LATIN AMERICA ECONOMICS WEEKLY

Ecuador votes, Mexico's construction boom

Ecuador's presidential run off

Ecuadorians head to the polls on Sunday in a run-off vote for the country's next president that pits left-wing candidate Luisa González against centre-right businessman Daniel Noboa. Whoever wins will serve the remainder of former President Lasso's term (until 2025).

While both candidates have made clear that tackling spiraling violence is one of their key priorities, there are important differences when it comes to the economy. Ms. González, who has already said that former left-wing President Rafael Correa would be her key advisor, favours a prominent role for the state in Ecuador's economy and plans to boost social spending. She has also said that she was going to use $2.5bn of Ecuador's international reserves (which currently stand at c.$6bn) to shore up the economy.

Noboa, a Harvard-educated son of banana tycoon Álvaro Noboa who unsuccessfully ran for president five times, has a more orthodox view on the economy. His government plan stresses the need to "maintain fiscal discipline" and "increase international reserves".

Although his lead has narrowed in recent days, the latest polls still show Noboa ahead of González. A Noboa victory would probably alleviate some of the pressure on Ecuador's public finances, which have deteriorated significantly since the start of the year. That said, even under Noboa, we think it's unlikely that the debt ratio will fall, which is necessary to restore debt sustainability. As a result, we think that another sovereign default later in the decade is likely.

Limited spillovers from Israel-Hamas war

The outbreak of the Israel-Hamas conflict has grabbed the headlines this week, with both sides reporting more than a thousand casualties. This is, of course, first and foremost a humanitarian tragedy.

From an economic perspective, the main impact has been an increase in demand for safe haven assets and a rise in oil prices. The spillovers to Latin America have so far been limited, but this could change if tensions were to intensify further – for example if Iran got drawn into the conflict. In this case, risk appetite would probably sour further, putting pressure on currencies across the region. The crumb of comfort in that regard is that the improvement in external positions, especially in Colombia and Chile, means that currencies are less vulnerable to large and disorderly falls. The bigger impact would probably come from a further rise in oil prices. While the region's major producers (such as Colombia) would benefit, higher prices would keep inflation elevated. This, in turn, could prompt policymakers to shift their easing cycles into a lower gear or even halt them.

Mexico's construction boom

One of the most interesting bits in the Mexican industrial production data released on Thursday was the continued strength in construction output. The 2.4% m/m rise in August took output in that category more than 25% above its pre-pandemic level. This, in turn, has added more fuel to the narrative that Mexico is experiencing a "nearshoring" boom.

Some of the strength might well be linked to nearshoring – as we noted in an *Update* last month, increased demand for industrial real estate has spurred a surge in construction of new buildings in Mexico's northern states. But a closer look at the breakdown of the construction data shows that the key driver of the strength has been a surge in civil engineering works – output in this subcategory has more than doubled so far this year, largely reflecting President López Obrador's public investment plans.

The strength in construction poses an upside risk to our Q3 and Q4 GDP growth forecasts, but the rapid rise in construction looks unsustainable and the boom is likely to unwind next year. We continue to think that Mexico's economy will weaken in 2024. (See our Q4 *Latin America Economic Outlook*.)

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Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Time (EDT)	Previous*	Median*	CE Forecasts*
Mon 16th	**Per**	Unemployment Rate (Sep.)	16.00	11.00	6.60%	6.60%	-
	Per	Economic Activity Index (Sep.)	16.00	11.00	(-1.3%)	(+1.5%)	-
Tue 17th	**Brz**	Services Output (Aug.)	13.00	08.00	+0.5%(+3.5%)	+0.6%(+2.9%)	-
Wed 18th	**Brz**	Retail Sales (Aug.)	13.00	08.00	+0.7%(+2.4%)	-0.6%(+1.5%)	-
	Col	Economic Activity Index (Aug.)	17.00	12.00	(+1.2%)	-	-
Thu 19th	**Brz**	Economic Activity Index (Aug.)	13.00	08.00	+0.4%(+0.7%)	-	-
Fri 20th	**Mex**	Retail Sales (Aug.)	13.00	08.00	+0.2%(+5.1%)	-	-
	Col	Trade Balance (Aug.)	16.00	11.00	-$0.6bn	-	-
	Arg	Trade Balance (Sep.)	20.00	15.00	-$1.0bn	-	-
	Arg	Budget Balance (Sep., ARS)	-	-	-37.0bn	-	-
Selected future data releases and events:							
23rd Oct	**Mex**	IGAE Activity Index (Aug.)	13.00	08.00	+0.2%(+3.2%)	-	-
24th Oct	**Mex**	Bi-Weekly CPI (15th Oct)	13.00	08.00	-	-	-
	Arg	Economic Activity Index (Aug.)	20.00	15.00	+2.4%(-1.3%)	-	-
25th Oct	**C.Rc**	Interest Rate Announcement	-	-	6.50%	-	-
26th Oct	**Brz**	Current Account (Sep.)	12.30	07.30	-$0.6bn	-	-
	Brz	IPCA-15 Inflation (Oct.)	13.00	08.00	+0.4%(+5.0%)	-	-
	Chl	Interest Rate Announcement	22.00	17.00	9.50%	-	-
27th Oct	**Mex**	Trade Balance (Sep.)	13.00	08.00	-$1.4bn	-	-

