

Latam Charts: Steady as She Goes

- **Economic recovery in the Latam region remains broadly on track and the outlook is positive.**
- **Inflation is up and central banks across the region have begun to withdraw stimulus. The direction of policy rate changes is not in doubt. The pace and aggressiveness of the tightening cycle is less clear.**
- **Financial markets appear to have priced in shifts in monetary policy; markets that had been affected by policy and political uncertainty earlier in the year have stabilized more recently.**
- **In nautical terms, the overall assessment could be “steady as she goes.”**

KEY ECONOMIC CHARTS

Economies of the Latam region continue to recover from the sharp collapse of economic activity early in the pandemic (chart 1). The bounce back has been particularly pronounced in Peru, which endured an especially severe contraction in 2020. While impressive, as we have consistently emphasized, high year-over-year growth rates that include base effects—the favourable comparison with 2020 levels depressed by the pandemic—will decline over time; growth is expected to converge on pre-pandemic levels in the medium term.

Evidence of eroding base effects is already emerging in high-frequency activity indicators, and this trend is likely to continue (chart 2). Nevertheless, the latest data remains encouraging and the overall outlook remains positive. For example, our team in Bogota [reports](#) that the latest data show manufacturing in Colombia is now at its highest historical level and that “pre-pandemic” is no longer the relevant benchmark. This recovery represents a remarkable turnaround from the situation earlier in the year, when nationwide protests disrupted production, and suggests good support for further growth going forward. Scotiabank’s team in Peru, meanwhile, reports that GDP increased by 13% (y/y) in July, indicating that the political uncertainty that followed the second round of presidential elections in June did not have much of an impact on growth. Our experts in Lima expect that y/y monthly growth rates will gradually decline consistent with their forecast of 12.3% for the year. While their estimate is higher than that of most other analysts, they are confident that other forecasts for growth will be ratcheted up. The BCRP has already indicated that it will raise its current forecast of 10.7%. At the same time, the [latest](#) employment and unemployment rate data for Lima, which show a pause in employment growth and a slight increase in the unemployment rate, are a reminder that recovery is not necessarily a linear process.

As recent editions of the [Latam Weekly](#) and the [Latam Charts Weekly](#) have highlighted, economic recovery has been accompanied by higher inflation (chart 3). All countries in the Latam region have seen inflation spike higher, though increases in Argentina and Brazil have been especially sharp. More moderate price rises have been recorded in Pacific Alliance members. These countries (and Brazil) have well established inflation-targeting regimes that help anchor expectations, though the [latest inflation numbers](#) exceed the upper bounds of those frameworks.

CONTACTS

James Haley
416.607.0058
Scotiabank Economics
jim.haley@scotiabank.com

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Higher inflation rates reflect several factors, including temporary shocks to global supply chains, and are expected to broadly return to pre-pandemic levels over the forecast horizon. Regardless, central banks in the region are grappling with the risk that higher inflation, even if transitory, could become embedded in expectations, raising the costs of bringing inflation back to targets prescribed by their inflation-targeting frameworks. To achieve this outcome, key policy rates (chart 4) will have to move higher. Central banks across the region have already acted. But with these rates in several countries negative in real—adjusted for inflation—terms, further increases are in the cards.

The direction of policy rate action is not in doubt. What is less certain is the pace at which central banks in the region recalibrate monetary policy conditions. A key consideration here is how their monetary tightening cycles align with the actions of other central banks and real policy rates in other countries (chart 5). At this point in time, Latam central banks appear to be in sync with their advanced economies counterparts in terms of real policy rates, with Brazil and Mexico seemingly ahead of the pack.

Central banks must balance long-term price stability commitments with short-run support for the economy. Moving too fast, too aggressively could withdraw support for the economy at a critical juncture; delaying too long could lead to higher inflation bleeding over into expectations. Striking the right balance is the policy challenge.

Fiscal policy, likewise, must balance continued support for individuals adversely affected by the lockdowns with long-term fiscal sustainability. Fiscal balances across the region deteriorated during the pandemic (chart 6) as governments adopted extraordinary measures to contain the economic costs of the crisis. The result has been a marked increase in gross debt as a share of GDP (chart 7). While external debt (chart 8), current account balances (chart 9) and total reserves (chart 10) are not signalling alarm, Latam governments will need to articulate clear plans to address fiscal balances and buttress their commitments to fiscal sustainability. In Colombia, President Duque [recently signed](#) new fiscal reforms into law that are aimed at achieving these goals.

KEY MARKET CHARTS

Fiscal reforms may account for the recent appreciation of the Colombian peso, which nevertheless remains down for the year to date against the US dollar. Currencies across the region more broadly have depreciated against the dollar since the start of the year (chart 3), with the Brazilian real bucking that trend, supported by aggressive policy tightening by the central bank. Political and policy uncertainty earlier in the year help explain currency depreciation, especially when viewed in a longer-term perspective (chart 5). The same could be said with respect to equity markets (chart 4) and 10-year CDS spreads (chart 6).

YIELD CURVE CHARTS

Latam sovereign yield curves have, for the most part, shifted up across the maturity spectrum since the start of the year (charts 1–12). Argentina, which has seen a steepening inversion, and Mexico, where the sovereign yield curve has been remarkably stable, are the two exceptions.

KEY COVID-19 CHARTS

Our narrative above on the outlook is subject to continuing uncertainty with respect to the evolution of the pandemic and related policy responses (charts 1–12). Vaccines are the pathway to sustained economic growth. In this respect, Chile continues to lead the Latam region in vaccine doses administered. The progress made there offers reassurance with respect to economic growth. In contrast, the elevated test positivity rate in Mexico is a source of concern and warrants close monitoring.

