



CAPITAL ECONOMICS

INDEPENDENT ANALYSIS, FORECASTS
AND CONSULTANCY

Latin America Chart Pack

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Latin America Chart Pack

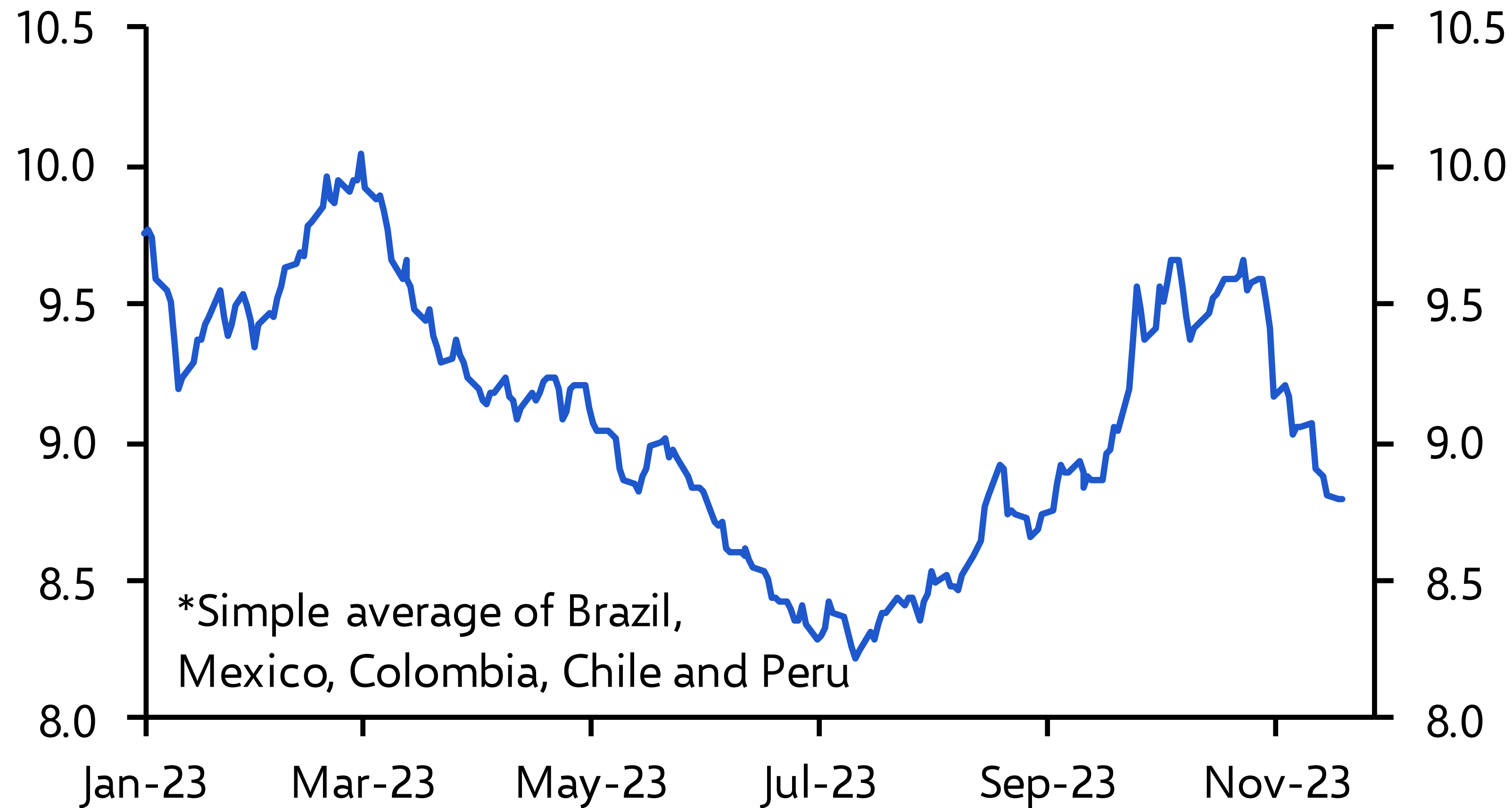
Our View: Brazil and Mexico will outperform others in the region this year, but that's likely to flip on its head in 2024 as they slow – and by more than most expect – while the Andean economies recover. Rapid wage growth will keep inflation above target for some time. This means that, while policymakers will continue to cut interest rates in the coming months, easing cycles will probably be more gradual than most expect. Public debt risks are likely to build again in 2024 as debt ratios return to an upwards path in many parts of the region.

