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GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Chile GDP, Mexico Macro, and Peru Politics Updates

- **Chile: GDP stalls y/y, falls m/m in September with broad-based sectoral weakness**
- **Mexico: Fixed investment falls on construction drag, while private consumption slows on lower imported goods spending**
- **Peru: Antauro Humala unmasked on Halloween; previewing September GDP growth**

CHILE: GDP STALLS Y/Y, FALLS M/M IN SEPTEMBER WITH BROAD-BASED SECTORAL WEAKNESS

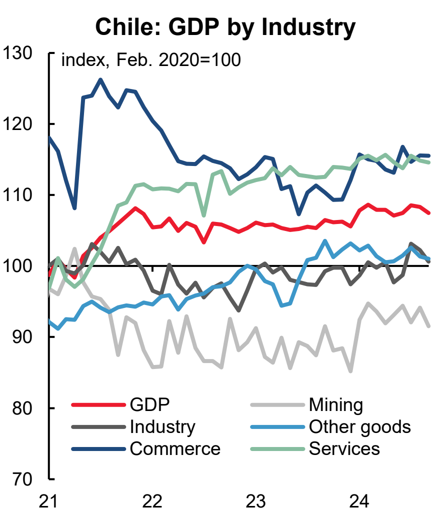
- **GDP shows signs of worrisome stagnation. Rate cuts need to be accelerated, although inflation and CLP depreciation could impede this.**

On Monday, November 4th, the central bank (BCCh) released September's GDP, which registered a null variation with respect to last year (to total 2.2% y/y in Q3-24), which represents a surprise for consensus and our own projections, which were around 1 ppts above. The seasonally adjusted GDP series contracted 0.8% m/m (+1% y/y) with a generalized fall at the non-mining sector level, evidencing a worrisome stagnation of activity that keeps GDP at a level similar to that observed at the end of 2021 (chart 1). We estimate that September's GDP was in line with the BCCh's baseline scenario, although it would be consistent with GDP ending 2024 with an expansion of 2.4%, which would be projected in the next IPoM in December.

Non-mining GDP registered a lower-than-estimated recovery, especially in services. Although there was a recovery in personal services, affected by the weather events in August, the rest of the services registered a significant contraction. In this sense, business services stood out, which again showed a drop, being the main sector explaining the decline in services and revealing a weakness related to the slow progress of private investment in recent months, but also to a complex period of fewer working days and interferences.

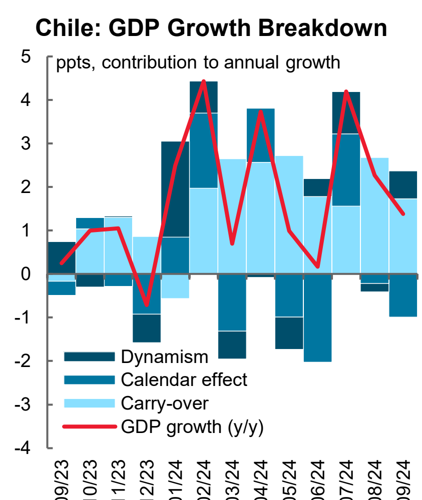
We revise our baseline scenario for GDP expansion in 2024 down to 2.4% (previous: 2.7%), which would be consistent with quarterly growth for Q4-24 at around 3% y/y, largely influenced by favourable comparison bases (chart 2). However, the bias of this projection is marginally positive given that the last quarter of the year features three additional working days that could have a somewhat larger than usual impact, this time positive, as was the case with the lower number of working days observed earlier this year.

Chart 1



Sources: Scotiabank Economics, BCCh.

Chart 2



Sources: Scotiabank Economics, BCCh.

