Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

October 14, 2024

Latam Daily: Peru Macro Preview & Overview; Mexico IP Recap

- **Mexico: Industrial Production fell in August on declining construction**
- **Peru: GDP growth, employment, and inflation: more good than bad; Employment: a modestly improving labour market; Inflation is not likely to continue declining for the rest of the year**

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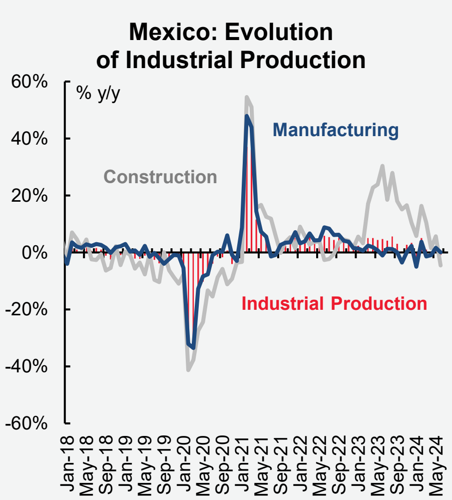
It almost feels like a three-day weekend as far as markets are concerned with no trading in Japan, Canada, Colombia, and the US (outside of CME) resulting in extremely subdued dealing before a busy week of data—Chile, Colombia, and Brazil GDP; Canada, UK, Japan, and NZ CPI; US retail sales, etc—and central bank decisions—ECB and BCCh to cut by 25bps each. UST futures are virtually flat while EGBs open the week mixed with most little changed except for Italian debt nicely bid on ratings optimism while gilts underperform, twist steepening. Risk sentiment is just about ok to slightly negative, with small losses in European stock indices and US futures, while currencies trade weaker against the USD—where high-beta FX ex MXN, sitting unchanged are underperforming—and oil and copper shed 1% and 2%, respectively, but iron ore picks up 1.5%.

China's Fin Min's highly anticipated Saturday press conference was a total dud (unsurprisingly, in my opinion) as some more property market support measures fell short of expectations for a fiscal package that would materially lift private consumption. Chinese equities somehow managed to gain about 2–3% on average in the main indices, but this looks more like the plunge protection team of state-owned banks stepping in with the bids. The Hang Seng, meanwhile, lost about 1%, which may be a better reflection of investor sentiment regarding China. Chinese international trade data disappointed in exports and imports terms, with weakness in outbound commerce—that has been buoying the economy—being about the last thing that China needs. CPI data also surprised lower, with a 0.4% y/y print vs a 0.6% median forecast.

It's also relatively quiet in Latam today, with the BCCh's traders' survey results out at 7.30ET followed by Brazilian Aug economic activity data at 8ET (seen practically steady m/m, but climbing 2.9% y/y). The BCCh's survey should not surprise in expectations for Thursday's rate decision where the Bloomberg median (and us) expect a 25bps cut by the BCCh—which we think will be accompanied by a more cautious statement considering external risks (CLP, oil prices) and greater fiscal spending next year.

—Juan Manuel Herrera

Chart 1



Sources: Scotiabank Economics, INEGI.

MEXICO: INDUSTRIAL PRODUCTION FELL IN AUGUST ON DECLINING CONSTRUCTION

In August, industrial activity declined by -0.9% y/y from a previous expansion of 2.2%, driven by a contraction in construction of -4.5% (5.7% previously), and a decrease in mining of -1.2% (-0.3% previously). At the same time, utilities grew by 2.2% (2.4% previously), and manufacturing increased by 0.1% (1.6% previously).

Notably, there was a significant 20.8% y/y decline in the civil engineering construction component, likely due to the completion of flagship projects from the previous administration. Additionally, oil and gas extraction dropped -6.3%, suggesting pressures on Pemex's production targets. On the other hand, there was a notable expansion of 9.8% in the mining of metallic and non-metallic minerals, excluding oil and gas, and an 11.7% growth in the manufacturing of petroleum and coal products.

