Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Contributors

Juan Manuel Herrera
Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.601.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Aníbal Alarcón, Senior Economist
+56.2.2619.5465 (Chile)
anibal.alarcon@scotiabank.cl

Brian Pérez, Quant Analyst
+52.55.5123.1221 (Mexico)
bperezgu@scotiabank.com.mx

Latam Daily: Chile June CPI Projection/May GDP, Mexico GFI and Private Consumption

- **Chile: We project June CPI of -0.1% m/m (3.7% y/y); May GDP of 1.1% y/y (-0.4% m/m) disappoints significantly**
- **Mexico: GFI accelerated with significant increases in all its components, although in the monthly comparison machinery and equipment fell; Private consumption: imported goods have had double-digit increases for sixteen months**

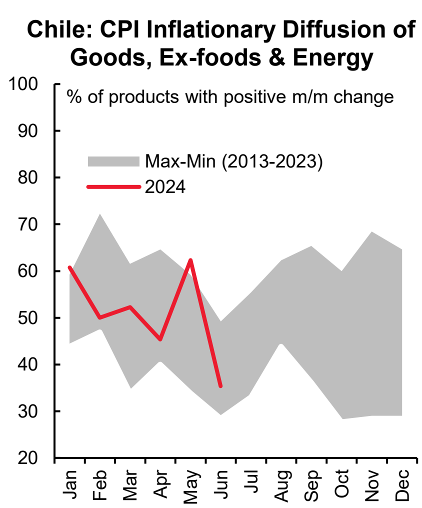
CHILE: WE PROJECT JUNE CPI OF -0.1% M/M (3.7% Y/Y)

- **Partial reversal of pre-CyberDay price increases would lead to falls in six of the thirteen divisions**

We project June CPI of -0.1% m/m (3.7% y/y), in line with market expectations reflected in forwards, surveys and in the base scenario of the June IPoM. Likewise, we project that the CPI ex-volatiles would increase 0.1% m/m (3.5% y/y), mainly due to the contribution of its services component (+0.2% m/m), since goods would fall 0.1% m/m. Meanwhile, we project falls in volatile items (-0.5% m/m), which would occur mainly due to the decline we project for gasoline and some foods.

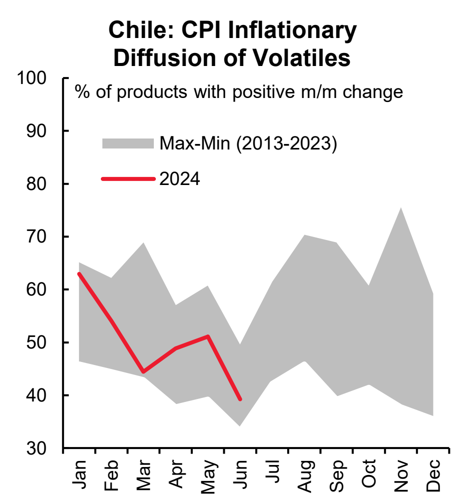
As we noted in our previous report, we project reversals of the increases observed in May that occurred before CyberDay. This would have been observed mainly in the clothing and footwear division but also in electronic items, for which we project relevant price drops in June. With this, the inflationary diffusion for June would be the lowest so far this year (charts 1 and 2).

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

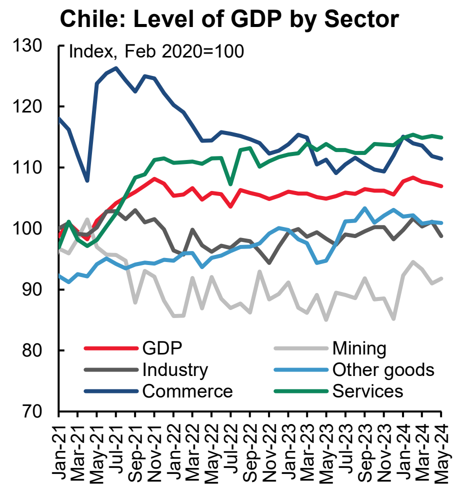
MAY GDP OF 1.1% Y/Y (-0.4% M/M) DISAPPOINTS SIGNIFICANTLY

- **GDP expansion above 2.7% is going uphill this year**

On Monday, July 1st, the Central Bank (BCCh) published GDP for May, which grew 1.1% y/y, well below the consensus (Survey of Economists: 2.8%; Bloomberg: 2.5%), with a seasonally adjusted contraction of 0.4% m/m that goes far beyond the lower growth in one less business day. We can associate this important slowdown with the negative impact of the rains that affected industry and services, which could have been more relevant than initially thought, but given the general drop in economic activity (chart 3), we are probably facing a slowdown that would have been something stronger due to these factors. We detected an amplified calendar effect.

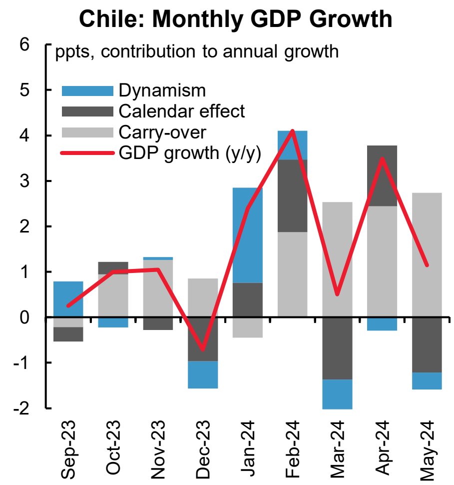
The zero-dynamism observed in the last three months makes it difficult to achieve growth above 2.7% y/y in 2024. After registering high dynamism at the beginning of the year, economic activity has reversed much of the carry-over effect obtained (chart 4). Behind this is the reversal that commerce has shown and the lack of dynamism in sectors such as industry and services. If there is no recovery in investment in the remainder of the year, it will be difficult to achieve GDP growth rates higher than those estimated by the BCCh and the Ministry of Finance for the year (2.7%).