Key Economic Charts

Chart 1

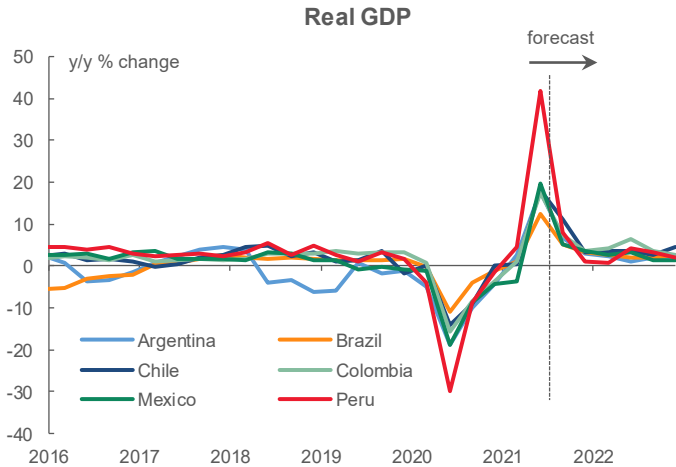


Chart 2

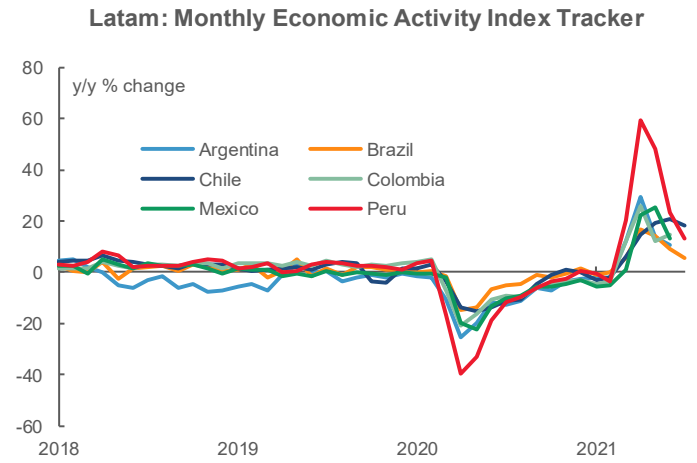


Chart 3

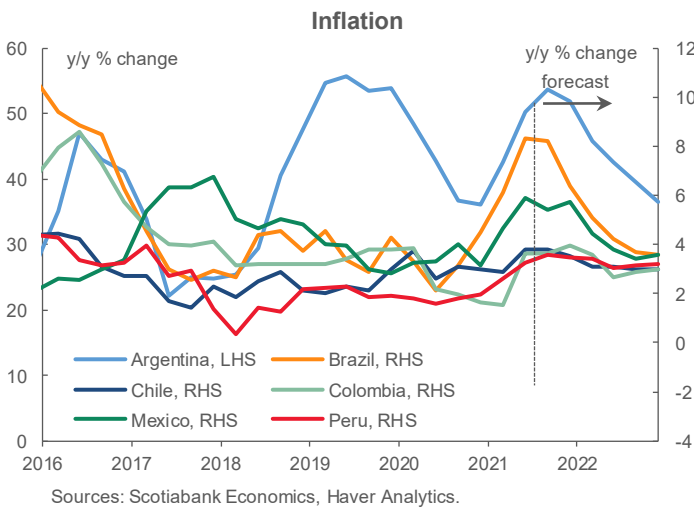


Chart 4

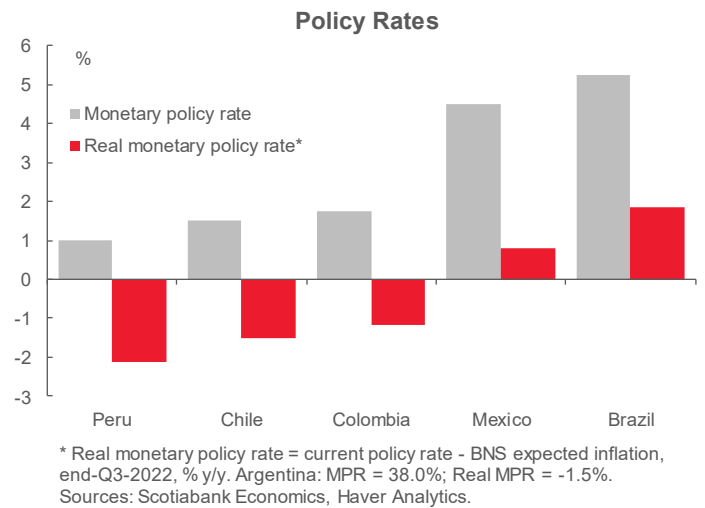


Chart 5

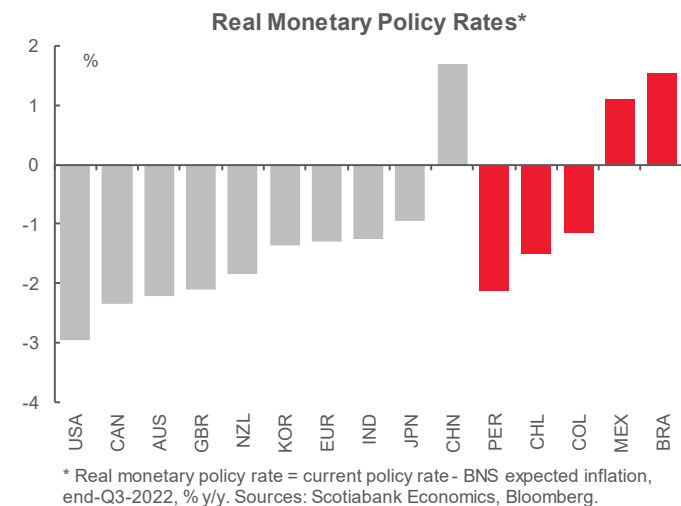
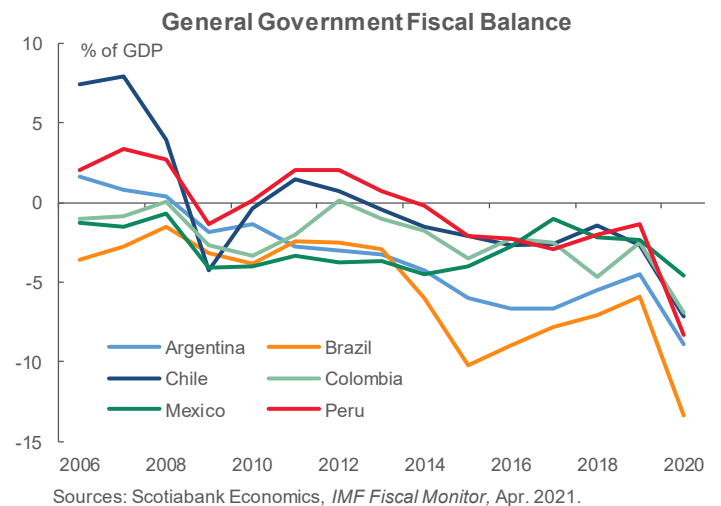