- **Overview**: Latin American financial markets have recovered lost ground in the past month, but the incoming activity data have been weak.
- **Brazil**: The economy's recent resilience appears to have come to an end in Q3. Fiscal risks are brewing.
- **Mexico**: It is the one major economy still going strong, but we think it too will succumb to weakness. Banxico recently opened the door to rate cuts but the easing cycle is likely to proceed slowly.
- **Argentina**: Markets welcomed Javier Milei's victory in the presidential election. But he will inherit an economy in need of a very large currency depreciation and another sovereign debt restructuring.
- **Andes**: Growth generally picked up in Q3, but remains sluggish. Peru is still stuck in recession. External imbalances have continued to ease.
- **Other Lat Am**: The outlook for Panama is getting worse, first with droughts affecting the canal and more recently with protests. Elsewhere, Paraguay and Uruguay are most vulnerable to problems in Argentina.
- **To see all our analysis on Latin America's economy and details of our forecasts, visit our Latin America [landing page](#).**



After a sell-off in October, Latin American financial markets have rallied this month. Local currency sovereign bond yields have come down sharply.

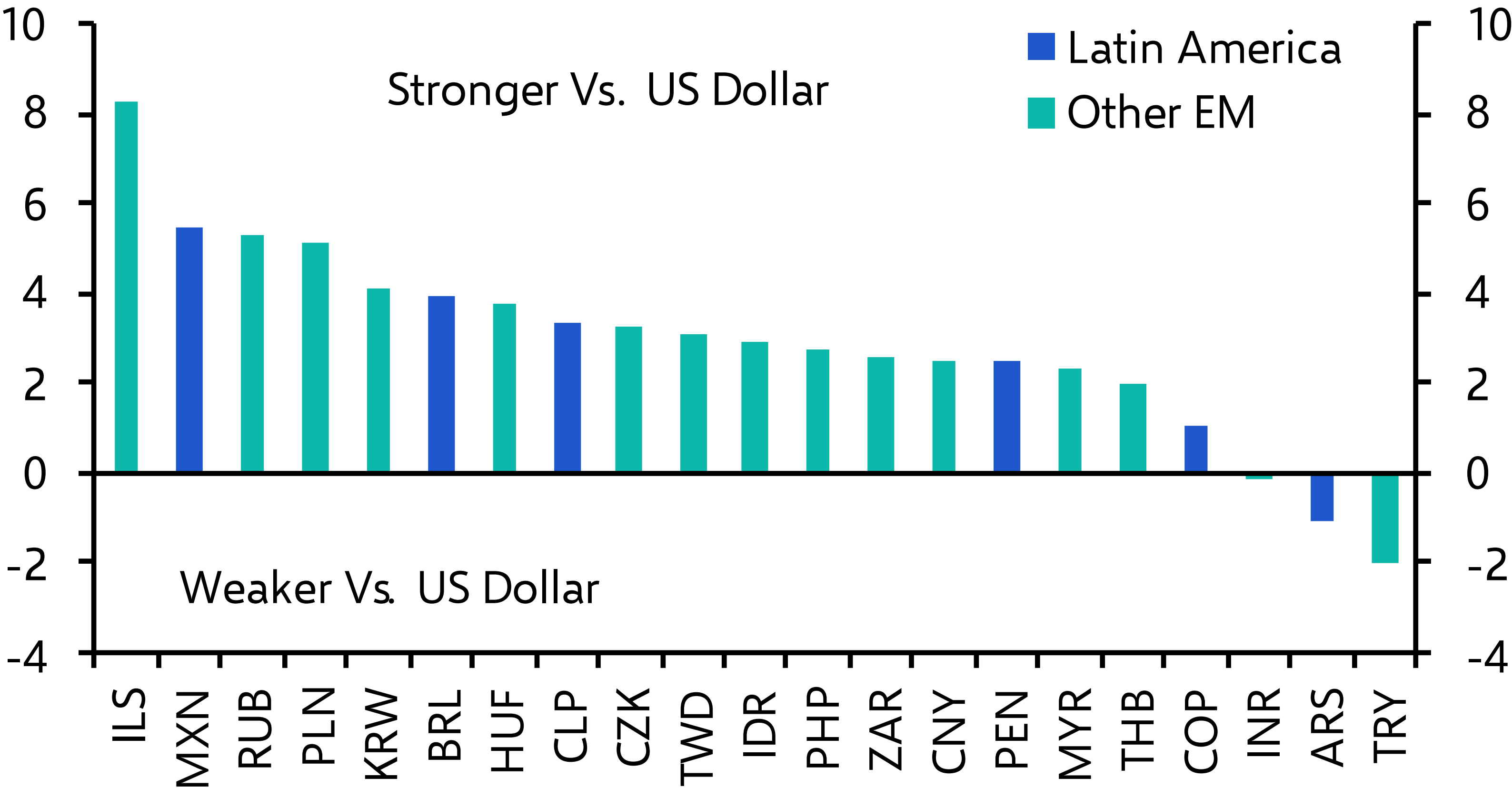
Latin America* 10-year Local Currency Sovereign Bond Yields (%)



