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GLOBAL ECONOMICS

LATAM DAILY

January 16, 2025

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Latam Daily: BanRep Survey and New Board Members, Mexico Investment Recap

- **Mexico: Drop in construction investment offsets gains in machinery in October; Anticipation of weaker peso drives an advance in imported goods consumption**

A mixed US retail sales report this morning, where headline and core readings missed but the 'control' group (for GDP tracking purposes) beat, chipped away at an overnight rise in global yields that attempted to reverse the strong rally in rates markets after yesterday's US CPI miss. Long end EGBs are underperforming across key developed debt markets while Asia Pacific rates caught up to the moves in USTs yesterday and gilts are decently bid 3–4bps in the front-end on the back of a small miss in November GDP data as well dovish comments by the BoE's Taylor yesterday after the local market close.

While US yields remain relatively close to their post-CPI levels, albeit 1.5–2bps higher across the curve on the day, the USD's losses yesterday were incredibly short-lived with only the JPY a clear exception, rising an additional ~0.3% today (around 156 thanks to BoJ hike reports). All other major currencies are weaker on the session and a good deal of them weaker than pre-CPI levels, most notably the MXN that is lagging all majors this morning on a 0.8% loss to the 20.60–65 zone. The broader risk mood looks relatively solid, however, as another set of solid US bank earnings and revived hopes for the possibility of (eventual) Fed cuts is giving a small lift to US equity futures, coming after solid gains in Europe (and tech, more broadly) helped by chipmaker TSMC's projections beat overnight. Oil and iron ore prices are a touch lower while copper is flat.

It's a quiet day in Latin America today, where the main thing to watch will be the results of BanRep's latest survey of economists. Recent fiscal and external risks as well as a massive 9.5% minimum wage increase in Colombia have raised the possibility that officials opt for a rate hold at the January 31st rate decision so we'll see whether some analysts now project a pause. But, rate holds may not last too long (if they happen at all) as Pres Petro announced yesterday two new members to BanRep's board that will take office in late-February—with their first rate vote at the March meeting—and possibly give the board a net dovish stance. On the flip side, even Petro's Fin Min Guevara (who also sits on BanRep's board) has highlighted the USD's strength amid BanRep cuts vs Fed holds, so it's not necessarily a given that government appointees to BanRep would cut for the sake of cutting (and Petro's large minimum wage increase has not made things easy).

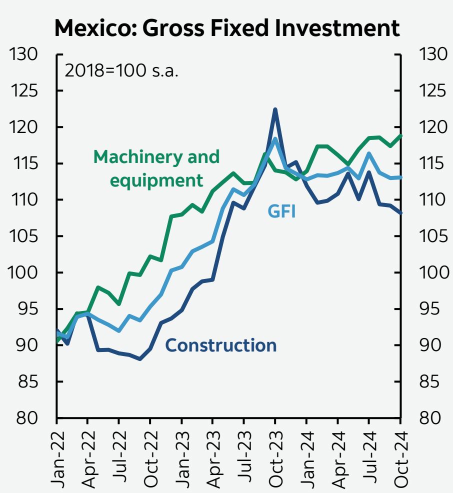
—Juan Manuel Herrera

MEXICO: DROP IN CONSTRUCTION INVESTMENT OFFSETS GAINS IN MACHINERY IN OCTOBER

In October, gross fixed investment dropped annually in real terms for the second consecutive month, by -2.6% from -2.9%. By components, machinery and equipment rebounded to 7.8% (-0.9% previous); in particular, the national subcomponent rose 8.3% (3.9% previous), while the imported subitem rebounded 7.5% (-4.1% previous). Construction recorded its second drop at -11.0% (-4.6% previous), with declines in both non-residential construction -16.6% (-12.3% previous) and residential construction -2.9% (8.0% previous). On a monthly comparison, investment increased only slightly by 0.1% (-0.7% in September), mainly due to the slower pace in construction (-0.9% m/m). From January to October, the index increased by 4.7% YTD (chart 1).

Investment in private construction recorded its third consecutive month of annual declines, this month at -8.3% y/y, while the public component deepened its weakening to

Chart 1



Sources: Scotiabank Economics, INEGI.

-24.2%, stringing six months in negative territory. On the other hand, investment in machinery and equipment shows better performance, with an increase of 8.0% in the public component and 5.2% in the private component.

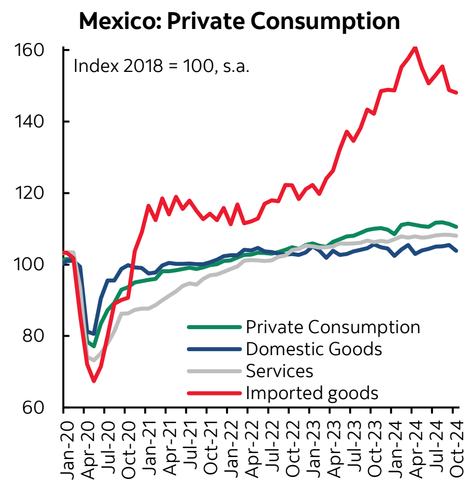
Gross fixed investment in Mexico showed a mixed trend. Although investment in machinery and equipment has performed positively, with significant increases in both the national and imported components, this recent rebound could partly be explained by investors anticipating higher costs via a weaker MXN. Construction has experienced notable declines, especially in the non-residential sector, indicating challenges in the real estate and infrastructure sectors. In the coming months, the indicator could continue to decline due to a slower pace of public investment in 2025 and uncertainty regarding the Mexico-United States trade relationship during Donald Trump's new term.

ANTICIPATION OF WEAKER PESO DRIVES AN ADVANCE IN IMPORTED GOODS CONSUMPTION

Meanwhile, private consumption in October advanced by 1.4% y/y (0.9% previous). In detail, imported goods accelerated to 6.0% (2.7% previous), while national services moderated to 1.6% (1.7% previous). On the other hand, national goods showed a decline of -0.1% (0.0% previous), with a drop in non-durable goods (-1.1%) and semi-durable goods (-0.3%), despite a rebound in durable goods (8.0%). On a seasonally adjusted monthly comparison, private consumption fell for the second time, by -0.4% m/m, due to a decrease in national goods (-1.5%), services (-0.3%), and imported goods (-0.5%). Looking ahead, we believe that consumption could moderate further, affected by the weakness in formal job creation and the uncertain economic outlook (chart 2).

Given the uncertainty in the economic outlook and the expectation of a higher exchange rate, many companies and households have brought forward purchases of imported goods. This could partly explain the rebound in imported goods consumption during October. However, this pace could moderate in the coming months. On the other hand, the decline in national goods, especially non-durable and semi-durable goods, reflects weakness in domestic demand related to lower economic activity in 2024. We expect private consumption to moderate further due to the weakness in formal job creation and the increase in economic uncertainty, which could lead to lower consumer confidence and, consequently, a reduction in spending.

Chart 2



Sources: Scotiabank Economics, INEGI.

—Brian Pérez & Miguel Saldaña