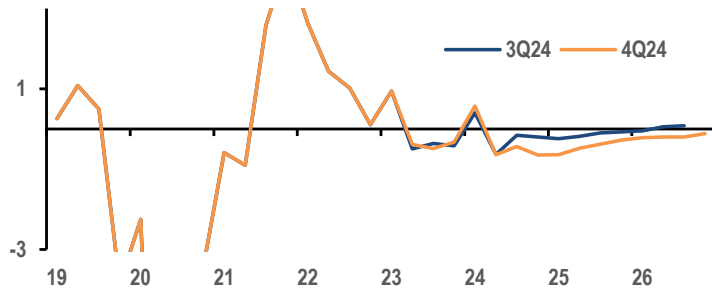
Source: CBC

Figure 2: Ex.volatiles CPI as per CBC's central scenario



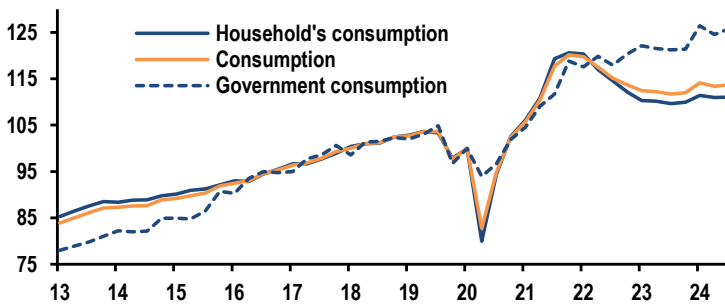
Source: CBC

Figure 3: Output gap
%



Source: CBC

Figure 4: Consumption performance
Index, sa, 1Q20=100



Source CBC, and J.P. Morgan

Table 1: 4Q24 CBC macro-cyclical central scenario

	2022	2023	2024				2025				2026
			1Q24	2Q24	3Q24	4Q24	1Q24	2Q24	3Q24	4Q24	4Q24
Inflation (P/yy)											
Average CPI inflation	11.6	7.3	3.8	3.7	3.9	3.9	3.4	4.5	4.3	4.6	3.1
December CPI inflation	12.8	3.4	3.8	4.2	4.5	4.8	3.0	3.6	3.6	3.6	3.0
Average ex. volatile CPI	9.3	7.5	3.8	3.8	3.7	3.8	3.5	3.6	3.4	3.9	3.1
December ex. volatile CPI	10.7	4.7	3.8	3.8	3.9	4.5	3.1	3.3	3.2	3.3	3.0
Key prices											
Terms of trade	-7.7	2.4	-3.2	1.4	0.5	0.9	-0.6	-0.3	-0.6	-0.5	1.0
Copper (US\$cents/lb)	400	384	385	430	415	415	385	430	425	420	430
Economic growth (Y/y)											
GDP	2.4	0.2	2.0-3.0	2.5-3.0	2.25-2.75	2.3	1.5-2.5	1.5-2.5	1.5-2.5	1.5-2.5	1.5-2.5
Domestic demand	2.3	-4.2	1.6	1.8	1.3	1.1	2.2	2.6	2.5	1.9	2.1
Domestic demand (w/o inventory chg)	3.0	-3.2	1.0	2.0	1.3	0.9	2.1	2.6	2.5	2.2	2.3
Total consumption	3.1	-3.9	2.0	2.8	2.0	1.5	1.9	1.7	1.7	1.8	2.4
Goods and services exports	1.4	-0.3	4.5	5.9	6.1	5.6	2.7	3.1	3.2	3.8	2.8
Goods and services imports	0.9	-12.0	1.3	3.2	2.9	1.7	3.5	4.7	4.5	4.2	3.1
Current account (% of GDP)	-9.0	-3.6	-3.4	-2.1	-2.1	-2.4	-3.4	-2.5	-2.4	-2.3	-2.3

Source: CBC

Table 2: 4Q24 MPR forward guidance

%, quarterly averages

	Corridor		CI 33%		CI 66%	
	Floor	Ceiling	Floor	Ceiling	Floor	Ceiling
	24.IV	5.27	5.27	5.25	5.29	5.23
25.I	4.78	5.02	4.92	5.03	4.86	5.10
25.II	3.91	5.42	4.60	4.83	4.44	4.99
25.III	3.58	5.50	4.27	4.62	4.04	4.85
25.IV	3.33	5.50	3.99	4.51	3.65	4.85
26.I	3.25	5.47	3.90	4.60	3.46	5.04
26.II	3.08	5.25	3.65	4.51	3.10	5.06
26.III	3.00	5.25	3.50	4.50	2.87	5.13
26.IV	3.00	5.21	3.44	4.56	2.73	5.27

Source: CBC and J.P. Morgan

Table 3: Evolution of policy corridor

	Corridor 3Q24			Corridor 4Q24		
	Floor	Ceiling	Mid point	Floor	Ceiling	Mid point
24.IV	5.04	5.50	5.27	5.27	5.27	5.27
25.I	4.13	5.50	4.82	4.78	5.02	4.90
25.II	3.72	5.50	4.61	3.91	5.42	4.67
25.III	3.33	5.44	4.39	3.58	5.50	4.54
25.IV	3.08	5.25	4.16	3.33	5.50	4.41
26.I	3.00	5.08	4.04	3.25	5.47	4.36
26.II	3.00	5.00	4.00	3.08	5.25	4.17
26.III	3.00	5.00	4.00	3.00	5.25	4.13
26.IV				3.00	5.21	4.10

Source: CBC and J.P.Morgan

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