Sources: Refinitiv, Capital Economics

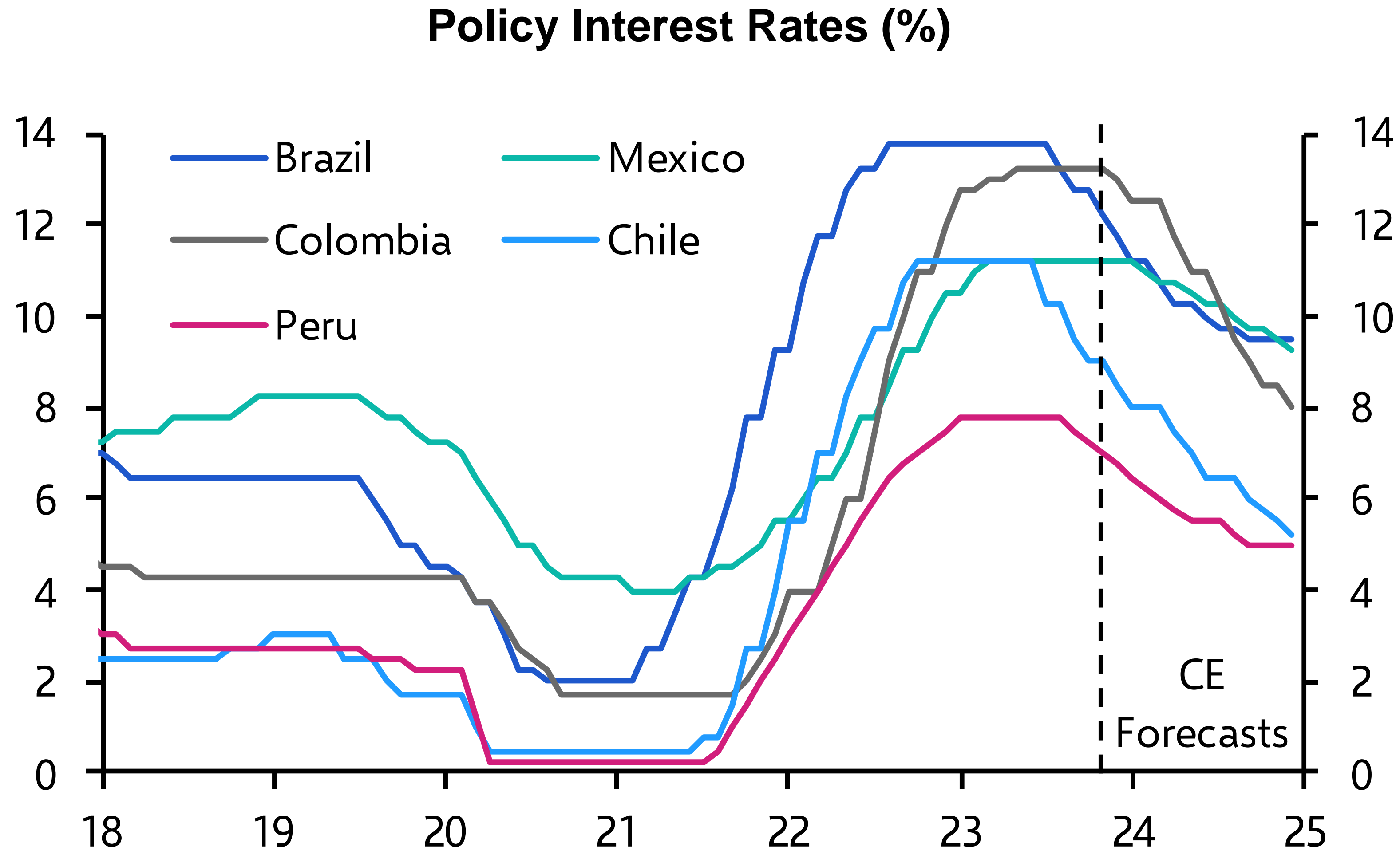
And currencies have strengthened against the dollar. The Mexican peso has been one of the best performing EM currencies over the past month.

