



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](#).)



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Time (EDT)	Previous*	Median*	CE Forecasts*
Mon 16 th		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 17 th		Brz Services Output (Aug.)	13.00	08.00	+0.5%(+3.5%)	+0.6%(+2.9%)	-
Wed 18 th		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 19 th		Brz Economic Activity Index (Aug.)	13.00	08.00	+0.4%(+0.7%)	-	-
Fri 20 th		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:							
23 rd Oct		Mex IGAE Activity Index (Aug.)	13.00	08.00	+0.2%(+3.2%)	-	-
24 th Oct		Mex Bi-Weekly CPI (15 th Oct)	13.00	08.00	-	-	-
		Arg Economic Activity Index (Aug.)	20.00	15.00	+2.4%(-1.3%)	-	-
25 th Oct		C.Rc Interest Rate Announcement	-	-	6.50%	-	-
26 th 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%	-	-
27 th 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 (13 th Oct.)	Last Change	Next Change	Forecasts	
				End 2023	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 (13 th Oct.)	Forecasts		Stock Market	Latest (13 th Oct.)	Forecasts	
		End 2023	End 2024			End 2023	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				Consumer Prices			
			2022	2023	2024	2025	2022	2023	2024	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 America²	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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