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Latam Daily: Chile GDP and Mexico Macro Recap

- **Chile: August GDP of 2.3% y/y (-0.2% m/m SA) reveals, paradoxically, improvement and a marginal positive surprise for the BCCh's baseline scenario**
- **Mexico: Investment rebounded in July, amid an uncertain outlook; Consumption ticked higher in July, but with a moderate outlook; Remittances stay above USD60bn in August, remaining a key support for consumption; Analysts expect lower inflation and policy rate for the end of 2024, but also lower economic activity according to Banxico Survey**

CHILE: AUGUST GDP OF 2.3% Y/Y (-0.2% M/M SA) REVEALS, PARADOXICALLY, IMPROVEMENT AND A MARGINAL POSITIVE SURPRISE FOR THE BCCH'S BASELINE SCENARIO

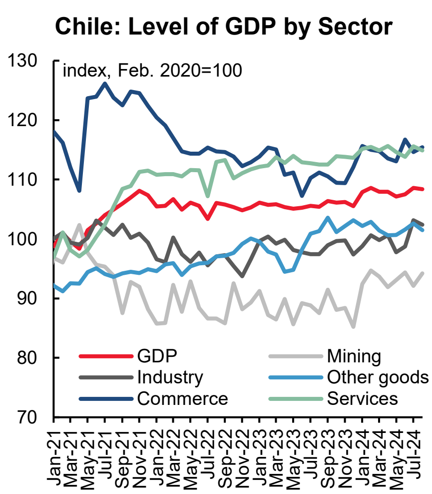
- **Good GDP momentum, despite weather factors. We project September GDP growth between 1.0 and 2.0% y/y (between 3.5–4.0% y/y in Q4)**

On Tuesday, October 1st, the Central Bank (BCCh) released August's GDP, with growth of 2.3% y/y (-0.2% m/m SA) negatively surprising our 3.0% y/y projection. However, an important part seems to be linked to transitory impacts, which were difficult for us to tabulate, coming from the suspension of classes in schools, climatic factors that affected services and manufacturing, and even a strike in mining that mitigated the already strong expansion of this sector (chart 1). A somewhat cleaner reading of the dynamism of the activity can be rescued from the 2.8% y/y GDP growth of the seasonally adjusted series, which maintains the momentum shown last July (chart 2). This is surprising since July had a positive payback for the weather effects of last June.

This maintenance of seasonally adjusted year-on-year dynamism is surprisingly favourable, so much so that we estimate that the BCCh's baseline scenario would be surprised to the upside. For the central bank's baseline scenario, Q3 GDP growth would come in at 2.1% y/y, however, the recent August GDP growth coupled with an expansion of September's GDP between 1 and 2% y/y would boost Q3 activity to around 2.5% y/y, enough to skew upward the 2024 GDP growth projection to the high end of the range forecast in the September IPoM (between 2.25 and 2.75%).

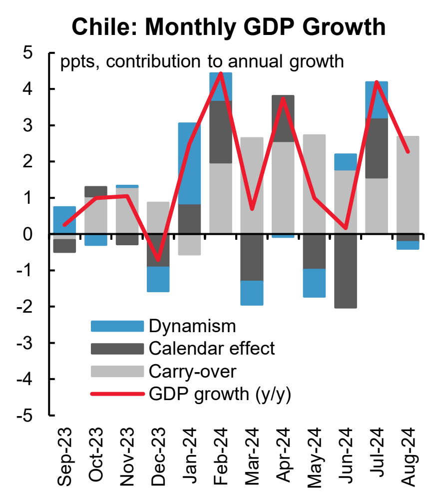
In terms of monetary policy, we expect the BCCh to implement a new 25bps rate cut at October's meeting, conditional to a September CPI of around 0.3% m/m, similar to its baseline inflation projection. The better performance in activity in August, especially in commerce, would not feed a higher dose of rate cuts for now.

Chart 1



Sources: Scotiabank Economics, BCCh.

Chart 2



Sources: BCCh, Scotiabank Economics.

There are positive calendar effects for the remainder of the year. Although August had one working day less than the same month last year, as well as September, Q4 stands out for having three more working days than the same period last year, which could contribute positively to the year-on-year GDP growth. With this, the next four months will accumulate two additional working days with respect to the same period of the previous year.

—Aníbal Alarcón

MEXICO: INVESTMENT REBOUNDED IN JULY, AMID AN UNCERTAIN OUTLOOK

During July, gross fixed investment rebounded on an annual basis, rising to 6.4% y/y from -1.1%. By components, machinery and equipment increased 9.5% (-2.0% previously), led by the imported items, which rebounded 10.2% (-7.3% previously), followed by the domestic subcomponent, which rose 8.4% (6.3% previously), see chart 3. On the other hand, construction edged up to 3.8% (-0.4% previously), owing to the advance of its residential component (11.1% from 2.8% previously), showing a greater dynamism YTD, compared to the previous year, while the non-residential component dropped for the second consecutive occasion, by -1.0% from -2.2% previously. On a cumulative basis, investment has increased by 8.2% compared to January–July 2023.

In the seasonally adjusted monthly comparison, GFI recovered to 1.8% m/m (-0.7% previously) due to a 2.3% increase in construction, which offset a stagnant machinery and equipment (0.0%). Going forward, we believe that increased political and economic uncertainty could have a negative effect on investment. Investors may pause their plans as the uncertain outlook for the second half increases, both due to internal and external factors, despite lower cost of money owing to the cutting cycle expected for the remainder of 2024 and for 2025.

CONSUMPTION TICKED HIGHER IN JULY, BUT WITH A MODERATE OUTLOOK

For July, private consumption increased its pace to 5.2% y/y (0.4% previously), with domestic consumption rising 2.7%. Domestic goods rebounded 3.5% (-1.0% previously), domestic services 1.8% (1.1% previously), see chart 4. On the other hand, imported goods showed a strong rebound of 23.9% (2.4% previously), averaging a cumulative 19.8% annual increase in the first seven months of the year.