MTD Change in Currencies vs. US Dollar (%)



Source: Refinitiv

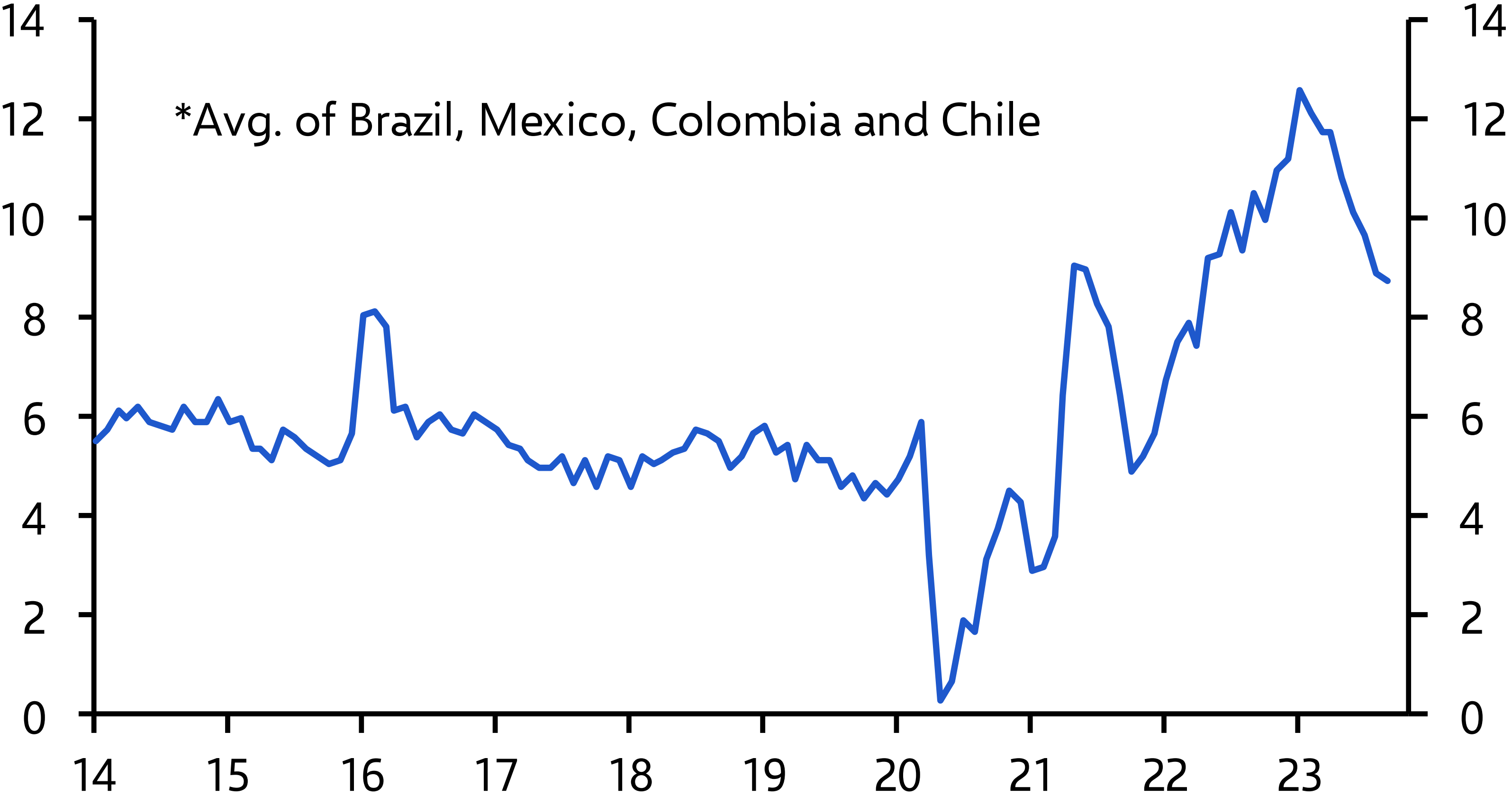
Central banks have acted cautiously in recent months. We expect Latin America's monetary easing cycle to continue over the coming year.