On a monthly basis, the index decreased by -0.5% m/m from a previous increase of 0.2%, with seasonally adjusted data. Manufacturing rose by 0.3%, the generation, transmission, and distribution of electricity expanded by 1.4%, while construction fell by -3.7%. In this sense, civil engineering summed five consecutive months of decreases, although to a lesser extent this time, at -0.3% m/m. For the January–August period, the index shows a 1.2% YTD increase compared to the same period last year.

—Rodolfo Mitchell Cervera, Brian Pérez & Miguel Saldaña

PERU: GDP GROWTH, EMPLOYMENT, AND INFLATION: MORE GOOD THAN BAD

On October 15th we'll receive the numbers for August GDP growth. We expect a robust figure of 3.7%, YoY (chart 2). We had originally been expecting a more moderate, 3.0%, figure, but the early release of mining GDP showed very strong 8.9% YoY growth for August, much higher than the 1% on-trend growth we had been expecting (chart 3).

The released data that support our forecast of 3.7% YoY GDP growth for August include:

- 3.1% YoY growth in electricity.
- 0.1% growth in cement consumption. This may seem low, but it is positive, whereas cement consumption growth had been negative throughout most of 2024.
- 24.2% YoY increase in government spending.
- 8.6% growth in imports volume, which feeds into commerce GDP.

The only early indicator that declined was fishing GDP, down 27.8% YoY. However, August is an off-season month for fishing, and the impact (weight) is negligible.

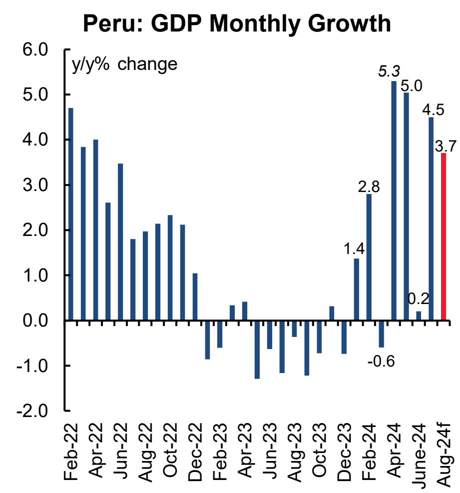
Looking a little further forward, the anecdotal information we are receiving—mostly from talking with executives in domestic demand businesses—is that, after strong sales in July–August, September sales were surprisingly weak. October is looking better, however.

We're a little perplexed about September. We understand that July–August benefited from the windfall that households received from the withdrawal of pension funds, whereas disbursements were much milder in September. However, there were disbursements. Plus, one would have expected some degree of spillover spending from July–August to bolster consumption in September. We are not sure exactly what happened, and may need to wait for the release of the full breakdown of September GDP in November, to get clarity.

In any event, the September consumption slowdown does not seem to have continued in October. What may affect October GDP growth, however, is the three-day strike from October 10th to 12th. The strike involves informal transportation workers and a part of local small businesses, and was called in protest of the tremendous spread in extortion and extortion related violence that has been taking place in recent times. At the time of this writing, it has been perhaps just successful enough to have some impact on growth.

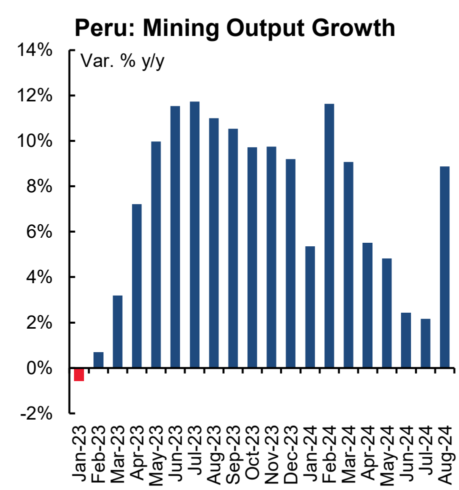
In aggregate, these monthly ups and downs are broadly all in line with our forecast of 3.0% GDP growth for the full-year 2024. Note that GDP growth in January–July is trending at 2.9%, YoY.

Chart 2



Sources: Scotiabank Economics, INEI.