Chart 3



Sources: Scotiabank Economics, BCCh.

Chart 4



Sources: Scotiabank Economics, BCCh.

The magnitude of the negative calendar effect is very striking. During May, there was one less business day than the previous year, but the low level of the seasonal factor reflects a calendar effect comparable to March, where we had three fewer business days. The composition of days of the month was very relevant, but it is still difficult to explain the magnitude of such an effect on the month. In any case, for the second half of the year we expect a reversal of the negative calendar effects seen in these months, given that between July and December we will have two additional business days compared to last year.

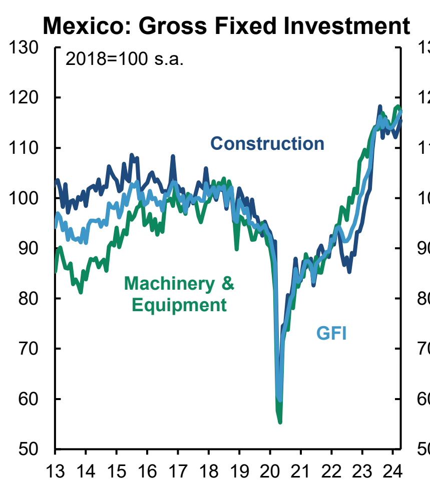
June GDP would also be affected by the rains. Consequently, it is difficult for now to expect a relevant seasonally adjusted recovery at the end of the second quarter. Preliminarily, we estimate GDP growth between 1% and 2% y/y in June, where the positive climate effects in the electricity generation sector would be compensated by the lower economic activity in personal services and difficulty in the production of goods, especially in the manufacturing and construction industries.

—Aníbal Alarcón

MEXICO: GFI ACCELERATED WITH SIGNIFICANT INCREASES IN ALL ITS COMPONENTS, ALTHOUGH IN THE MONTHLY COMPARISON MACHINERY AND EQUIPMENT FELL

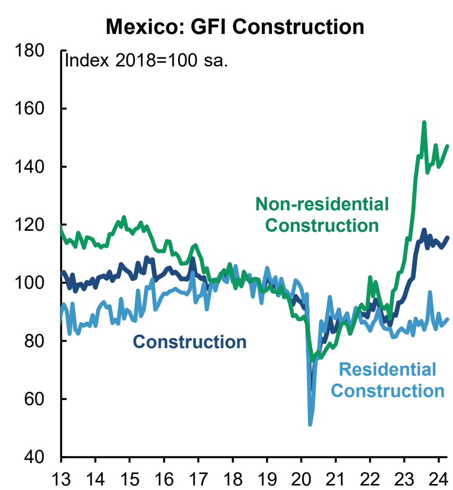
During April, Gross Fixed Investment accelerated to 18.1% from 3.0%. Machinery and equipment increased 19.5% (-3.4% previously), the domestic subcomponent rose 9.0% (-1.5% previously), and the imported 26.7% (-4.7% previously). Construction rose 16.8% (9.4% previously), non-residential construction has maintained almost the same level at 21.5% y/y (21.6% previously) and residential 11.2% (-4.2% previously). In the seasonally adjusted monthly comparison, the GFI showed an increase of 0.9% (0.8% previously), machinery and equipment fell -0.8% (0.4% previously), and construction rose 1.6% (1.3% previously), see chart 5.

Chart 5



Sources: Scotiabank Economics, INEGI.

Chart 6



Sources: Scotiabank Economics, INEGI.

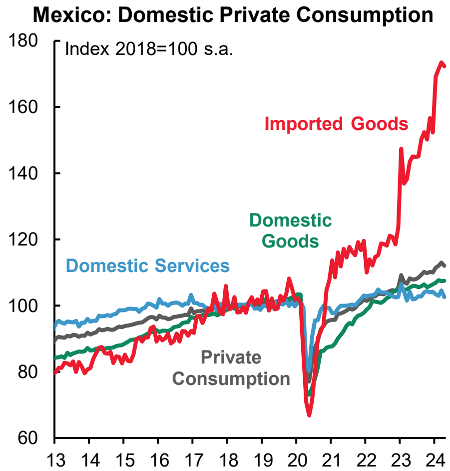
By type of investment, private construction increased 18.0%, while public construction increased by 10.5%. Private machinery and equipment increased 20.1%, and the public subcomponent 4.9% (chart 6). The annual data surprises the market due to the strength of construction, although in the monthly comparison the slowdown in machinery and equipment is observed, related to the fact that the renewal of equipment is about to be completed.

PRIVATE CONSUMPTION: IMPORTED GOODS HAVE HAD DOUBLE-DIGIT INCREASES FOR SIXTEEN MONTHS

In April, private consumption increased its pace in real annual terms, from 8.0% to 1.6%. National goods showed a rebound of 4.2% (-2.3% previously), national services increased 2.1% (2.2% previously), while imported goods accelerated 39.1% (11.3% previously), with an increase in durable goods of 58.0% (14.5% previously). In its seasonally adjusted monthly comparison, private consumption fell -0.9% (0.9% previously), derived from the fact that consumption of national goods fell -2.0% (chart 7). We expect that the next data will continue to be led by the consumption of imported goods, derived from the slowdown in the local economy as we saw in the IGAE index (monthly GDP), mainly in manufactures that fell -1.5% m/m in April, also the consumption will be affected by the monetary policy rate.

—Brian Pérez

Chart 7



Sources: Scotiabank Economics, INEGI.