Chart 6



Key Economic Charts

Chart 7

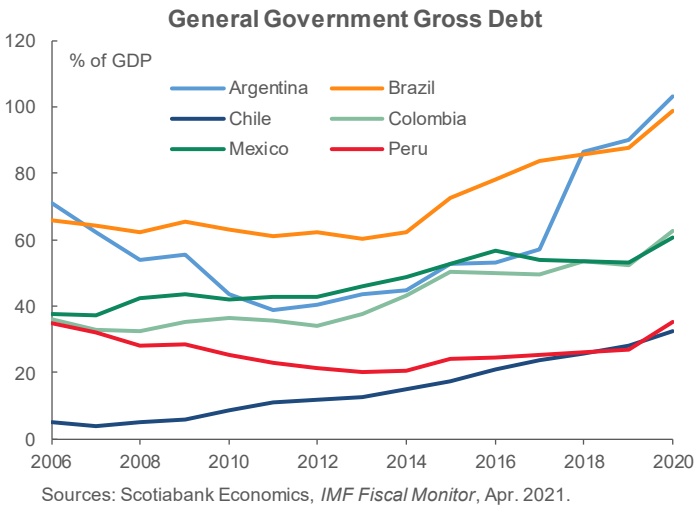


Chart 8



Chart 9

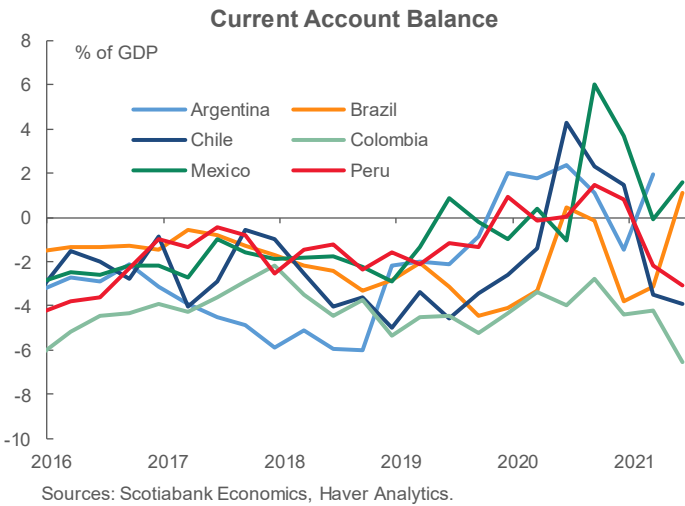
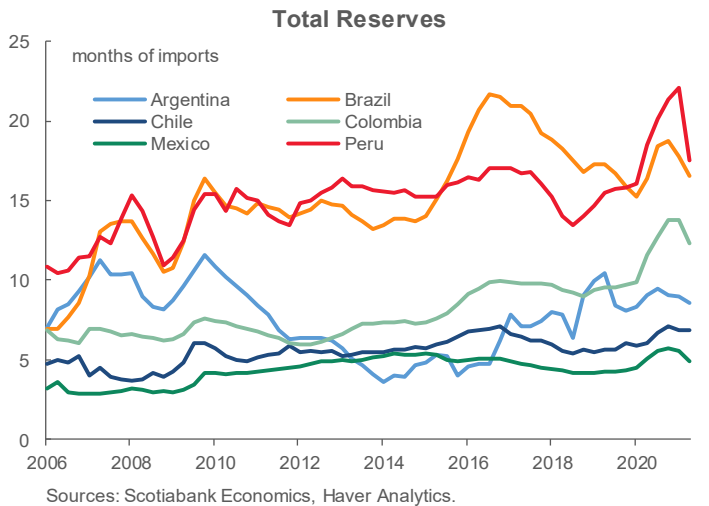