Sources: Refinitiv, Capital Economics

But wage growth remains strong and this will continue to fuel underlying inflation pressures.

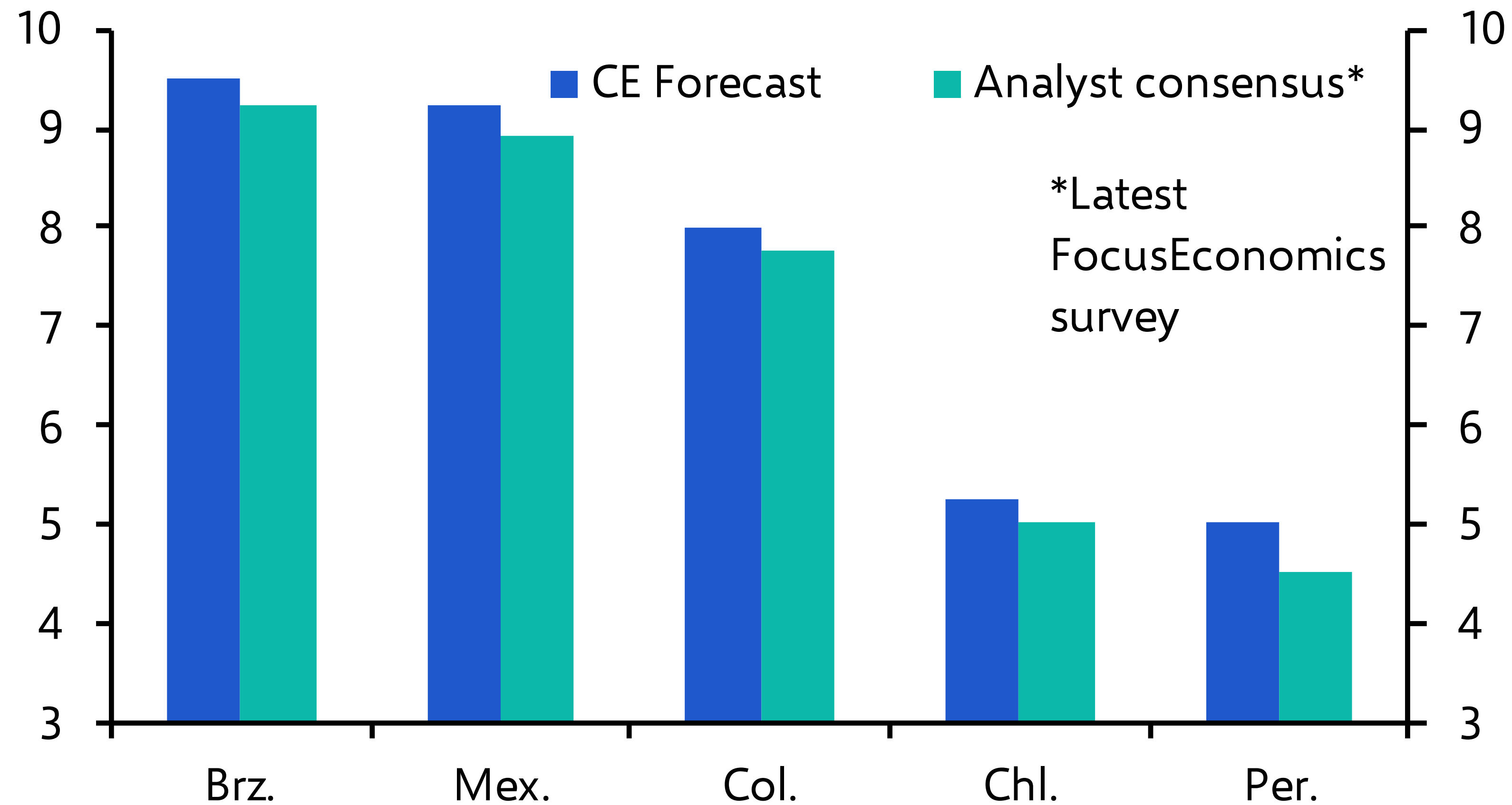
Latin America* Nominal Wage Growth (% y/y)



