Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

April 2, 2025

Contributors

Juan Manuel Herrera, Senior Economist
+52.55.2299.6675 (Mexico)
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:

Aníbal Alarcón, Senior Economist
+56.2.2619.5465 (Chile)
anibal.alarcon@scotiabank.cl

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

Ricardo Avila, Senior Analyst
+51.1.211.6000 Ext. 16558 (Peru)
ricardo.avila@scotiabank.com.pe

Latam Daily: Chile GDP, Mexico Survey, Peru CPI and GDP

- **Chile: GDP contracted 0.1% y/y in February (-0.5% m/m)**
- **Mexico: Downward revisions to GDP growth forecasts; remittances decline**
- **Peru: Base effect causes inflation to continue falling in March; New February growth indicators are mixed, but good enough**

CHILE: GDP CONTRACTED 0.1% Y/Y IN FEBRUARY (-0.5% M/M)

- **In the absence of one-time effects that affected February's print, GDP is expected to return to growth in March**

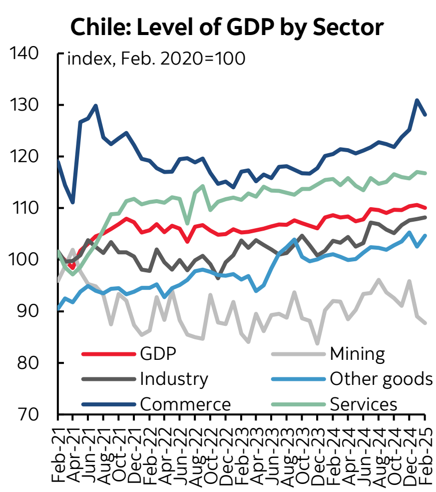
On Tuesday, April 1st, the Central Bank (BCCh) released February GDP data showing a contraction of 0.1% y/y, a figure that was below market expectations (Economist Survey: +1.0%; consensus: +0.1%), although it satisfies our view of a negative reading that we raised after the January GDP release (see **Latam Daily, March 3rd**). On the one hand, the y/y decline is due to one-off effects, such as the negative calendar effect of the comparison base (2024 was a leap year), and the impact that the electricity blackout at the end of the month would have had on economic activity, especially on mining. Overall, the economy again showed a year-on-year contraction after seven months of uninterrupted growth. On the other hand, a 0.5% m/m drop was also observed in non-mining GDP.

There was a widespread decline across economic sectors (chart 1 and 2). Seasonally adjusted figures showed that the largest negative contributions within the non-mining sectors came from trade (wholesale and retail) and services, especially business services, which lost some of the momentum shown in January. On the other hand, the sustained growth experienced by the industrial sector stands out positively, with four consecutive months of seasonally adjusted growth.

Fiscal execution is running at a fast pace. According to figures from the Budget Office, 15.5% of budgeted spending was executed in February, the highest level seen in recent years, driven by accelerated public investment, which reached 10.7%, even above last year's figures. In this regard, capital spending grew 10% y/y in real terms in February, mainly thanks to faster investment in public works, housing, and health.

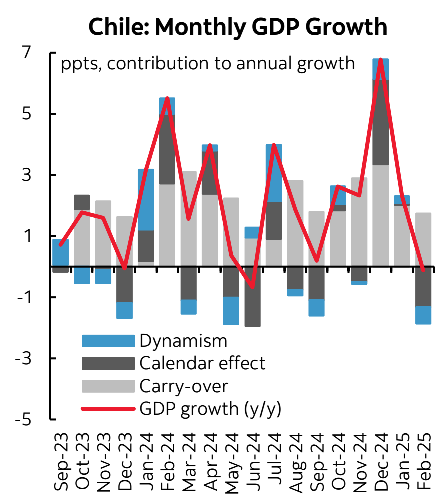
Positive figures are expected to return in March, with growth of around 3% y/y. This is thanks to a more favourable calendar effect (one additional business day) and a recovery in the dynamism of the sectors that were affected by the blackout in February, particularly

Chart 1



Sources: Scotiabank Economics, BCCh.

Chart 2



Sources: Scotiabank Economics, BCCh.

mining. These improved domestic economic activity figures are expected to continue to support the CLP's appreciation against the US dollar and our trading partners. We reaffirm our 2025 GDP growth projection of 2.5%, which assumes a 6% expansion in total investment and over 2% for private consumption.

—Aníbal Alarcón

MEXICO: DOWNWARD REVISIONS TO GDP GROWTH FORECASTS; REMITTANCES DECLINE

The results of Banxico's Private Sector Expectations Survey showed downward revisions (table 1). The most significant change was again the growth forecast for this year, with the consensus dropping from 0.8% to 0.5% due to the observed weakness in recent indicators and uncertainty regarding trade policy between Mexico and the United States. With an increasing likelihood of a less integrated trade policy, several analysts are revising their expectations downward, with some even predicting a contraction as the baseline scenario for the year. For our part, we will revise our forecast in the coming weeks, once U.S. and Mexico measures in this area have been announced.