Chart 10



Key Market Charts

Chart 1

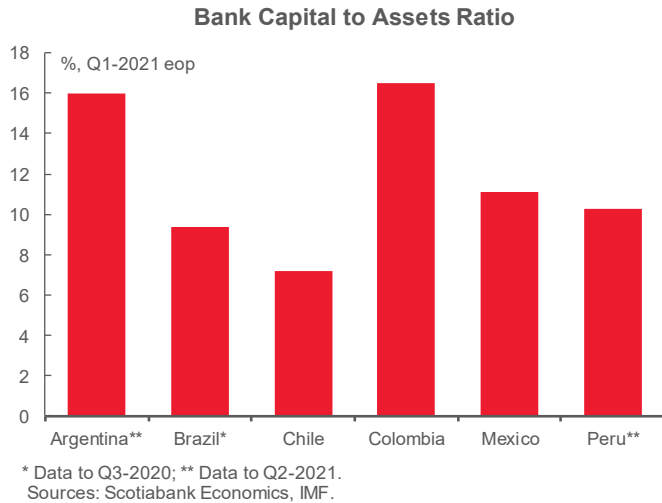


Chart 2

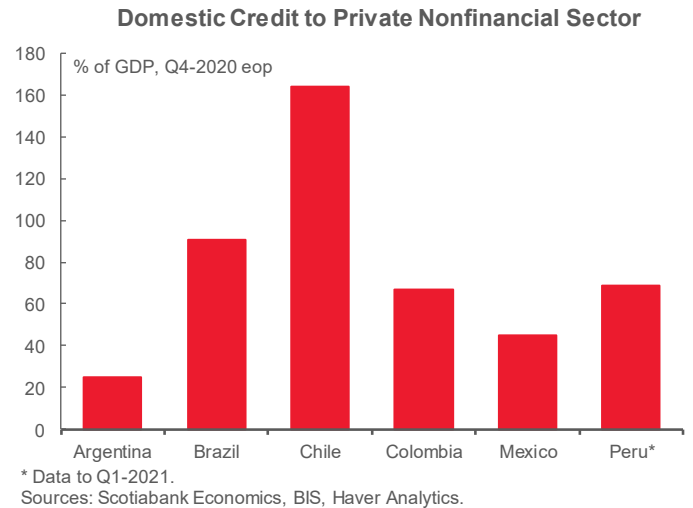


Chart 3

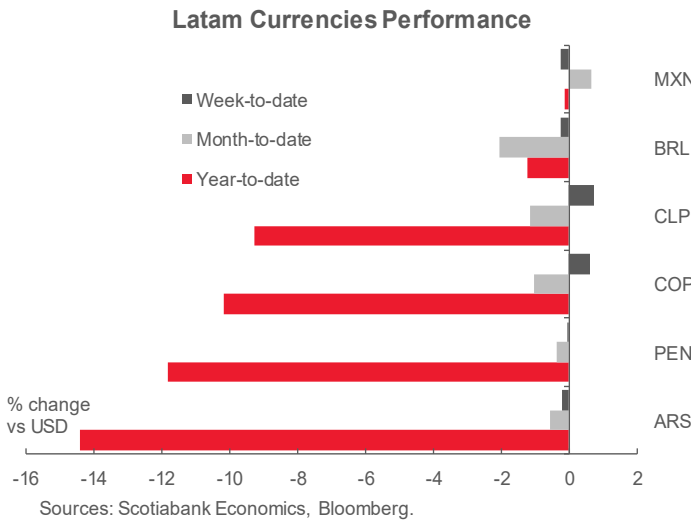


Chart 4

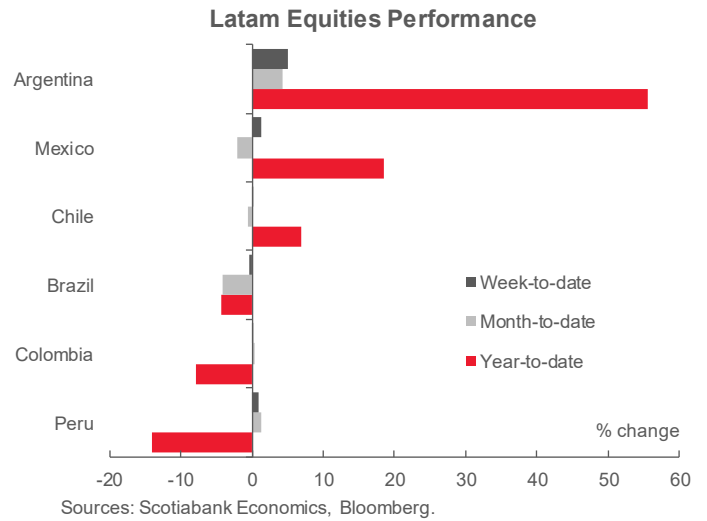


Chart 5

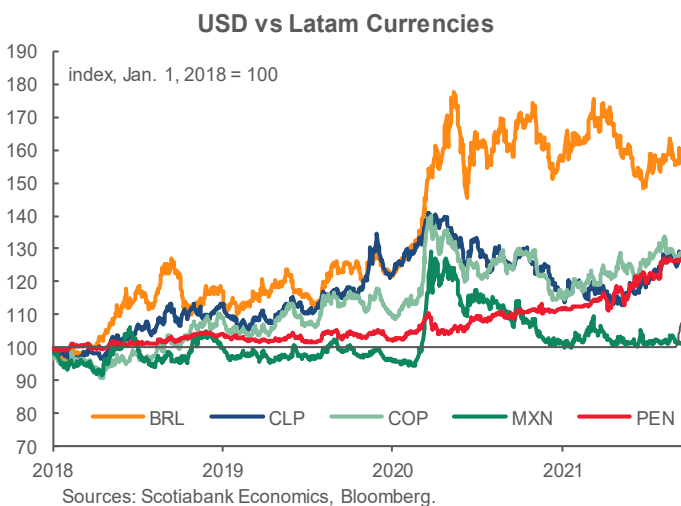
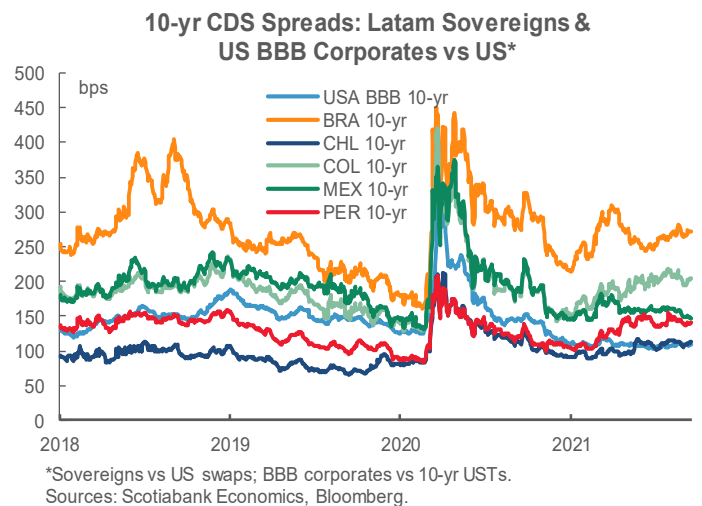
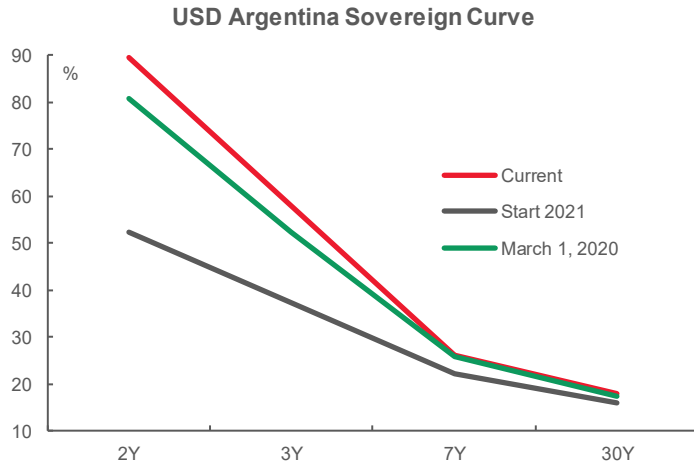


Chart 6



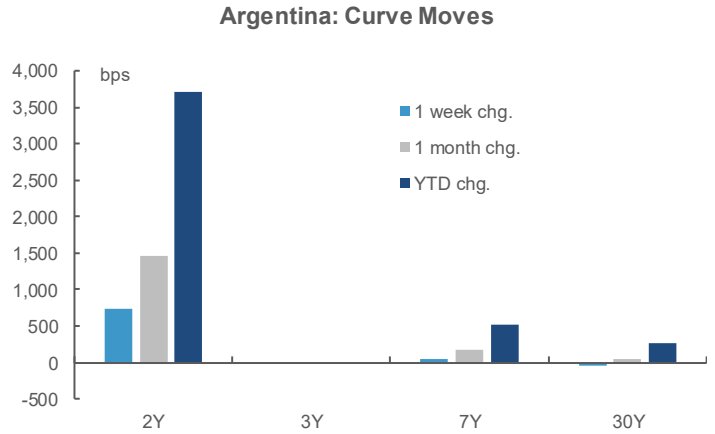
Yield Curves

Chart 1



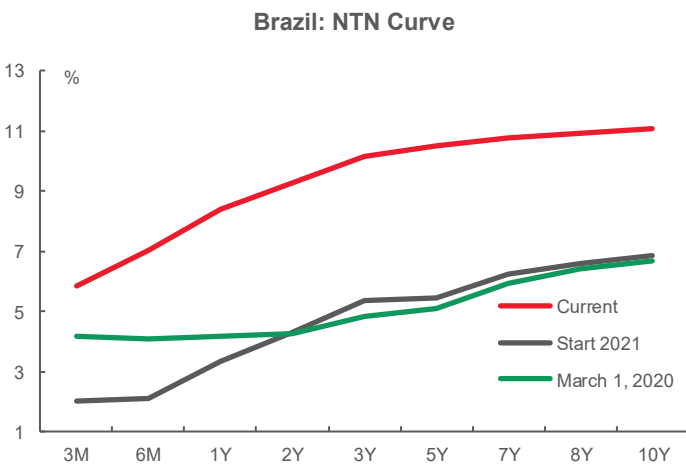
Sources: Scotiabank Economics, Bloomberg.

Chart 2



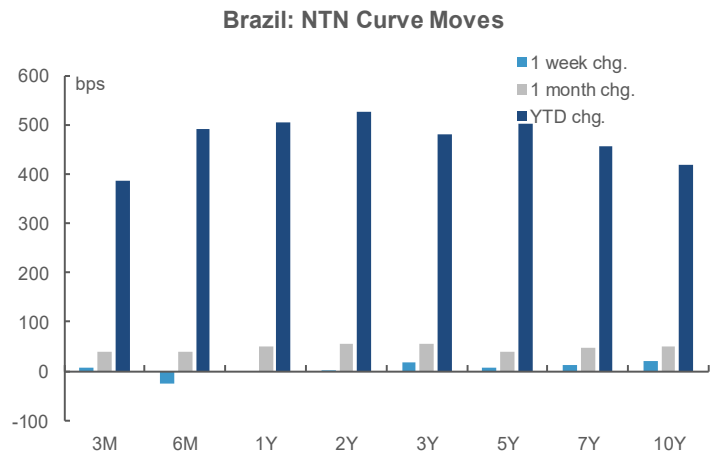
Sources: Scotiabank Economics, Bloomberg.