Implications for monetary policy? For now, the course of monetary policy should continue to be influenced by nominal factors, as there is a clear conviction that real factors (economic activity, domestic demand and employment) are in a territory where they require monetary stimulus. The inflationary records of October (Scotia estimate: 0.5% m/m) and November, together with the depreciation of the CLP would mark the magnitude of the benchmark rate cut that we will have at the December monetary policy meeting. For now, we continue to expect a 25bps cut, but increasing the dose to 50bps could be part of the new central bank scenario revealed in the December IPoM if we observe particularly low inflation and the exchange rate shows some appreciation. In the latter case, the international scenario in the coming weeks will be crucial.

—Aníbal Alarcón

MEXICO: FIXED INVESTMENT FALLS ON CONSTRUCTION DRAG, WHILE PRIVATE CONSUMPTION SLOWS ON LOWER IMPORTED GOODS SPENDING

During August, Gross Fixed Investment (GFI) fell -1.9% from a 6.6% increase the previous month. In detail, machinery and equipment increased by 3.5% (9.5% previously), the domestic subcomponent rose by 5.9% (8.4% previously) and imports by 1.9% (10.2% previously). Construction led the fall, with a significant drop of -6.1% (4.2% previously) after twenty-two months of a dynamic rhythm of a 15.2% rise on average, as non-residential fell by -8.7% (-0.1% previously) and the residential subcomponent by -1.1% (10.8% previously), see chart 3. In the January–August period, the index grew by 6.8% YTD. In the seasonally adjusted monthly comparison, the GFI showed a drop of -1.9% (2.0% previously), highlighting that construction decreased by -4.0% m/m, investment in transport equipment, both domestic and imported, remained strong, as they grew by 13.8% y/y and 20.0% y/y.

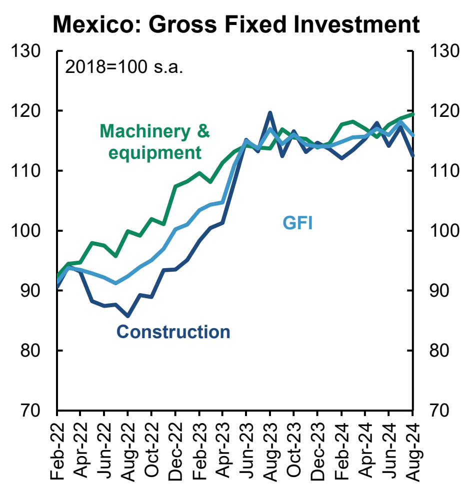
By type of buyer, private machinery and equipment registered its second consecutive month of growth, with an increase of 3.3% y/y. The public component grew by 7.8%, accumulating consecutive increases since January 2022, largely driven by government projects. As for private construction, it fell by -5.1%, marking its first decline in nineteen months. In contrast, the public component experienced its fourth consecutive decrease, this time of -10.6% y/y.

For its part, private consumption for August moderated its pace by growing 2.3% y/y (5.2% previously), where national consumption increased 1.5%. In detail, national goods rose 1.2% (3.5% previously), while services increased 1.7% (1.8% previously). On the other hand, imported goods showed a sharp slowdown, growing 7.3% from a previous expansion of 23.9%, with durable goods increasing by 11.3% (27.9% previously), semi-durable goods by 18.8% (48.8% previously) and non-durable goods by 0.9% (13.1% previously). In its seasonally adjusted monthly comparison, private consumption rose just 0.2% (0.9% previously), as imported goods cooled to 0.8% (vs. 3.9% in July), see chart 4.

The Mexican economy faces a challenging outlook for 2025, with expectations of a slowdown due to the decrease in government spending and a moderate pace in consumption. Gross Fixed Investment has already shown an annual decline, given that construction suffered a significant contraction despite an increase in machinery and equipment. In addition, the results of the US elections could negatively impact trade, affecting the demand for Mexican goods, as well as investment competitiveness.

