



LATIN AMERICA ECONOMICS WEEKLY

Strong survey data, Brazil's tax reform

Survey data point to decent end to Q2

The batch of survey data for June from Brazil and Mexico released this week suggest that both economies gathered momentum at the end of Q2.

In Brazil, having fallen back in May, the FGV confidence surveys generally rose in June (construction was the key exception). Consumer confidence picked up particularly sharply last month, hitting its highest level since February 2019. This was probably driven by the sharp falls in inflation over the past few months as well as the strength of the labour market. In contrast, while the industry survey edged up in June, the bigger picture is that confidence in the sector remains soft by past standards, suggesting that the weakness seen in the [May industrial production figures](#) probably continued in June.

It's difficult to gauge how the economy fared over Q2 as a whole because it's unclear to what extent the tailwind from agriculture (which [boosted growth in Q1](#)) faded last quarter. But what is pretty clear is that, similar to what we've seen in the past few quarters, services activity probably held up well in Q2 while industry remained the weak spot.

Elsewhere, the latest survey data for Mexico suggest that the economy regained some verve at the end of Q2. Admittedly, the IMEF non-manufacturing survey was flat in June. But at 51.3 it remained in expansionary territory last month. And the IMEF manufacturing index as well as the manufacturing PMI increased in June, pointing to a rise in industrial output in June (the hard data are out next week). While it looks like Mexico's economy held up fairly well in Q2, the trend in recent months is that activity has struggled to sustain the momentum from the very start of the year. And looking ahead, we expect tight fiscal and monetary policy, alongside a recession in the US, to cause growth in Mexico to slow over the next few quarters.

Tax reform in Brazil: at long last?

The approval of a long-awaited tax reform bill by Brazil's lower house of congress yesterday suggests that hopes for growth-friendly reforms during Lula's term aren't dead. The bill (which is a constitutional amendment) aims to simplify Brazil's complex tax system by unifying five existing taxes into three, with many of the changes coming into effect in the second half of the 2020s. As we noted in a [Focus](#), the tax regime is one (among many) reasons for Brazil's weak productivity growth record.

The burdensome tax system imposes a heavy cost on private firms. Companies have to devote excessive resources to tax compliance that could be used more productively elsewhere. And the tax system also puts up high barriers to entry that prevent new, more productive firms from challenging incumbents and driving uncompetitive companies out of the market.

This reform has been a long time coming, so this week's events are certainly encouraging. Admittedly, tax reform is one of the few areas where there seems to be consensus across the political spectrum that something needs to be done. But taken together with the new fiscal framework, it looks like the more business-friendly parts of government and congress are making their mark.

In case you missed it: Brazil's exports & the real

In a [note](#) yesterday, we explained why we think the Brazilian real's recent rally is likely to go into reverse. In another [piece](#), we argued that Brazil's export boom – which has supported the currency and GDP growth – will start to fade soon.

The week ahead

June CPI figures from Brazil and Colombia should show that inflation fell in both countries. We'll be discussing the outlook for monetary policy in Latin America in an EM Drop-In Thursday. Sign up [here](#).



Data Previews

Brazil Consumer Prices (Jun.)

Tue. 11th Jul.

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
% m/m (% y/y)	13.00/08.00	0.2(+3.9)	-0.1(+3.2)	-0.1(+3.1)

Inflation drop to cement August rate cut

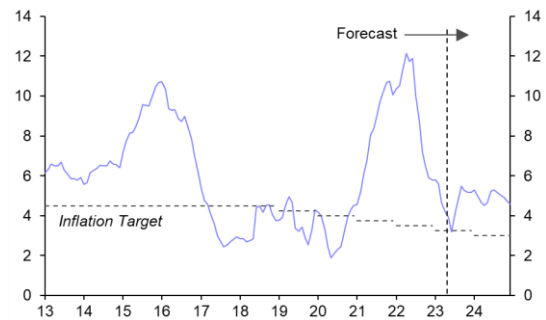
We think that inflation in Brazil fell to a below-target 3.1% y/y in June. And while this will mark the trough and inflation should rise again in the second half of the year, this CPI print should make a 25bp interest rate cut (to 13.50%) at the next Copom meeting in early August a certainty.

Weekly IPC-S consumer price data compiled by the FGV institute – which have a good relationship with the official data – point to a 0.1% m/m decline in consumer prices last month. That would be consistent with a year-on-year inflation rate of 3.1%, down from 3.9% in May (and 3.4% in the first half of June). In particular, lower vehicle fuel prices helped to drag inflation down.

The current low readings are temporary. Favourable base effects pushing energy inflation down will

unwind in the second half of the year and the headline rate will rise. (See Chart 1.) But even so, with inflation likely to be below target (3.25%) and following a lower path than had been expected, a 25bp interest rate cut at the next central bank meeting looks all the more likely.