Chart 3



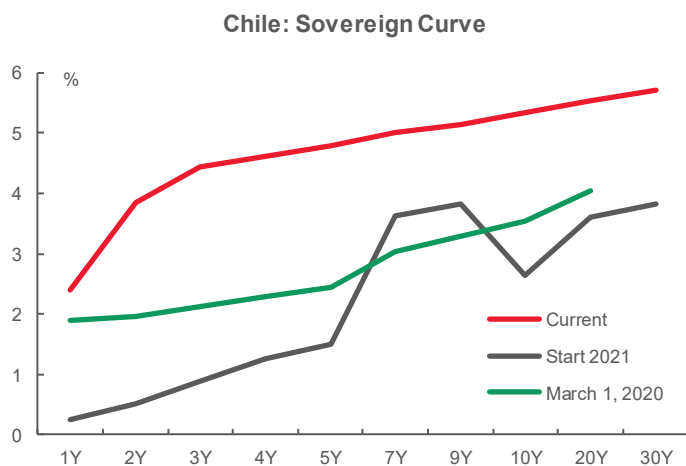
Sources: Scotiabank Economics, Bloomberg.

Chart 4



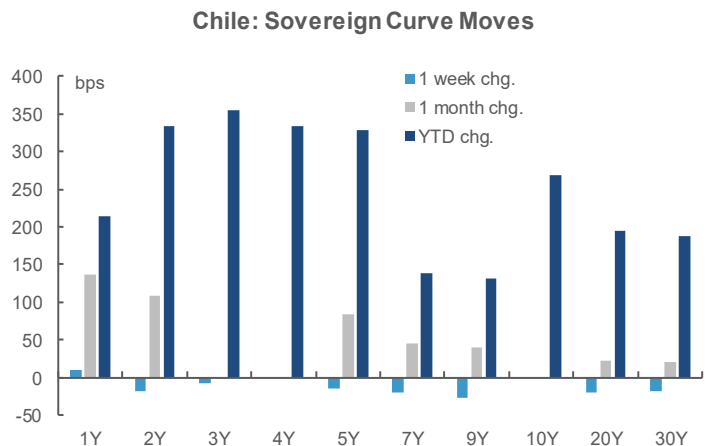
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

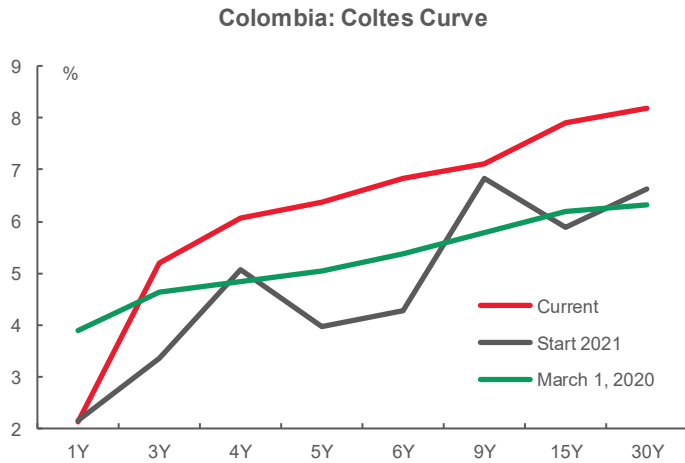
Chart 6



Sources: Scotiabank Economics, Bloomberg.

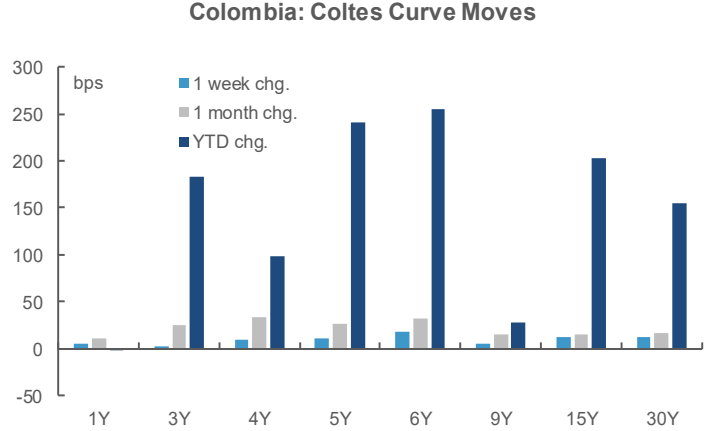
Yield Curves

Chart 7



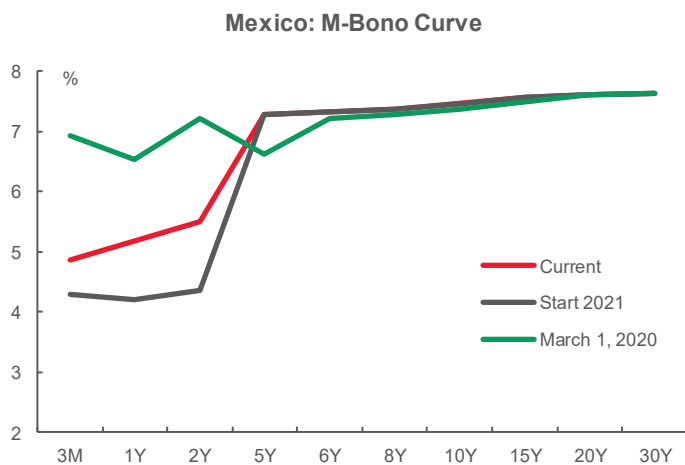
Sources: Scotiabank Economics, Bloomberg.

Chart 8



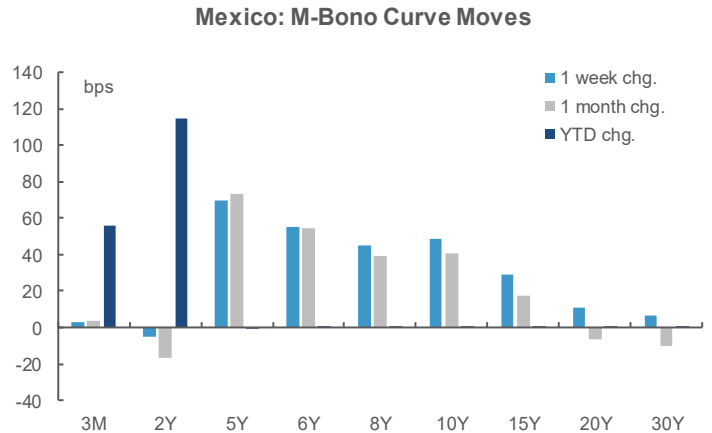
Sources: Scotiabank Economics, Bloomberg.