Sources: Refinitiv, Capital Economics

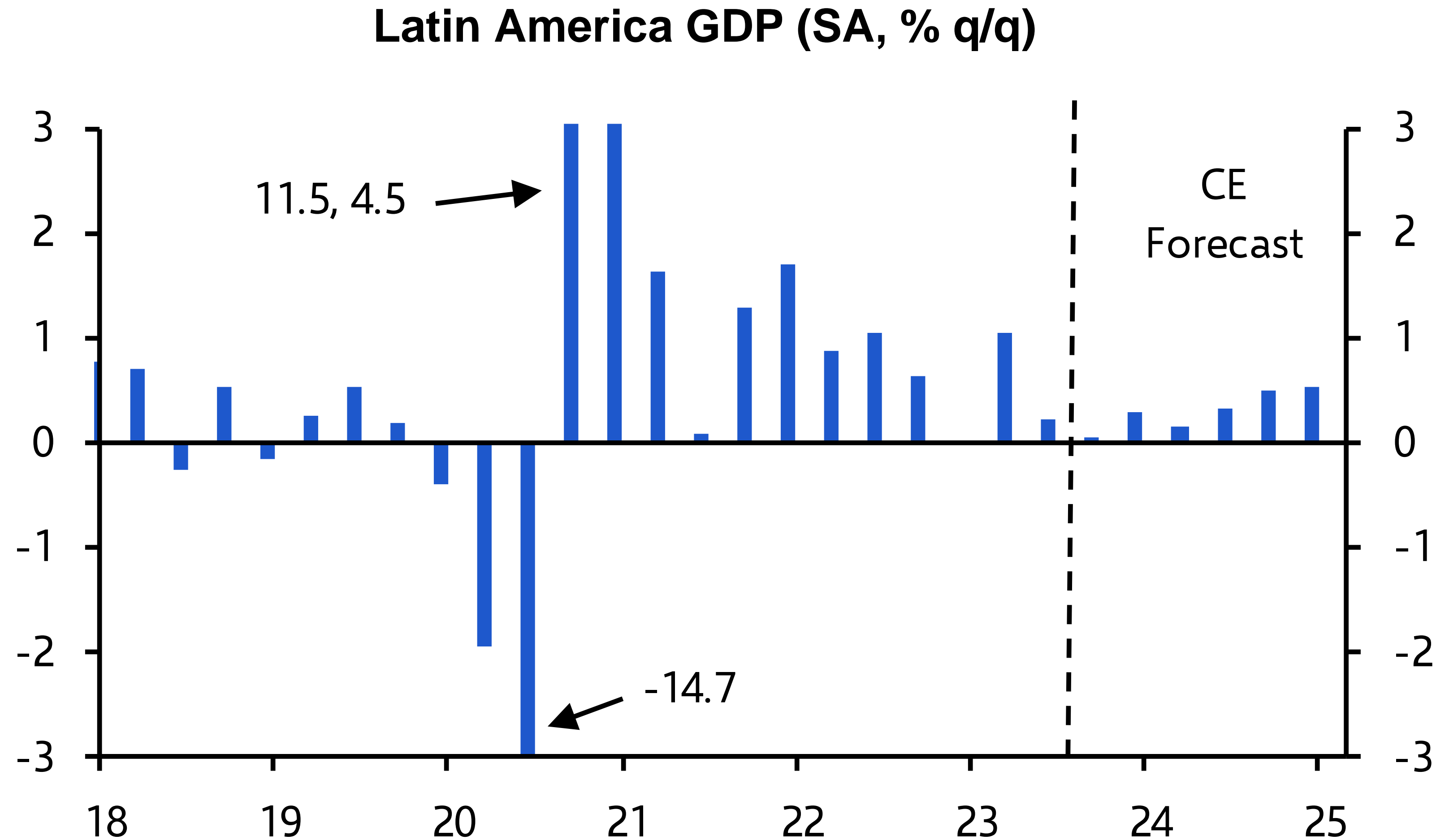
This means that interest rates will come down more slowly than most expect – even though consensus forecasts have started to converge with our views.

