Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

November 25, 2024

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

Jackeline Piraján, Head Economist, Colombia
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@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:

Rodolfo Mitchell, Director of Economic and Sectoral Analysis
+52.55.3977.4556 (Mexico)
mitchell.cervera@scotiabank.com.mx

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

Miguel Saldaña, Economist
+52.55.5123.1718 (Mexico)
msaldanab@scotiabank.com.mx

Latam Daily: Mexico and Peru GDP & Inflation

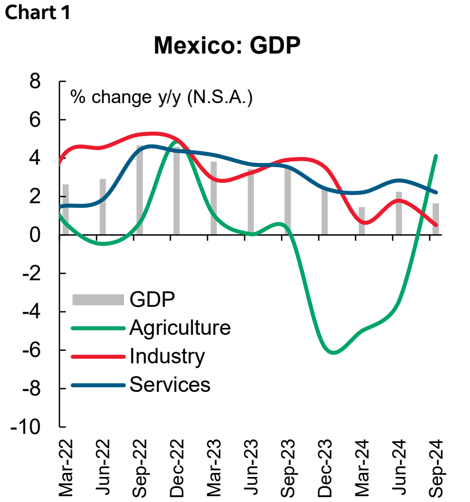
- **Mexico: Positive surprises in GDP and inflation, but the risks remain untouched**
- **Peru: Private Investment is Back! Up 4.0% in Q3, outpacing GDP (3.8%); External accounts: stronger than ever; Temporary uptick in inflation**

MEXICO: POSITIVE SURPRISES IN GDP AND INFLATION, BUT THE RISKS REMAIN UNTOUCHED

The final estimate for Q3-2024 GDP showed an upward revision to 1.6% y/y in real terms, from 2.1% in Q2, surpassing consensus, which expected no changes from the flash estimate of 1.5%. By sectors, industry slowed to 0.5% y/y (1.8% Q2), services moderated to 2.2% (2.8% previously), and the agricultural sector rebounded to 4.1% (-3.4% previously), see chart 1. On a seasonally adjusted quarterly basis, GDP increased by 1.1% q/q, from 0.4% previously, slightly above the 1.0% consensus. Industry stood at 0.9% q/q (0.3% previously), the services sector was strong at 1.1% (0.4% previously), and the primary sector rose by 4.9% (1.2% previously). Especially in the second half of the year, GDP estimates have continuously been revised downwards as both domestic and international events have boosted uncertainty surrounding the economic outlook. Uncertainty about the constitutional reforms and the fiscal sustainability in Mexico, as well and the US elections (and now the extent of Trump protectionist policies) have fostered a more adverse sentiment regarding Mexican competitiveness and investment opportunities. Thus, downward revisions are expected to continue shortly; however, we still expect positive (yet low) activity for 2025 owing to resilient consumption and positive trends in key high value-added exports.

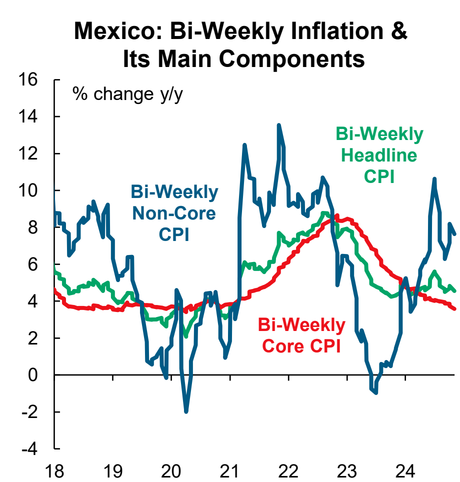
In the first half of November, inflation surprised the market by decreasing to 4.56% y/y from 4.83% y/y (vs. 4.65% consensus), see chart 2. The surprise came from a decline in core inflation, which fell from 3.74% in the second half of October to 3.58% (3.71% consensus). Notably, merchandise dropped to 2.46% (2.73% previously), moving further below the historical average, while services decelerated to 4.85% y/y (4.92% previously), below 5.0% for the second fortnight. On the other hand, non-core inflation moderated to 7.64% (8.20% previously), as agricultural products moderated to 11.33% (12.19% previously). Looking ahead, these numbers could reinforce the year-end average forecast at 4.46%, but the risk remains biased upwards, highlighting the possibility of stickiness in services, and new adverse climate events that could disrupt agriculture items. Also, this would imply no change in the broadly expected cut by Banxico at the December meeting. However, considering that the fiscal package presentation left some doubts regarding long-term sustainability, and the possibility of a longer Fed rate-cutting cycle, the debate about Banxico's room for rate cuts in 2025 is starting to gain traction among investors.