Chart 9



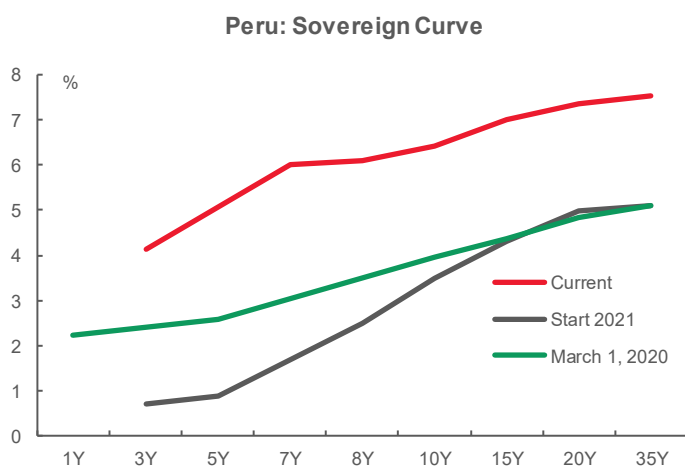
Sources: Scotiabank Economics, Bloomberg.

Chart 10



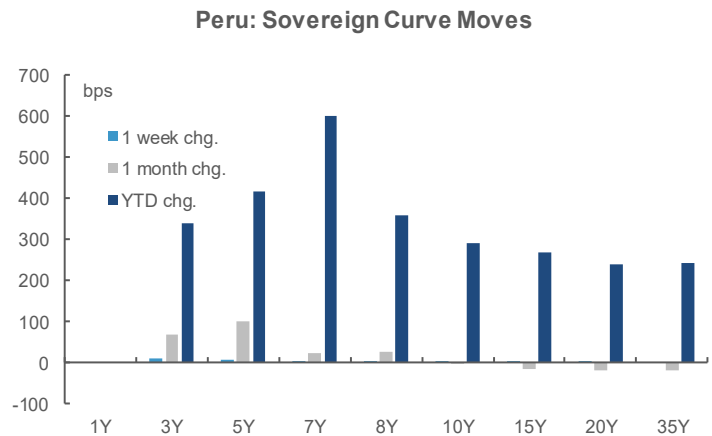
Sources: Scotiabank Economics, Bloomberg.

Chart 11



Sources: Scotiabank Economics, Bloomberg.

Chart 12



Sources: Scotiabank Economics, Bloomberg.