In its seasonally adjusted monthly comparison, private consumption rose 0.8% (0.1% previously), as imported goods rebounded 4.1%, although domestic goods and services maintained a modest increase of 0.3% and 0.3%, respectively. Going forward, consumption could see slower rates, also affected by the outlook of greater uncertainty and slow job creation. However, the slowdown in inflation and the beginning of rate cuts could mitigate the slowdown in consumption.

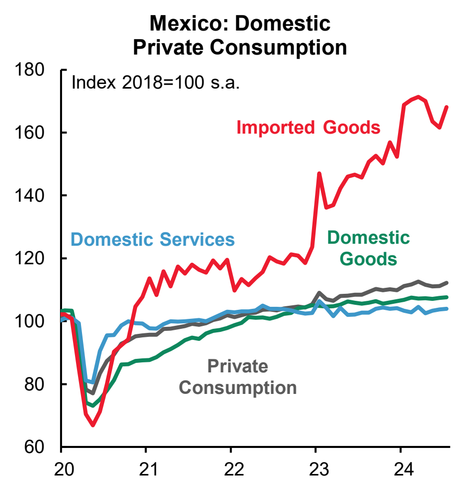
REMITTANCES STAY ABOVE USD60BN IN AUGUST, REMAINING A KEY SUPPORT FOR CONSUMPTION

August remittances registered 6,087.3 million dollars, up from the previous 5,613.6 mn. In their annual comparison, they rebounded 9.3% (-1.0% previously). In the 12-months sum, remittances totaled $64.871 billion dollars (an increase of 4.3% y/y), see chart 5. In addition, they recorded 14.954 billion transactions, thus the receipt averaged $407 USD. Remittances continue to show a robust growth rate, despite a slowdown in recent months. This performance is due, in part, to the fact that the U.S. economy has shown a less-than-expected moderation, which has maintained the strength of the labour market. The resilience of U.S. employment has been a key factor in sustaining the flow of remittances to Mexico. As the global economy continues to face challenges, remittances are emerging as an important pillar for Mexican households, providing crucial economic support in times of uncertainty.

Chart 3

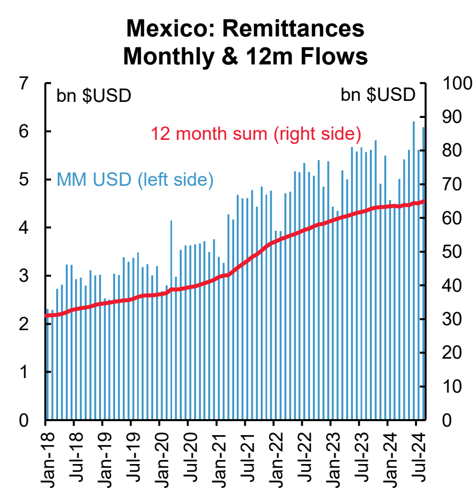
Sources: Scotiabank Economics, INEGI.

Chart 4



Sources: Scotiabank Economics, INEGI.

Chart 5



Sources: Scotiabank Economics, Banxico.

ANALYSTS EXPECT LOWER INFLATION AND POLICY RATE FOR THE END OF 2024, BUT ALSO LOWER ECONOMIC ACTIVITY ACCORDING TO BANXICO SURVEY

The Banxico Survey presented slight downward revisions in inflation expectations for the end of the year as non-core inflation, particularly fruits and vegetables receded in the last lectures. Analysts now forecast year-end inflation of 4.48% y/y e.o.p. (4.69% previously), although in 2025 it is almost unchanged at 3.86% (3.85% previously), and 3.81% in 2026. Core inflation moved to 3.84% (3.94% previously), while for 2025 it dropped to 3.67% (3.71%). In terms of monetary policy, the median rate dropped to 10.0% for 2024, and 8.0% in 2025, suggesting that analysts now expect cuts of 25bps in the November and December meetings. Recent comments of Governor Rodriguez suggest that a 50bps cut is also on the table, so further changes in the expected rate are still possible, depending on the inflation trend. As for growth expectations, respondents remain pessimistic, as they now foresee a mean GDP growth of 1.45% for 2024 (1.57% previously), with the slowdown continuing in 2025, bringing the mean growth forecast to 1.28% (1.48% previously), and a recovery to 1.97% in 2026. The exchange rate is expected to close the year at $19.69, and $19.98 in 2025 (table 1).

—Brian Pérez & Miguel Saldaña

Table 1: Mexico - Banxico Survey, Main Results

Indicator	Year	August	September	Change
GDP	2024	1.57	1.45	-0.12
% real annual	2025	1.48	1.28	-0.20
Headline Inflation	2024	4.69	4.48	-0.21
% annual, dic-dic	2025	3.85	3.86	0.01
Core Inflation	2024	3.94	3.84	-0.10
% annual	2025	3.71	3.67	-0.04
IMSS employment	2024	455	446	-9
IMSS insured workers	2025	438	420	-18
Economic Deficit	2024	4.91	4.94	0.03
% of GDP	2025	3.50	3.62	0.12
Current Acount	2024	-13.27	-12.76	0.52
$USD billions	2025	-14.58	-12.96	1.62
FDI	2024	38.41	37.57	-0.84
$USD billions	2025	39.32	37.93	-1.40
USD/MXN	2024	19.10	19.69	0.59
dec, eop	2025	19.52	19.98	0.46
Target Rate	2024	10.25	10.00	-0.25
Banxico %, eop	2025	8.25	8.00	-0.25

Sources: Scotiabank Economics, Banxico.