Chart 1: Brazil Consumer Prices (% y/y)























Sources: Refinitiv, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Time (EDT)	Previous*	Median*	CE Forecasts*
Mon 10 th	-	No Significant Data Or Events Scheduled	-	-	-	-	-
Tue 11 th	 Col	CPI (Jun.)	00.00	19.00†	+0.4%(+12.4%)	+0.4%(+12.2%)	+0.5%(+12.3%)
	 Brz	IPCA Inflation (Jun.)	13.00	08.00	+0.2%(+4.0%)	-0.1%(+3.2%)	-0.1%(+3.1%)
	 Mex	Industrial Production (May)	13.00	08.00	+0.4%(+0.7%)	-	-
Wed 12 th	 Brz	Services Output (May)	13.00	08.00	-1.6%(+2.7%)	-	-
Thu 13 th	 Arg	CPI (Jun.)	20.00	15.00	+7.8%(+114.2%)	-	-
Fri 14 th	 Per	Interest Rate Announcement	00.00	19.00†	7.75%	7.75%	7.75%
	 Brz	Retail Sales (May)	13.00	08.00	+0.1%(+0.5%)	-	-
	 Col	Industrial Production (May)	16.00	11.00	(-3.0 %)	-	-
	 Col	Retail Sales (May)	16.00	11.00	(-6.9%)	(-5.4%)	-
	 Pan	CPI (Jun.)	-	-	+0.2%	-	-
Also expected during this period:							
7 th – 10 th	 Mex	Wage Growth (Jun.)	-	-	(+9.3%)	-	-
Selected future data releases and events:							
17 th Jul	 Brz	Economic Activity (May)	13.00	08.00	+3.31%(+0.56%)	-	-
	 Per	Unemployment Rate (Jun.)	16.00	11.00	+6.8%	-	-
	 Col	Economic Activity Index (May)	17.00	12.00	(-0.8%)	-	-
	 Per	Economic Activity Index (May)	16.00	11.00	(+0.3%)	-	-
18 th Jul	 Arg	Economic Activity Index (May)	20.00	15.00	-1.9%(-4.2%)	-	-
19 th Jul	 Col	Trade Balance (May)	16.00	11.00	-\$0.9bn	-	-
	 Arg	Trade Balance (Jun.)	20.00	15.00	-\$1.2bn	-	-
20 th Jul	 Mex	Retail Sales (May)	13.00	08.00	+1.5%(+3.8%)	-	-
	 Arg	Budget Balance (Jun., ARS)	-	-	-247.65bn	-	-

*m/m(y/y) unless otherwise stated; † = previous day

Sources: Bloomberg, Capital Economics



Main Economic & Market Forecasts

Table 1: Central Bank Policy Rates (%)

Policy Rate	Latest (7 th Jul.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	13.75	Up 50bp (Aug. '22)	Down 25bp (Aug. '23)	12.50	9.75
Mexico Overnight Rate	11.25	Up 25bp (Mar. '23)	Down 25bp (Q4 '23)	11.00	9.00
Colombia Intervention Rate	13.25	Up 25bp (Apr. '23)	Down 50bp (Q4. '23)	12.25	7.25
Chile Overnight Rate	11.25	Up 50bp (Oct. '22)	Down 50bp (Jul. '23)	9.25	5.25
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	Down 25bp (Sep. '23)	6.75	5.00

Sources: Refinitiv, Capital Economics

Table 2: FX Rates vs. US Dollar & Equity Markets

Currency	Latest (7 th Jul.)	Forecasts		Stock Market	Latest (7 th Jul.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.86	5.25	5.00	Bovespa	118,925	112,000	149,750
Mexico MXN	17.1	20.0	21.0	Bolsa	53,989	44,600	59,300
Argentina ARS	261	400	600	Merval	422,819	-	-
Colombia COP	4,183	4,500	4,200	IGBC	1,119	910	1,210
Chile CLP	808	825	775	IPSA	5,924	4,100	5,450
Peru PEN	3.64	4.00	3.70	S&P/BVL	22,478	19,300	25,650

Sources: Refinitiv, Capital Economics

Table 3: GDP & Consumer Prices (% y/y)

	Share of World ¹	2011-20 Ave.	GDP				Consumer Prices			
			2022	2023	2024	2025	2022	2023	2024	2025
Brazil	2.3	0.3	2.9	2.3	0.8	1.5	9.3	4.8	5.0	4.0
Mexico	1.8	1.3	3.0	2.5	1.3	2.0	7.9	5.8	4.8	3.5
Argentina	0.7	-0.7	5.2	-2.8	-1.3	2.5	72.4	118.5	136.5	103.5
Colombia	0.6	2.5	7.3	1.0	1.5	2.5	10.2	11.8	5.8	4.0
Chile	0.4	2.1	2.4	0.3	2.3	2.5	11.6	8.0	4.8	3.8
Peru	0.3	2.5	2.7	1.5	2.3	2.5	7.9	7.0	4.0	3.3
Dom. Rep.	0.2	4.1	4.9	3.8	5.0	5.0	8.8	5.3	4.5	4.0
Ecuador	0.1	1.6	2.9	2.5	2.0	2.5	3.5	1.5	1.3	1.5
Venezuela	-	-12.7	15.5	6.5	5.0	5.0	185	320	65	50
Panama	0.1	3.5	10.5	1.8	2.8	3.0	2.8	1.5	1.3	1.3
Costa Rica	0.1	2.8	4.3	3.5	2.5	2.5	8.3	2.3	3.3	3.0
Uruguay	0.1	1.5	4.9	1.5	2.5	2.3	9.1	7.3	7.8	7.0
Latin America²	6.7	1.0	3.7	1.6	1.1	2.1	8.7	5.9	4.8	3.7

Sources: Refinitiv, Capital Economics. 1) % of GDP, 2021, PPP terms. 2) GDP Excl. Venezuela; Consumer Prices Excl. Argentina & Venezuela.



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