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Strategy – Argentina

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Argentina Strategy Flash: March CPI comes at 11%mom

March inflation at 11%mom, undershoots expectations again.

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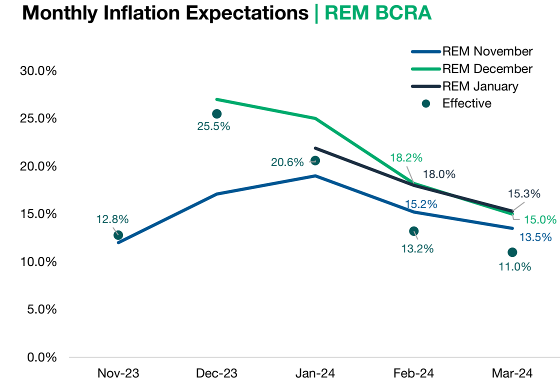
March's inflation clocks at 11%mom, undershooting the market's expectations for a fourth month in a row. At 11%mom, the March inflation came in about 100bp lower than what the most constructive high-frequency gauges predicted and about 150bp below the market consensus. In this context, inflation accumulates 51.5% YTD and 287.5% over the last twelve months. As has been the case since December, the market has been systematically overestimating inflation. Compared to the market's initial projection after Mr. Milei was elected, the consensus expected the CPI to increase 215% between December and March, almost 20pp more than the period's effective inflation. More importantly, the inflationary process has continued to decelerate despite March's dreaded seasonality, HMO hikes, and corrections in utilities' tariffs. At the current rate, we expect inflation to decelerate into single-digit territory by April despite the spike in regulated prices.

Figure 1: Inflation continues to decelerate faster than the market expected



Source: TPCG Research based on Indec

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The print was primarily driven by the Regulated subsection of the index, which came in at 18.1%mom, dominating over March's elevated seasonality. The March CPI has the highest seasonality of the year, mostly on the back of the cadence of education adjustments and other private regulated prices like telcos and healthcare. This year was no exception, with education printing a staggering 52.7%mom. Telcos and health care also outpaced the index, printing 15.9%mom and 12.2%mom. Still, despite these increases, seasonal prices increased 11.1%mom, just 10bp higher than the headline index in a context where foods and other seasonal prices with elevated weights compensated for the hot chapters. In other words, contrary to the norm, seasonal prices don't explain the March CPI print. Regulated prices explain most of the index's variability for a second month in a row, with an 18.1 on the back of electricity and natural gas prices printing a 33%mom increase, and HMOs (formerly regulated, but now technically a free price) increasing 18pp. In this context, regulated prices contributed almost 3pp to the headline index's print, more than doubling the contribution of seasonal prices. In cumulative terms, regulated prices have increased by 87.7% YTD, taking over from FX volatility as the main driver of inflation in 2024, outpacing core prices by 34pp, seasonal prices by almost 5pp, and the headline index by 30pp.

Figure 2: Regulated prices double the pace of increase of core prices YTD, catching up to them in the yearly gauge

	%mom	contribution	%YTD	%yoy
Headline index	**11.0%**	**11.0%**	**51.6%**	**287.9%**
Core	9.4%	6.5%	47.7%	300.0%
Seasonal	11.1%	1.1%	40.4%	221.2%
Regulated	18.1%	2.7%	81.8%	293.4%

Source: TPCG Research based on Indec

Core prices underperformed the index, printing in single-digit territory for the first time. The FX regime and the recession drive the deceleration, dragging the headline downward.

Core prices underperformed the index, printing in single-digit territory for the first time. The FX regime and the recession drive the deceleration, dragging the headline downward. Core prices came in at 9.4%mom, down from 12.3%mom in February. In March, the core lagged behind the headline by almost 160bp, the widest gap since the index's introduction in 2017. We find that this divergence results from (i) the pass-through of the December devaluation diluting completely, (ii) the 2%mom crawling peg anchoring dollarized prices, and (iii) the deep recession. In fact, our BVAR model suggests a more nuanced pass-through from tariff hikes into core prices than expected. Based on past experiences, we had modeled a 20bp pass-through, meaning that per every 100bp in higher utilities' tariffs for industrial users and businesses, we could expect an additional 0.2pp in core prices. Though large and commercial users have been hit with a much faster energy subsidy phase-out than households, our BVAR model finds that the pass-through from tariffs to core prices is not statistically significant, suggesting that the recession forces sellers to compress their margins and absorb the higher cost structure. On the other hand, our BVAR model identifies that almost all of the divergence with the headline index is accounted for by the FX anchor. An intuition that our model fails to confirm statistically is that besides the effect of the 2%mom crawling peg, is that the prices of some tradeable goods have become so elevated as the result of import restrictions that even a faster crawling peg would probably not make a substantial difference, as these goods are not selling. Ultimately, we feel that the recession dominates and that the pass-through of the FX would be low even with a faster devaluation, just like the pass-through from tariffs.