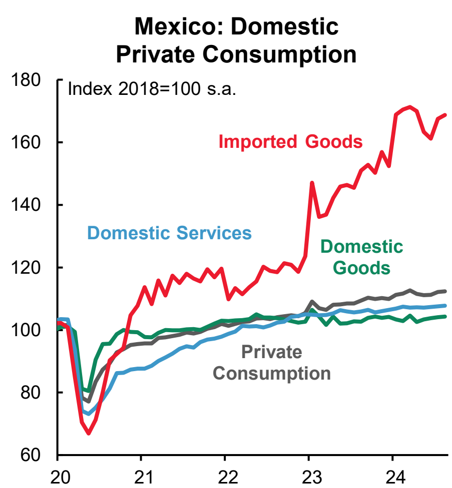
—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña

Chart 3



Sources: Scotiabank Economics, INEGI.

Chart 4



Sources: Scotiabank Economics, INEGI.

PERU: ANTAURO HUMALA UNMASKED ON HALLOWEEN

Antauro Humala may be out of the 2026 election. The radical leftist, who has stated that, if elected, he would ignore the Constitution, close Congress, and place virtually all ex-presidents of Peru before a firing squad (including his brother, Ollanta Humala, 2011–2016) is facing a Supreme Court decision on the illegality of his party.

Antauro is the leader of the political party named, surprisingly, A.N.T.A.U.R.O (for Alianza Nacional de Trabajadores, Agricultores, Universitarios, Reservistas y Obreros). On October 31st, the Supreme Court determined that the political party was illegal, that its registration as a political organization should be annulled and that the party should be dissolved. This determination was in response to a demand by the Attorney General's office arguing that the party advocated anti-democratic ideals and incited violence.

We're not too sure about the legal grounds for the Supreme Court determination (were any laws actually broken?), but, as a purely practical matter, there is a sense of relief by many over the possibility that Antauro Humala may no longer be a contender for the 2026 presidential elections.

We stress the word 'may', as Antauro still has room to maneuver. Antauro has stated that he plans to appeal the Supreme Court decision. But, even if the Supreme Court decision is upheld, its decision only affects the party, not Antauro himself. Antauro would still have the possibility of being the presidential candidate of some other registered party. Then, there is also Congress, which could conceivably formulate some legal avenue to facilitate an Antauro candidacy. There are, then, a number of 'ifs' to be worked out. However, none of these alternatives are very clear nor straightforward. And, meanwhile, Antauro's possibilities as a contender appear diminished.

PREVIEWING SEPTEMBER GDP GROWTH

Early sector GDP numbers were released for mining and fishing on November 1st. Mining GDP growth was 1.7%, y/y. This was below our forecast of 4.0% growth. Meanwhile, oil & gas fell 3.3%, y/y, led by natural gas products.

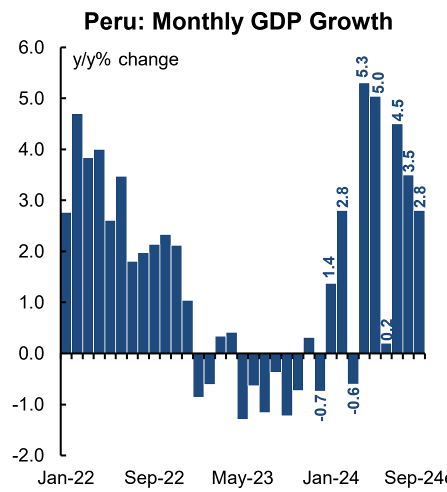
Finally, fishing fell 14.6%, y/y. Although September was an off-season month for fishmeal fishing (which actually rose), the fact that non-fishmeal fishing was also very weak was discouraging.

Other, indirect growth indicators were mostly positive, albeit somewhat subdued. Electricity growth was a mild 2.0%, y/y. Cement sales fell 0.05%, although this was compensated—in terms of impact on construction GDP—by a 13.4% increase in government investment.

Considering all these factors, we estimate that aggregate GDP growth will reach 2.8%, y/y, in September (chart 5). This is down slightly from our previous monthly forecast of 3.0%, but does not alter our quarterly expectations of 3.6% GDP growth for Q3. Monthly growth is starting to settle down into a tighter range. We are still on trend for 3.0% GDP growth for full-year 2024.

—Guillermo Arbe

Chart 5



Sources: Scotiabank Economics, INEI.