Chart 1



Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

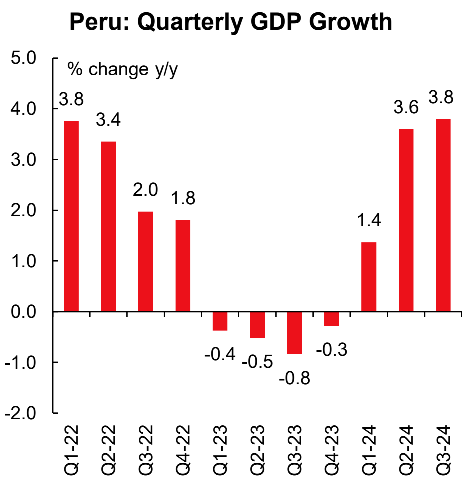
—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña

November 25, 2024

PERU: PRIVATE INVESTMENT IS BACK! UP 4.0% IN Q3, OUTPACING GDP (3.8%)

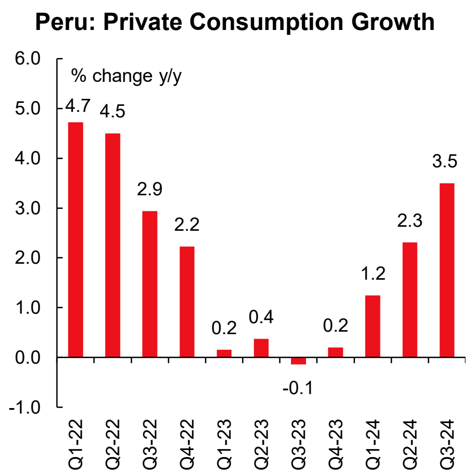
If you look at the third quarter GDP demand components, you will see multiple evidence of strength (chart 3). First, domestic demand was robust. Nominally, it was up only 2.8%, YoY, but this soft number does not do justice to true demand as it includes a 1.7% decline in inventories. Inventories, of course, decline when demand is greater than output. Excluding inventories, then, domestic demand growth was a compelling 4.4%, YoY. There is a caveat, however, which is that demand was boosted in temporary fashion as households received a windfall from access to pension funds in Q3, the magnitude of which was equivalent to over 2% of GDP. It was not surprising, then, that private consumption growth was 3.5%, a two-year high (chart 4).

Chart 3



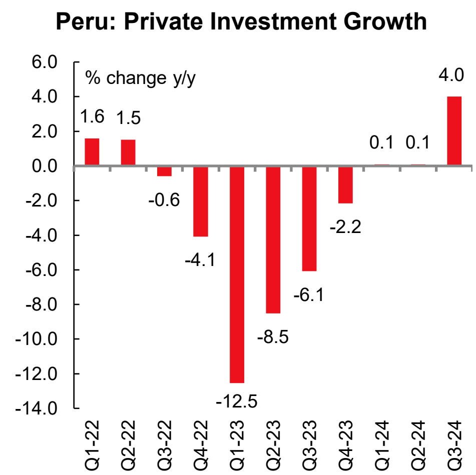
Sources: Scotiabank Economics, INEI.

Chart 4



Sources: Scotiabank Economics, BCRP.

Chart 5



Sources: Scotiabank Economics, BCRP.