Policy Interest Rates (% , End-2024)



Sources: FocusEconomics, Capital Economics

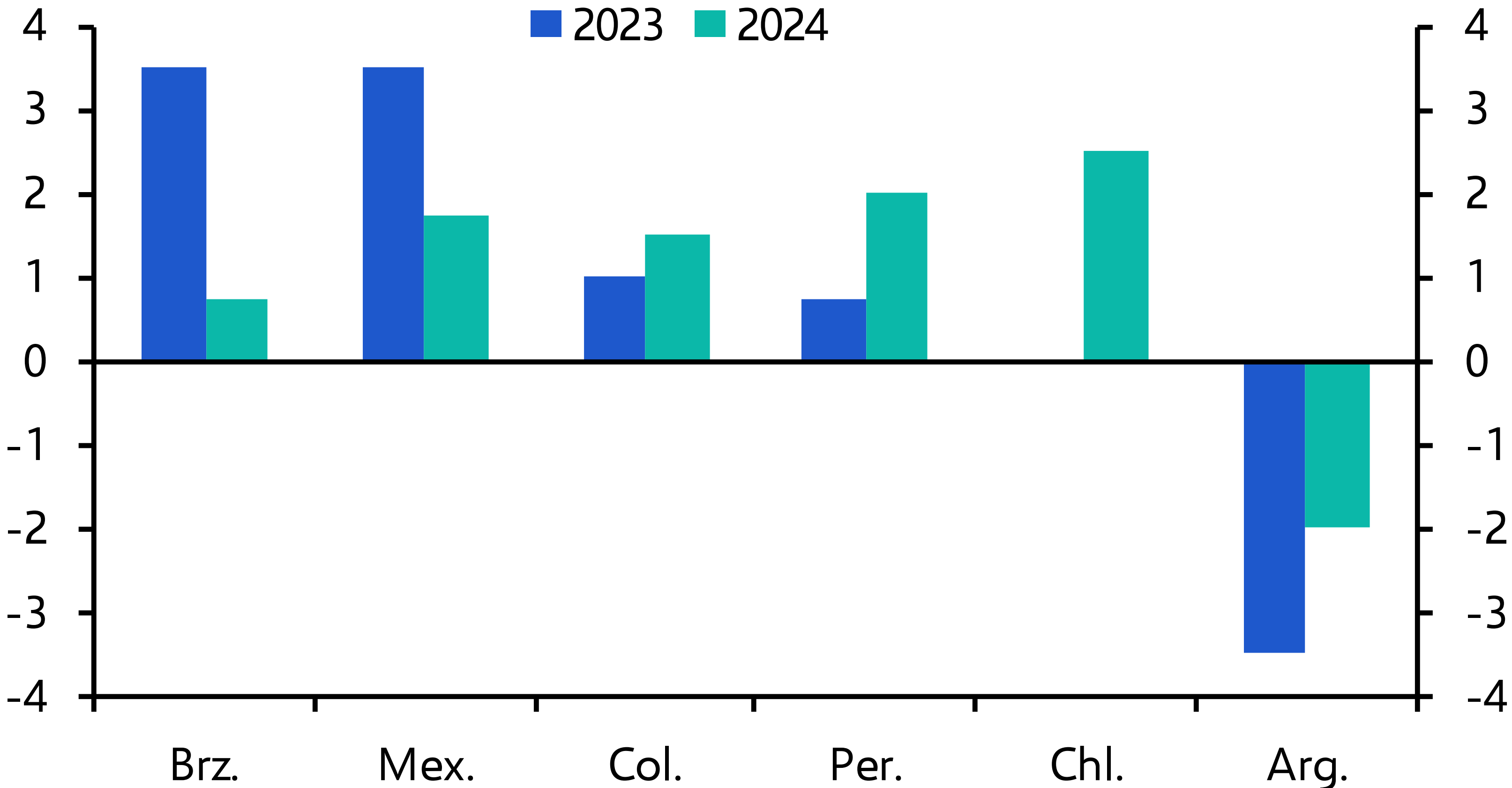
In the meantime, the region's resilience appears to be ending. Growth slowed to a standstill in Q3 and we expect a weak recovery in the quarters ahead.