Chart 3



Sources: Scotiabank Economics, INEI.

EMPLOYMENT: A MODESTLY IMPROVING LABOUR MARKET

Moderately improving GDP growth figures (September notwithstanding), are supported by labour market data. Adequate (sometimes called informal) employment finally returned to pre-Covid levels in August, and seems to be tilting upward. Underemployment had surpassed pre-2020 levels long ago, and now adequate employment has finally caught up (chart 4).

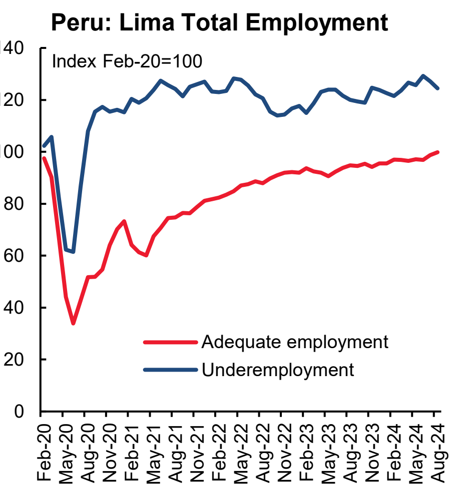
In line with this, unemployment came in at a low 6.1% in August. Together with the 6.0% unemployment of July, these are the lowest unemployment figures since 2019 (chart 5).

Before we get too excited about the improving labour market, we'll need to see to what extent the July–August employment figures reflect temporary demand due to the pension fund withdrawals. As in GDP growth, September labour market figures may be less optimistic. Thus, although we're tempted to review our unemployment forecasts going forward (6.7% in Q3 and 6.5% in Q4), it seems prudent to wait until we see the data for September.

INFLATION IS NOT LIKELY TO CONTINUE DECLINING FOR THE REST OF THE YEAR

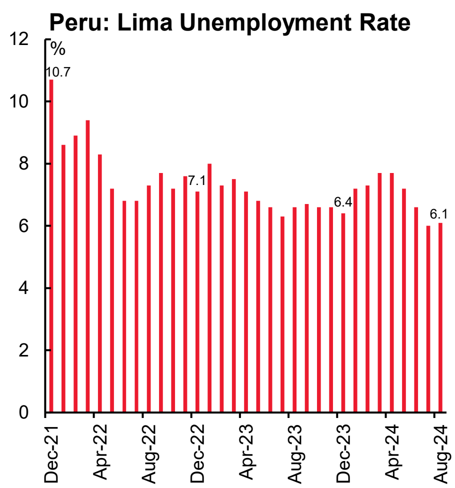
Just a word on inflation in October. The key prices we follow suggest that inflation could increase from 1.8% in September to 2.0% in October (chart 6). It's still early in the month, and with oil and gasoline prices rising, the risk is that inflation might rise a bit more by the end of the month. We were always expecting an increase in inflation in October–November, due to a base effect. Monthly inflation was negative last year, down 0.3% in October, and 0.2% in November. So, while monthly inflation is likely to be low in October–November this year, to have back-to-back negative monthly figures is unlikely.

Chart 4



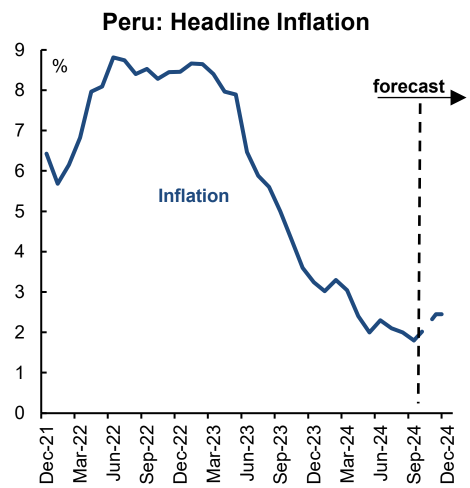
Source: Scotiabank Economics, INEI.

Chart 5



Sources: Scotiabank Economics, INEI.

Chart 6



Sources: Scotiabank Economics, BCRP.

—Guillermo Arbe