There was no equivalent special event behind the 4.0%, YoY, growth in private investment, however (chart 5). This was also a multi-year high, and perhaps the most encouraging figure of all demand components. What is particularly encouraging is the private investment growth appears linked to an ongoing acceleration in projects. These include infrastructure projects tendered by the government, and also projects surrounding the new Chancay port. We should see investment attracted by both factors picking up even more speed in 2025.

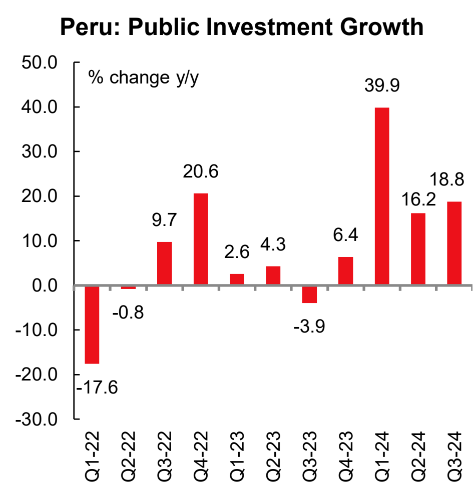
Exports growth outperformed, up 10.9%, YoY, also a multi-year growth high, although this has a one-off special component. In general, exports growth reflects very low growth in base year 2023 due to the impact of El Niño. This has been more evident in fishing and fishmeal production. However, due to seasonality, fishmeal exports were exceptionally high in Q3, and, as such, Q3 export growth is not representative of what to expect going forward.

Public sector expenditure continued to outperform the overall economy (chart 6). However, it is no longer the exclusive driver of growth that it had been earlier in the year. Due to its greater weight, private sector growth is now more important than public sector performance.

Our forecast for Q4 growth is 3.3%, YoY. This is lower than Q3, but then again, Q3 had the benefit of the pension fund withdrawals. The important things to look out for in Q4 include: 1. just how strong is private consumption growth, when there are no pension fund withdrawals, and 2. to what extent will Q4 private investment growth ratify the uptick in Q3. We are moderately optimistic on both scores.

Overall, GDP aggregate growth is coming in a bit better than we had been expecting, and is trending marginally above our full-year forecast of 3.0%, which we now see as having an upside (table 1).

Chart 6



Sources: Scotiabank Economics, BCRP.

EXTERNAL ACCOUNTS: STRONGER THAN EVER

On another note, the current account balance for Q3 was positive to the tune of 2.5% of GDP. Both the trade balance and household remittances from abroad were strong. Financial accounts were equally robust, thanks to a USD $3b sovereign bond issuance. On balance, net international reserves rose by USD $8.9b, a 12% increase.

Normally, such strong external accounts would cause the PEN to appreciate. However, the PEN continues to be beholden to the USD, without much life of its own.

TEMPORARY UPTICK IN INFLATION

Finally, the key prices we track are pointing to a monthly inflation of 0.1% for November. This is low, certainly, but is still higher than the -0.16 monthly inflation it replaces in November 2023. If this figure is ratified, yearly inflation to November would increase from 2.0% to 2.3%. We were, actually, expecting this to occur, and it is in line with our forecast of 2.4% for full-year 2024.

Table 1: Peru - Quarterly GDP and Domestic Demand Growth (% Change y/y)

	Q3-23	Q4-23	Q1-24	Q2-24	Q3-24
Domestic Demand	-1.7	-0.8	1.9	5.0	2.8
Domestic Demand Excl. Inventories	-1.1	1.5	2.4	2.7	4.4
Private Consumption	-0.1	0.2	1.2	2.3	3.5
Public Consumption	3.2	9.2	3.2	3.9	4.6
Private Investment	-6.1	-2.2	0.1	0.1	4.0
Public Investment	-3.9	6.4	39.9	16.2	18.8
Inventories (Percentage Points)	-0.6	-2.3	-0.6	2.1	-1.7
Exports	2.3	4.9	3.3	-1.4	10.9
Imports	-1.8	3.0	5.6	3.9	7.0
GDP	-0.7	-0.3	1.4	3.6	3.8

Sources: Scotiabank Economics. BCRP.

—Guillermo Arbe