Figure 3: Activity levels are anchoring core components

	%yoy							%mom SA						
	1H23	3Q23	4Q23	dec-23	jan-24	feb-24	mar-24	1H23	3Q23	4Q23	dec-23	jan-24	feb-24	mar-24
Overall Activity														
Economic Activity Indicator	-2.0%	-0.8%	-1.4%	-4.5%	-4.3%	-	-	-0.3%	2.2%	-1.9%	-2.8%	-1.2%	-	-
Industry														
IPI (Fiel)	-0.7%	-1.6%	-1.8%	-5.5%	-6.0%	-7.1%	-	0.5%	-1.4%	-3.5%	-4.0%	-0.8%	-3.8%	-
IPI (Indec)	0.9%	-3.1%	-5.8%	-10.5%	-11.4%	-	-	-0.1%	-2.4%	-4.2%	-7.7%	-1.1%	-	-
Construction														
ISAC	-2.1%	-4.4%	-3.3%	-12.2%	-21.7%	-	-	0.8%	-2.8%	-5.5%	-9.4%	-10.2%	-	-
Cement Sales	0.9%	-5.4%	-8.0%	-13.3%	-20.0%	-23.7%	-	1.0%	-5.1%	-8.0%	-4.1%	-1.6%	-2.7%	-
Construya Index	-8.2%	-9.9%	-4.9%	-17.4%	-35.2%	-25.6%	-	3.0%	-3.7%	-4.8%	-14.8%	-18.1%	6.8%	-
Consumption														
Car Registration	12.0%	4.2%	12.1%	-5.8%	-32.3%	-18.7%	-	1.3%	-3.4%	1.1%	-8.9%	-33.7%	34.5%	-
Car Sales	14.1%	12.1%	-6.1%	-25.2%	-27.9%	10.3%	-	3.8%	-5.6%	-10.2%	-21.3%	-0.9%	63.1%	-
Shopping Sales	12.8%	14.9%	10.5%	-0.4%	-21.3%	-	-	6.7%	-14.6%	-11.4%	-13.4%	-8.3%	-	-
Supermarket Sales	1.4%	2.0%	-0.8%	-6.6%	-13.8%	-	-	-0.1%	1.8%	-3.0%	-5.3%	-6.1%	-	-
Consumer Confidence	1.1%	20.2%	24.1%	10.9%	-7.6%	-0.4%	-4.0%	2.5%	4.9%	2.4%	-14.0%	-12.5%	4.6%	2.1%
VAT	7.8%	16.4%	2.6%	0.2%	8.3%	2.0%	-14.9%	2.0%	0.9%	-8.8%	-0.8%	6.0%	-5.8%	-11.5%
Debits and Credits Tax	1.5%	-0.5%	0.6%	-13.2%	-16.1%	-3.4%	-11.2%	0.3%	-2.2%	-2.1%	-13.3%	-3.8%	13.4%	-3.6%
Fuel sales	5.8%	2.3%	3.8%	0.0%	-6.1%	-4.2%	-	2.1%	-5.2%	-2.5%	-7.4%	-0.1%	-	-

Source: TPCG Research based on Indec, FIEL, ACCARA, AFIP, CONSTRUYA, Di Tella University, Economy Ministry

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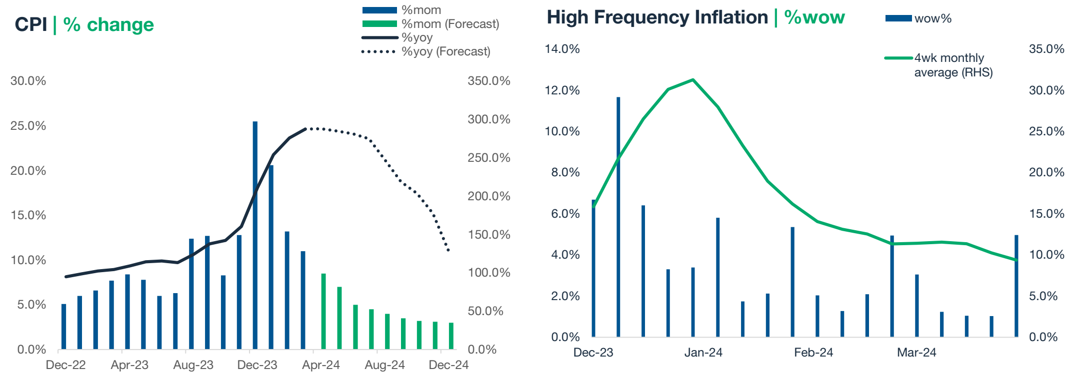
We expect the headline index to drop into single-digit territory in April, and we see chances of sub-5%mom inflation by the end of 1H24, once the adjustment of the regulated prices is over. With a larger-than-expected deceleration of core prices in March, we're revising our baseline inflation view, lowering 2Q24 and especially 2H24. Though high-frequency gauges point to an elevated 5.8%wow print in the first week of April due to the natural gas and electricity hikes, the four-week rolling average continues decelerating. With the seasonal component weakening in April relative to March, we expect the April CPI to come in in the 8.5%mom range, a 250bp deceleration relative to March and about 220bps slower than the consensus of the last BCRA expectations survey (dated April 8th). Looking ahead, we are revising our 2Q24 baseline view from a 7.7%mom average to a 6.8%mom average, assuming that the Government could hit the 5%mom threshold by June, one month ahead of our previous expectation. Likewise, we're cutting our 2H24 forecast from 4.5%mom to 3.6%mom, with inflation ending the year around 3%mom. In our view, this trajectory would be a political coup for the Milei Administration, as it would be able to show voters substantial progress in the inflationary front, which should anchor approval ratings until the economy stabilizes and begins climbing out of recession. As we argued in our piece last week (please see here), however, this trajectory depends on how the Government handles the impending BCRA remunerated liabilities problem. We're assuming that the Government will not try to remonetize the economy by substituting remunerated liabilities with high-powered money (which could derail the inflationary deceleration if demand for real money balances doesn't bounce back vigorously) but rather maintain capital controls for longer than originally intended (more likely) or seek the financing to rescue the remunerated liabilities with USD to release capital controls (more likely).

Figure 4: Despite the high-frequency print spike, we expect the April print to come well below the consensus.



Source: TPCG Research based on Indec and Alphacast

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