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ECONOMICS RESEARCH

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We Revise Our Inflation Estimates Upward; Strong Activity Readings in October

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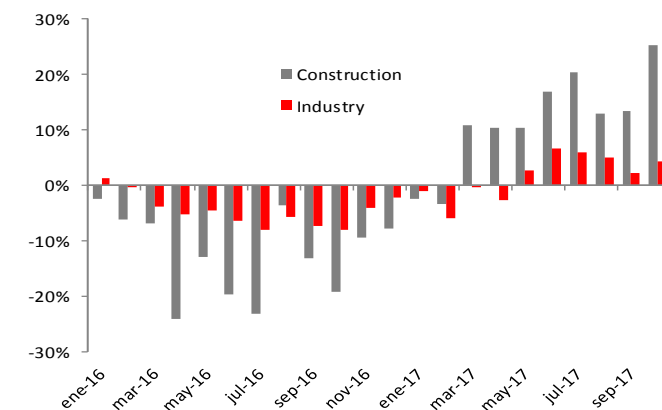
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We are revising our annual inflation estimates for 2017 and 2018 up to 23% and 16% from the previous 22% and 15%, respectively. Given that recent months' inflation numbers came in at higher-than-expected levels and taking into account the utility rate increases to take place in December (which will add up to 0.4 percentage points to headline readings), we calculate that 2017 year-end inflation will reach 23%. We anticipate that the national CPI increase in December could reach 1.8% m/m, higher than the 1.5% monthly increase expected by the market. Also, due to the higher inflation expected for the next months, we revise our end-of-2018 inflation estimate to 16% from 15%.

Industrial activity, as measured by the Monthly Industrial Estimator (EMI) grew 4.4% y/y in October, below the market expectations compiled by Bloomberg (+5% y/y). Manufacturing output growth was driven by construction-related materials production (+16.5% y/y), in line with the increase seen in overall construction activity (+25.3% y/y). Capital goods manufacturing also contributed to the total industrial activity jump: automotive production leapt 25.6% annually, basic metals (steel & aluminum) increased 13.3% y/y and metal-mechanics (which entails items such as house appliances, agriculture machinery, tools, and metal parts for cars and other final goods) expanded 15.7% yearly. The EMI accumulated 1.8% growth year to October. On the other hand, important sectors such as food & beverages (-1.1% y/y) and chemicals (+0.6% y/y) exhibited a more lackluster performance. Industrial activity expansion suggests a bias toward higher growth in durable goods demand and infrastructure projects.

Construction output jumped 25.3% y/y in October, the highest pace of expansion for a month since May 2006, which is in line with the 23.5% annual increase in cement consumption (the activity's main input). The breakdown of construction input expansion reveals a bias toward infrastructure works, with asphalt sales increasing 89% y/y and iron bar production expanding 39.4% y/y in October.

Activity expanded healthily in October



Monthly Industrial Activity and Construction Activity estimators' annual growth.

Sources: INDEC and Santander.

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