Table 1: Mexico—Banxico Survey, Main Results

Variable	Year	Feb-25	Mar-25	Change
GDP	2025	0.81	0.50	-0.31
(Real annual % change)	2026	1.70	1.60	-0.10
Headline Inflation	2025	3.71	3.70	-0.01
(Annual % rate, Dec-Dec)	2026	3.70	3.70	0.00
Core Inflation	2025	3.75	3.76	0.01
(Annual % rate, Dec-Dec)	2026	3.63	3.64	0.01
Exchange Rate	2025	20.85	20.80	-0.05
(MX$/USD$, Dec)	2026	21.36	21.30	-0.06
Policy Rate (median)	2025	8.25	8.00	-0.25
(Rate %, end of period)	2026	7.50	7.50	0.00

Sources: Scotiabank Economics, Banxico.

On the other hand, following Banxico's forward guidance on less restrictive rate levels, analysts lowered their expected year-end rate to 8.0% and to 7.50% by the end of 2026. Possibly, several respondents agree that economic weakness will generate downward pressure on price formation, as expected inflation remained virtually unchanged at 3.70% for headline and 3.76% for the core component by the end of 2025.

Additionally, the forecasted USDMXN at the end of the period dropped from 20.85 to 20.80. Recent behavior of the USDMXN (coming back to the low 20s) may have prompted a statistical revision in the data, but we believe that the risks of a lower interest rate differential between Mexico and the United States, as well as the imposition of tariffs and lower economic growth, could result in greater depreciation. Therefore, we maintain our forecast of $21.30 and $21.50 for the end of 2025.

Looking ahead, we believe that downward revisions to growth forecasts will continue. Regardless of possible trade agreements between Mexico and the United States, the mere uncertainty will continue to affect the confidence of economic agents. Additionally, indicators from the first months of the year show greater economic weakness than initially anticipated, necessitating downward adjustments in forecasts.

Remittances show an annual decline amid uncertainty. According to Banco de México, remittances for February amounted to $4.458 billion, representing a year-on-year contraction of -0.8%. Over the past twelve months, remittances totaled $64.797 billion, the highest accumulated figure for February. The total number of transfers also decreased by -0.2%, resulting in an average drop of -0.6% to $381 dollars. Looking ahead, we believe the negative impact of the Trump administration's immigration policies will continue, along with an expectations of lower growth. However, this effect could be offset by potential tax cuts on tips in the United States. Consequently, the decline in remittances will translate into lower private consumption in Mexico in the early part of the year.

—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña

PERU: BASE EFFECT CAUSES INFLATION TO CONTINUE FALLING IN MARCH

Monthly inflation was once again positive in April; however, due to a base effect, annual inflation continued to decrease (chart 3). We maintain our forecast for headline inflation at 2.3% at end-2025 and 4.50% for the terminal reference rate.

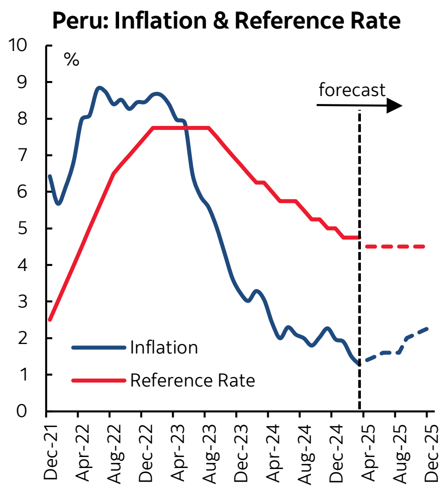
General inflation increased by +0.8% monthly in March, above the +0.6% expected by Bloomberg's market consensus, but closer to our estimate of +0.9% (chart 4). The figure was high; however, it was lower than that recorded in March 2024 (1.0%). Consequently, annual inflation slowed from 1.5% in February to 1.3% in March, remaining below the midpoint of the Central Reserve Bank (BCR)'s target range.

The increase in general inflation during the month was mainly driven by higher prices in two categories: (1) Education (+3.4%), due to seasonal factors, which was expected given the start of the school season, and (2) Food and non-alcoholic beverages (+1.85%), due to price corrections in products with significant weight in the basic basket, such as chicken and eggs.

Core inflation, the trend component that excludes food and energy, also increased by +0.6% in March, similar to the historical average of the last 20 years (+0.6%) but below the level recorded in the same month of 2024 (+0.9%). In year-over-year terms, it decreased from 2.1% in February to 1.9% in March.

