

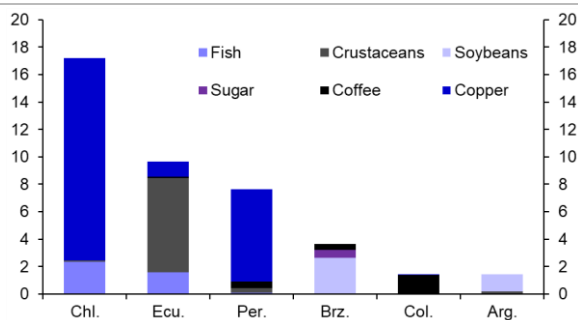


# LATIN AMERICA ECONOMICS UPDATE

## El Niño presents mixed risks for Lat Am

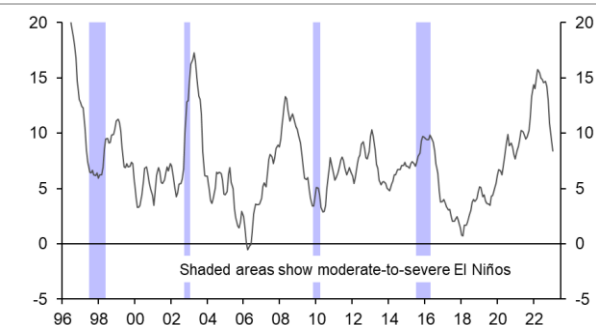
- **The likelihood of an El Niño event over the second half of the year raises the risk that activity is disrupted, inflation falls more slowly than we currently expect, and central banks’ monetary easing cycles prove to be stop-start. But a few sectors in the region may benefit from El Niño and Argentina’s parched economy could get some welcome relief.**
- We have a dedicated [webpage](#) where you can find all our research. In Latin America, El Niño is typically associated with drier conditions over northern Brazil, Venezuela and Colombia and wetter conditions across the Southern Cone (including the south of Brazil) as well as Peru and Ecuador.
- **The agricultural and livestock sector faces some of the biggest challenges from El Niño.** Drought conditions may reduce Brazil’s production of sugar, coffee and cocoa (crops that, [globally](#), tend to be most affected). That said, the impact is not clear cut. Warmer weather during El Niño also reduces the risks of frosts (which damage the crops). If production can be maintained, these sectors would benefit from high prices caused by hits to output elsewhere (in [Asia](#) and [West Africa](#)).
- El Niño also tends to have major effects on Pacific aquaculture. Typically, fish migrate away from the coast of Peru, Chile, and Ecuador. But crustaceans (a significant export for Ecuador – see Chart 1) grow rapidly. Finally, while the impact on key cereals and soybeans is unclear, one point to note is that Argentina’s economy, whose agricultural sector has suffered from years of [drought](#), would benefit from rainfall.
- **Other sectors could be affected too.** Copper mines in Chile and Peru often halt production for precautionary reasons during heavy rainfall, which would hit activity and exports. (See Chart 1 again and our forthcoming [Metals Update](#).) And, more broadly, heavy rainfall can result in flooding and disruptions which have wider economic effects (poor harvests, damaged buildings and infrastructure, etc.).
- **A final channel through which El Niño could have an impact is via hydropower generation.** Colombia looks particularly vulnerable given that dry conditions tend to dominate and hydropower accounts for around three quarters of electricity generation. In an extreme case, a drought could result in electricity shortages, as was the case during the severe El Niño event in 2015/16, hitting activity and raising prices. The crumb of comfort is that other countries in the region that are very reliant on hydropower (Brazil and Paraguay) are likely to see heavier rainfall.
- **Overall, the picture for the region is very mixed, but the risks to activity appear greatest in Colombia, Chile, and Peru, while Argentina’s GDP could receive a much-needed boost. Perhaps one point we can say with a bit more certainty is that moderate-to-severe El Niño events have tended to be associated with higher food inflation in the region** (at least once lags have been taken into account). (See Chart 2.)
- Given the uncertainty around the severity of this El Niño, we haven’t changed our commodity or macro forecasts at this stage. But **the risks appear to be tilted towards inflation in the region coming down more slowly than we currently expect.** Latin American central banks are unlikely to look through food price shocks given how strong headline inflation and wage growth in the region still are. So, **upside inflation surprises could postpone the upcoming monetary easing cycles, or make them more gradual.**

Chart 1: Exports of Selected Goods (% of GDP, 2022)



Sources: Intracen, Refinitiv, Capital Economics

Chart 2: Latin America Food Inflation (%)



Sources: Refinitiv, Capital Economics



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