Food Inflation Rears Its Head in Chile and Brazil in November
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By Mario Sergio Lima and John Quigley
(Bloomberg) -- Higher food costs fueled inflation in Brazil and Chile in November, representing a fresh challenge to monetary policy in both nations.
In Brazil, food became 0.72% more expensive from the previous month due to a surge in meat prices. The increase was well above the headline inflation reading of 0.51%. In Chile, fresh fruit and vegetables drove a 1.3% spike in food costs, while overall prices only crept up by 0.1% from October.
The figures put Brazil and Chile among the emerging market nations grappling with pricier staple products. While reasons for the increase differ -- drought and unrest in Chile, rising Chinese demand in Brazil -- the data also raise a yellow flag for policy makers, who have cut interest rates in both nations this year.
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In Brazil, the inflation pick-up comes as economists and company executives sound the alarm on rising meat prices due to dwindling supply. China, the world's top meat consumer, doubled pork imports and shipped in 63% more beef in October than a year earlier as the country struggles to ease shortages due to African swine fever.
"The food price shock has arrived" in Brazil, said Leonardo Costa, an economist at Rosenberg Associados. "We're increasing our 2019 inflation call to 4% because the increase in food and beverage costs will be even stronger in December."
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Months of subdued prices have allowed policy makers to cut borrowing costs to a record low of 5%. The central bank has indicated that next week it will deliver a fourth straight cut of 50 basis points, and traders are expecting it to be the last.
Compounding concerns about a rise in the cost of living is a recent currency weakening in Brazil. The real has fallen roughly 7% this year -- the fourth largest drop among 24 emerging market currencies tracked by Bloomberg. A weaker currency can fuel inflation by making imports more expensive.

Chile Unrest

Meanwhile, Chile's economy is reeling from six weeks of social upheaval that's left at least 20 people dead, shuttered businesses and interrupted transportation. The protests sunk the peso to a record low, prompting the central bank to promise as much as $20 billion in spot and swap operations to prop up the currency.

Higher food prices in November were due to both currency pass-through and also supply disruptions related to the protests, according to a research note from Capital Economics. Overall inflation will remain pressured through the start of next year, they wrote.

This week, Chile's central bank kept its benchmark interest rate unchanged and signaled it will remain steady for upcoming months even as the social upheaval undercuts growth estimates.

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