Key COVID-19 Charts

Chart 1

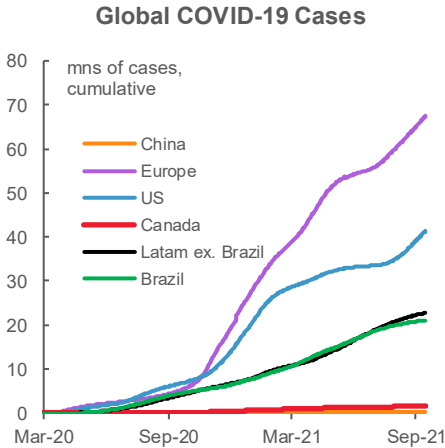


Chart 2

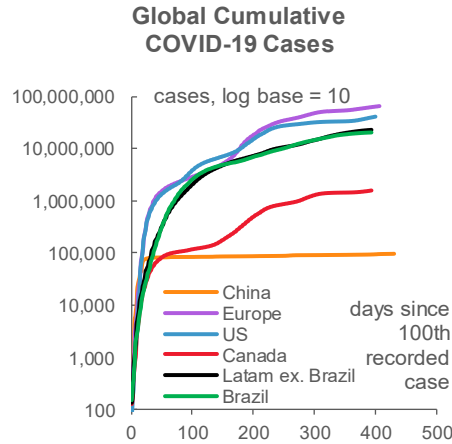


Chart 3

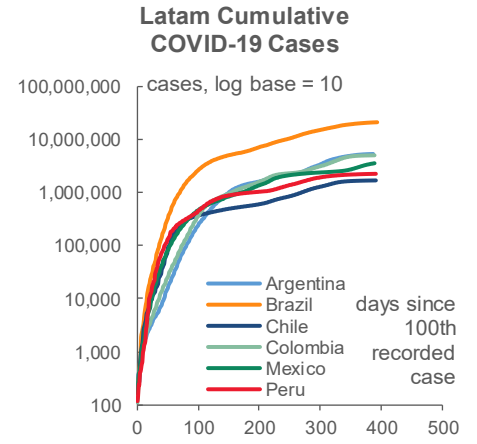


Chart 4

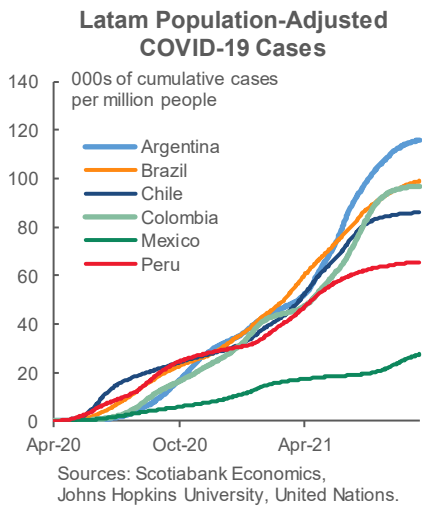


Chart 5

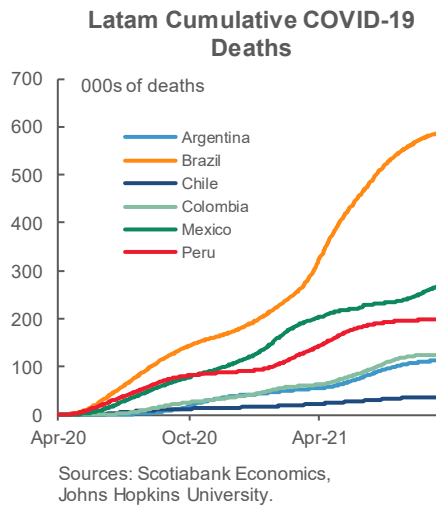


Chart 6

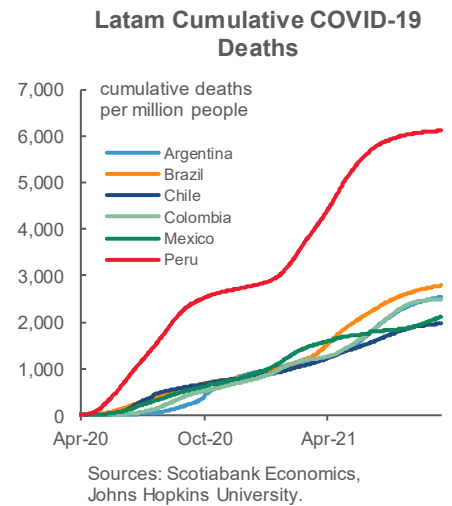


Chart 7

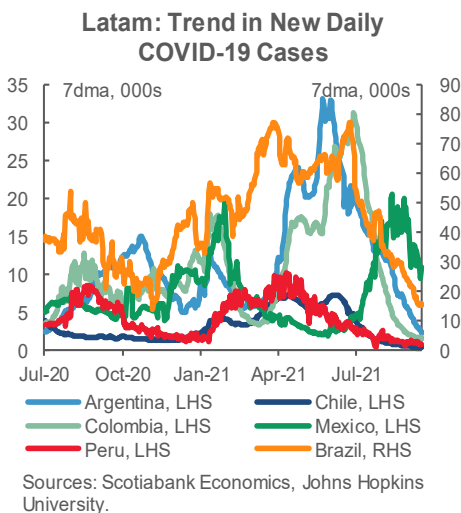


Chart 8

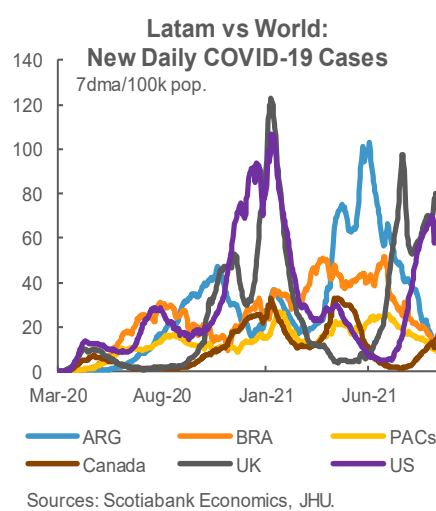
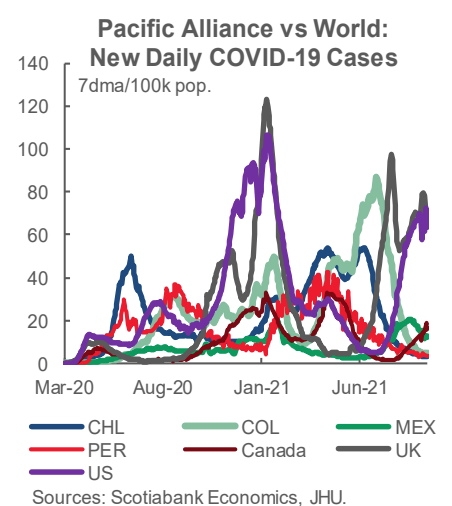


Chart 9



Key COVID-19 Charts

Chart 10

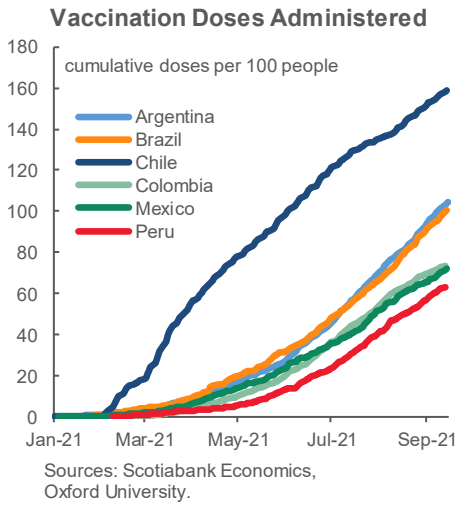


Chart 11

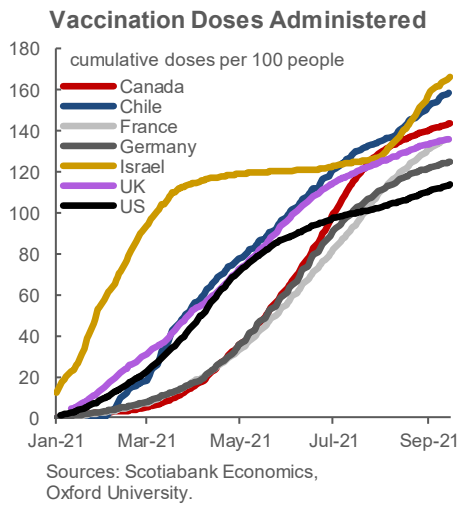
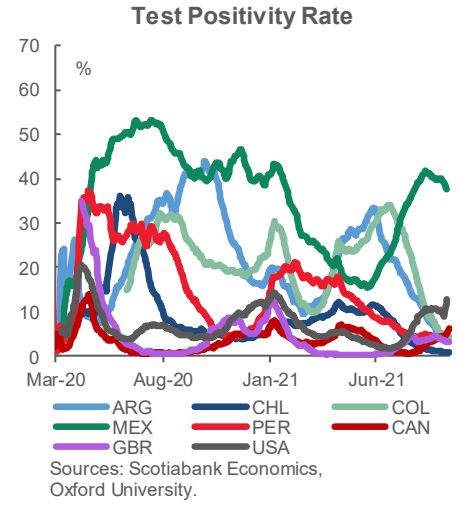