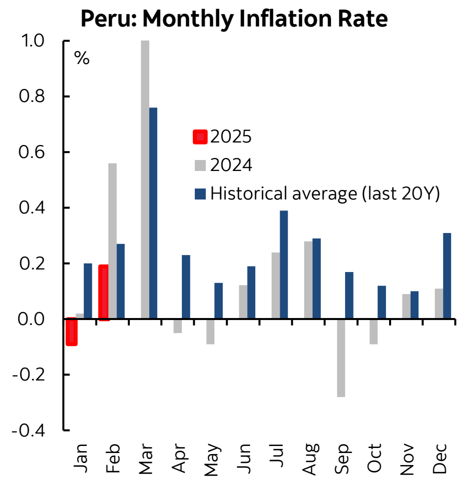
In the coming months, the base effect present during February and March will no longer apply. Inflation is expected to have a modest upward and conservative trend but remain below the midpoint of the target range (2.0%) until 3Q25 and continue increasing to 2.3% by the end of the year due to a base effect in 4Q.

Chart 3



Sources: Scotiabank Economics, BCRP.

Chart 4



Sources: Scotiabank Economics, INEI.

As for the BCRP's reference rate, we expect no changes in April. The arguments provided in March would still persist in April, namely good dynamics in economic activity and international uncertainty caused by U.S. trade policies and geopolitical conflicts. The BCRP could be encouraged to make the next cut once the Federal Reserve (Fed) does. There is a higher probability that the Fed will reduce its reference rate still in June (according to market consensus); consequently, the BCRP could make its next cut by late 2Q25 or at the beginning of 3Q25.

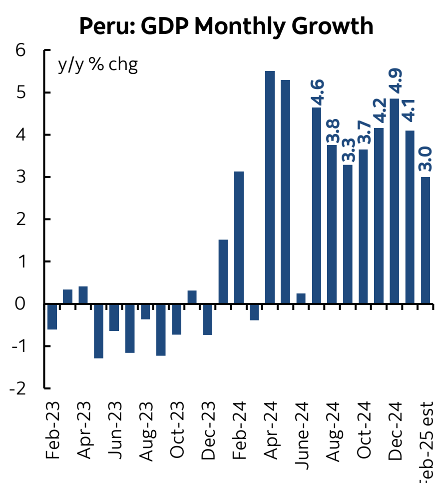
—Ricardo Avila

NEW FEBRUARY GROWTH INDICATORS ARE MIXED, BUT GOOD ENOUGH

February GDP growth indicators were released on April 1st. Prior to this release, we had penciled in the possibility of GDP growth coming in in a range from 2.5% y/y to 3.0% for February. The newly released figures point to growth that is closer to 3.0% y/y, with mild upside (chart 5). This level is not bad when you consider that February 2025 had one day less than February 2024. Taking the extra day into account, growth would be broadly aligned with the approximately 4% monthly growth of previous months.

The two main indicators that were released were mining GDP growth and Fishing GDP growth (table 2). Mining GDP fell 1.4%, y/y. Mining activities are particularly sensitive to the number of days in a month, so we were actually expecting an even greater decline. Fishing GDP growth, nearly 25%, is less relevant due to its low weight in an off-season month.

Chart 5



Sources: Scotiabank Economics, INEI.

Table 2: Peru—Indicators 2025

Leading Indicators	Feb 2025 y/y% Change
GDP Sectors	
Mining GDP	-1.4%
Fishing GDP	24.6%
Other Growth Indicators	
Cement Sales	4.6%
Public Investment	15.8%
Electricity Demand	-0.9%
Automobile Sales	-1.1%
Motorcycle Sales	5.8%
Sales Tax Revenue	12.6%
Excise Tax Revenue	16.5%
Imports	10.9%
Total Loans	1.5%

Sources: Scotiabank Economics, SBS, BCRP, SMV, Imarpe, Sunat, Asocem, COES.

The 0.9% y/y decline in electricity demand is, no doubt, a reflection of less days in the month. Most other indicators are comfortably positive. Public investment growth was strong for a second consecutive month, and suggest that our full-year public investment growth forecast of 5.8% might prove to be an underestimation. Prior to February's 16% y/y growth, public sector investment rose 45% in January. Add February's public investment to encouraging cement sales growth of 4.6%, and Construction GDP growth should be quite robust in February.

Growth of 3.0% in February is in line with our forecast of 3.3% growth for full-year 2025. February GDP will be released on April 15th.

Another positive event that could potentially have some bearing on growth further down the line was the government announcement that it had designed a deregulation policy. This announcement is drawing some expectation, even though similar announcements in the past have proved disappointing. If, however, these measures are implemented fully and well, they could provide the basis for a greater acceleration in growth over time. The measures were the result of two months of work with private sector business leaders, which gives credibility to the formulation and adequacy of the measures. Their implementation is another matter. Much of the red tape that ties up investment in the country occurs at the local and regional government levels, and this might be a tangle that is a bit more difficult to untie.

The package includes 402 measures, nearly half of which are geared to eliminate specific instances of red tape. There are also more general measures to strengthen institutions, improve management procedures and shorten timelines. The packages also include 42 measures to promote private investment.

—Guillermo Arbe