*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 (13th Oct.)	Last Change	Next Change	Forecasts End 2023	Forecasts End 2024
Brazil	Selic Target	12.75	Down 50bp (Sep. '23)	**Down 50bp (Nov. '23)**	**11.75**	**9.50**
Mexico	Overnight Rate	11.25	Up 25bp (Mar. '23)	**Down 25bp (Q1 '24)**	**11.25**	**9.25**
Colombia	Intervention Rate	13.25	Up 25bp (Apr. '23)	**Down 50bp (Oct. '23)**	**12.25**	**8.00**
Chile	Overnight Rate	9.50	Down 75bp (Sep. '23)	**Down 75bp (Oct. '23)**	**8.00**	**5.25**
Peru	Reference Rate	7.25	Down 25bp (Oct. '23)	**Down 25bp (Nov. '23)**	**6.75**	**5.00**

Sources: Refinitiv, Capital Economics

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

	Currency	Latest (13th Oct.)	Forecasts End 2023	Forecasts End 2024	Stock Market	Latest (13th Oct.)	Forecasts End 2023	Forecasts End 2024
Brazil	BRL	5.05	**5.10**	**5.00**	Bovespa	116,607	**110,750**	**141,500**
Mexico	MXN	17.9	**19.0**	**20.5**	Bolsa	49,715	**48,400**	**58,100**
Argentina	ARS	350	**700**	**900**	Merval	760,674	**-**	**-**
Colombia	COP	4,234	**4,200**	**4,200**	COLCAP	1,116	**910**	**1,120**
Chile	CLP	939	**875**	**850**	IPSA	5,827	**5,600**	**6,750**
Peru	PEN	3.84	**3.70**	**3.80**	S&P/BVL	22,286	**22,700**	**26,400**

Sources: Refinitiv, Capital Economics

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

	Share of World[1]	2011-20 Ave.	GDP 2022	GDP 2023	GDP 2024	GDP 2025	Consumer Prices 2022	Consumer Prices 2023	Consumer Prices 2024	Consumer Prices 2025
Brazil	2.3	0.3	2.9	**3.5**	**0.8**	**1.5**	9.3	**4.8**	**4.8**	**4.0**
Mexico	1.8	0.9	3.9	**3.5**	**1.8**	**2.0**	7.9	**5.5**	**4.5**	**3.5**
Argentina	0.7	-0.7	5.0	**-3.5**	**-2.0**	**2.5**	72.4	**125.5**	**162.0**	**97.5**
Colombia	0.6	2.5	7.3	**1.0**	**1.5**	**2.5**	10.2	**11.8**	**5.8**	**4.3**
Chile	0.4	2.1	2.4	**0.0**	**2.5**	**2.8**	11.6	**7.8**	**4.3**	**3.3**
Peru	0.3	2.5	2.7	**0.8**	**2.0**	**2.5**	7.9	**6.8**	**4.5**	**3.8**
Dom. Rep.	0.2	4.1	4.9	**0.0**	**0.0**	**0.0**	8.8	**4.8**	**4.3**	**4.0**
Ecuador	0.1	1.6	2.9	**0.5**	**1.8**	**2.0**	3.5	**2.0**	**1.8**	**1.8**
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	**3.8**	**2.3**	**2.5**	8.3	**0.8**	**1.5**	**2.5**
Uruguay	0.1	1.5	4.9	**0.8**	**2.5**	**2.5**	9.1	**5.8**	**6.0**	**5.3**
Latin America[2]	**6.7**	**1.0**	**3.9**	**2.0**	**1.0**	**2.0**	**8.7**	**5.8**	**4.6**	**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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