Chart 12



Market Events & Indicators for September 18–October 1

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-21	15:00	GDP (q/q)	2Q	--	--	2.6	
Sep-21	15:00	GDP (y/y)	2Q	--	--	2.5	
Sep-21		Budget Balance (ARS, mn)	Aug	--	--	-98570.3	
Sep-22	15:00	Trade Balance (USD, mn)	Aug	--	--	1537	
Sep-22	15:00	Exports Total (USD, mn)	Aug	--	--	7252	
Sep-22	15:00	Imports Total (USD, mn)	Aug	--	--	5715	
Sep-22		UTDT Leading Indicator	Aug	--	--	-1.08	
Sep-23	15:00	Unemployment Rate (%)	2Q	--	--	10.2	
Sep-27	15:00	Shop Center Sales (y/y)	Jul	--	--	241.48	
Sep-27	15:00	Supermarket Sales (y/y)	Jul	--	--	1.01	
Sep-28	15:00	Economic Activity Index (y/y)	Jul	--	--	10.8	
Sep-28	15:00	Economic Activity Index (m/m)	Jul	--	--	2.5	
Sep-30	15:00	Wages (m/m)	Jul	--	--	2.28	
Sep-30		Consumer Confidence Index	Sep	--	--	39.76	
Oct-01		Government Tax Revenue (ARS, bn)	Sep	--	--	1005.306	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-20	7:25	Central Bank Weekly Economist Survey		--			
Sep-20	14:00	Trade Balance Weekly (USD, mn)	19-Sep	--	--	1399.23	
SEP 20-27		Tax Collections (BRL, mn)	Aug	--	--	171270	
Sep-22	17:00	Selic Rate (%)	22-Sep	--	6.25	5.25	
Sep-23	7:00	FGV CPI IPC-S	22-Sep	--	--	1.1	
Sep-24	8:00	IBGE Inflation IPCA-15 (m/m)	Sep	--	0.95	0.89	
Sep-24	8:00	IBGE Inflation IPCA-15 (y/y)	Sep	--	9.85	9.3	
Sep-24	8:30	Current Account Balance (USD, mn)	Aug	--	--	-1584.1	
Sep-24	8:30	Foreign Direct Investment (USD, mn)	Aug	--	--	6103.5	
SEP 24-30		Federal Debt Total (BRL, bn)	Aug	--	--	5396	
Sep-27	4:00	FIPE CPI - Weekly	22-Sep	--	--	1.21	
Sep-27	7:00	FGV Construction Costs (m/m)	Sep	--	--	0.56	
Sep-27	7:00	FGV Consumer Confidence	Sep	--	--	81.8	
Sep-27	7:25	Central Bank Weekly Economist Survey		--			
Sep-27	8:30	Outstanding Loans (m/m)	Aug	--	--	1.2	
Sep-27	8:30	Total Outstanding Loans (BRL, bn)	Aug	--	--	4265.645	
Sep-27	8:30	Personal Loan Default Rate (%)	Aug	--	--	4.1	
Sep-28		Formal Job Creation Total	Aug	--	--	316580	
Sep-29	8:00	PPI Manufacturing (m/m)	Aug	--	--	1.81	
Sep-29	8:00	PPI Manufacturing (y/y)	Aug	--	--	31.77	
Sep-29	8:30	Primary Budget Balance (BRL, bn)	Aug	--	--	-10.283	
Sep-29	8:30	Nominal Budget Balance (BRL, bn)	Aug	--	--	-55.403	
Sep-29	8:30	Net Debt % GDP	Aug	--	--	60.32	
Sep-30	7:00	FGV Inflation IGPM (m/m)	Sep	--	--	0.66	
Sep-30	7:00	FGV Inflation IGPM (y/y)	Sep	--	--	31.12	
Sep-30	8:00	National Unemployment Rate (%)	Jul	--	--	14.1	
Sep-30		Central Govt Budget Balance (BRL, bn)	Aug	--	--	-19.829	
Oct-01	7:00	FGV CPI IPC-S	30-Sep	--	--	1.1	
Oct-01	9:00	Markit Brazil PMI Manufacturing	Sep	--	--	53.6	
Oct-01	14:00	Trade Balance Monthly (USD, mn)	Sep	--	--	7664.6	
Oct-01	14:00	Exports Total (USD, mn)	Sep	--	--	27211.6	
Oct-01	14:00	Imports Total (USD, mn)	Sep	--	--	19547	
OCT 1-5		Vehicle Sales Fenabrave	Sep	--	--	172796	

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
Sep-20	7:30	Central Bank Traders Survey		--			
Sep-24	8:00	PPI (m/m)	Aug	--	--	1.9	
Sep-30	8:00	Unemployment Rate (%)	Aug	8.3	--	8.9	We expect a drop in the unemployment rate due to the higher dynamism of employment compared to the work force.
Sep-30	8:00	Retail Sales (y/y)	Aug	45	--	62.16	Our forecast is based on a new upturn in purchases with credit and debit cards in August.
Sep-30	8:00	Commercial Activity (y/y)	Aug	--	--	39.63	
Sep-30	8:00	Manufacturing Production (y/y)	Aug	--	--	11	
Sep-30	8:00	Industrial Production (y/y)	Aug	--	--	4.83	
Sep-30	8:00	Copper Production Total (Tons)	Aug	--	--	470262	
Oct-01	7:30	Economic Activity (y/y)	Aug	17.5	--	18.08	
OCT 1-4		Vehicle Sales Total	Sep	--	--	38226	
OCT 1-7		IMCE Business Confidence	Sep	--	--	60.35	

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for September 18–October 1

COLOMBIA

<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest BNS</u>	<u>Comments</u>
Sep-30	11:00	National Unemployment Rate (%)	Aug	14.5	--	14.29	Labour market would point to a new improvement in job creation. But
Sep-30	11:00	Urban Unemployment Rate (%)	Aug	15.1	--	15	also people joining the labour market again (increasing participation rate). That said, unemployment rate will continue improving but at a slower pace.
Sep-30	14:00	Overnight Lending Rate (%)	30-Sep	2	--	1.75	After a year of rate stability, the central bank is expected to start its hiking cycle with a 25bps move. Despite recent inflation readings that have surprised to the upside, it is due to temporary shocks. In fact, recent surveys point to still anchored inflation expectations and it is a reason to expect a gradual approach from the central bank.
Oct-01	11:00	Davivienda Colombia PMI Mfg	Sep	--	--	53.2	
Oct-01	11:00	Exports FOB (USD, mn)	Aug	--	--	3252.43	

MEXICO

<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest BNS</u>	<u>Comments</u>
Sep-20	7:00	Aggregate Supply and Demand (%)	2Q	--	--	-2.9	
Sep-21	10:00	International Reserves Weekly (USD, mn)	17-Sep	--	--	198538	
Sep-21		Citibanamex Survey of Economists		--	--		
Sep-23	7:00	Bi-Weekly CPI	15-Sep	--	--	0.18	
Sep-23	7:00	Bi-Weekly Core CPI	15-Sep	--	--	0.17	
Sep-23	7:00	Bi-Weekly CPI (y/y)	15-Sep	--	--	5.6	
Sep-24	7:00	Retail Sales (m/m)	Jul	--	--	-0.6	
Sep-24	7:00	Retail Sales (y/y)	Jul	--	--	17.7	
Sep-27	7:00	Trade Balance (USD, mn)	Aug	--	--	-4062.89	
Sep-27	7:00	Economic Activity IGAE (y/y)	Jul	--	--	13.32	
Sep-27	7:00	Economic Activity IGAE (m/m)	Jul	--	--	-0.87	
Sep-28	7:00	Unemployment Rate NSA (%)	Aug	--	--	4.38	
Sep-28	10:00	International Reserves Weekly (USD, mn)	24-Sep	--	--	198538	
Sep-30	10:00	Net Outstanding Loans (MXN, bn)	Aug	--	--	4633.1	
Sep-30	14:00	Overnight Rate (%)	30-Sep	--	--	4.5	
Sep-30		Budget Balance YTD (MXN, bn)	Aug	--	--	-242.68	
Oct-01	10:00	Remittances Total (USD, mn)	Aug	--	--	4540.3	
Oct-01	10:00	Central Bank Economist Survey		--	--		
Oct-01	10:30	Markit Mexico PMI Mfg	Sep	--	--	47.1	
Oct-01	13:00	IMEF Manufacturing Index SA	Sep	--	--	51.29	
Oct-01	13:00	IMEF Non-Manufacturing Index SA	Sep	--	--	50.14	

PERU

<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest BNS</u>	<u>Comments</u>
Oct-01	1:00	Lima CPI (m/m)	Sep	--	0.26	0.98	
Oct-01	1:00	Lima CPI (y/y)	Sep	--	--	4.95	

Forecasts at time of publication.
 Sources: Scotiabank Economics, Bloomberg.

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