Sources: Refinitiv, Capital Economics

At a country level, Brazil and Mexico will outperform others in the region this year, but there's likely to be a reversal of fortunes in 2024.

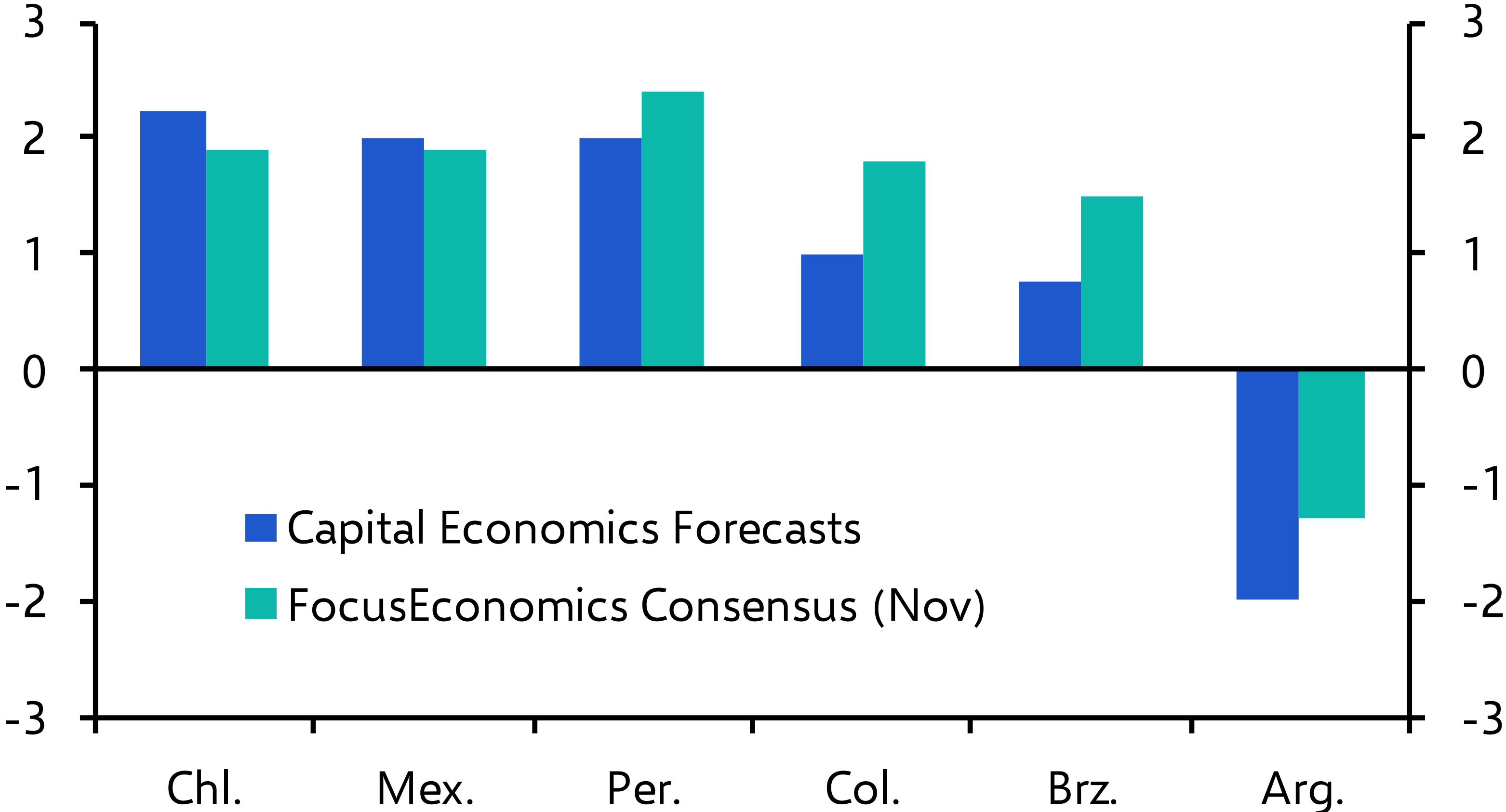
CE GDP Growth Forecasts (%)



Sources: Refinitiv, Capital Economics

While our growth forecasts are above consensus for Chile and (slightly) Mexico, elsewhere we are more downbeat than most analysts.

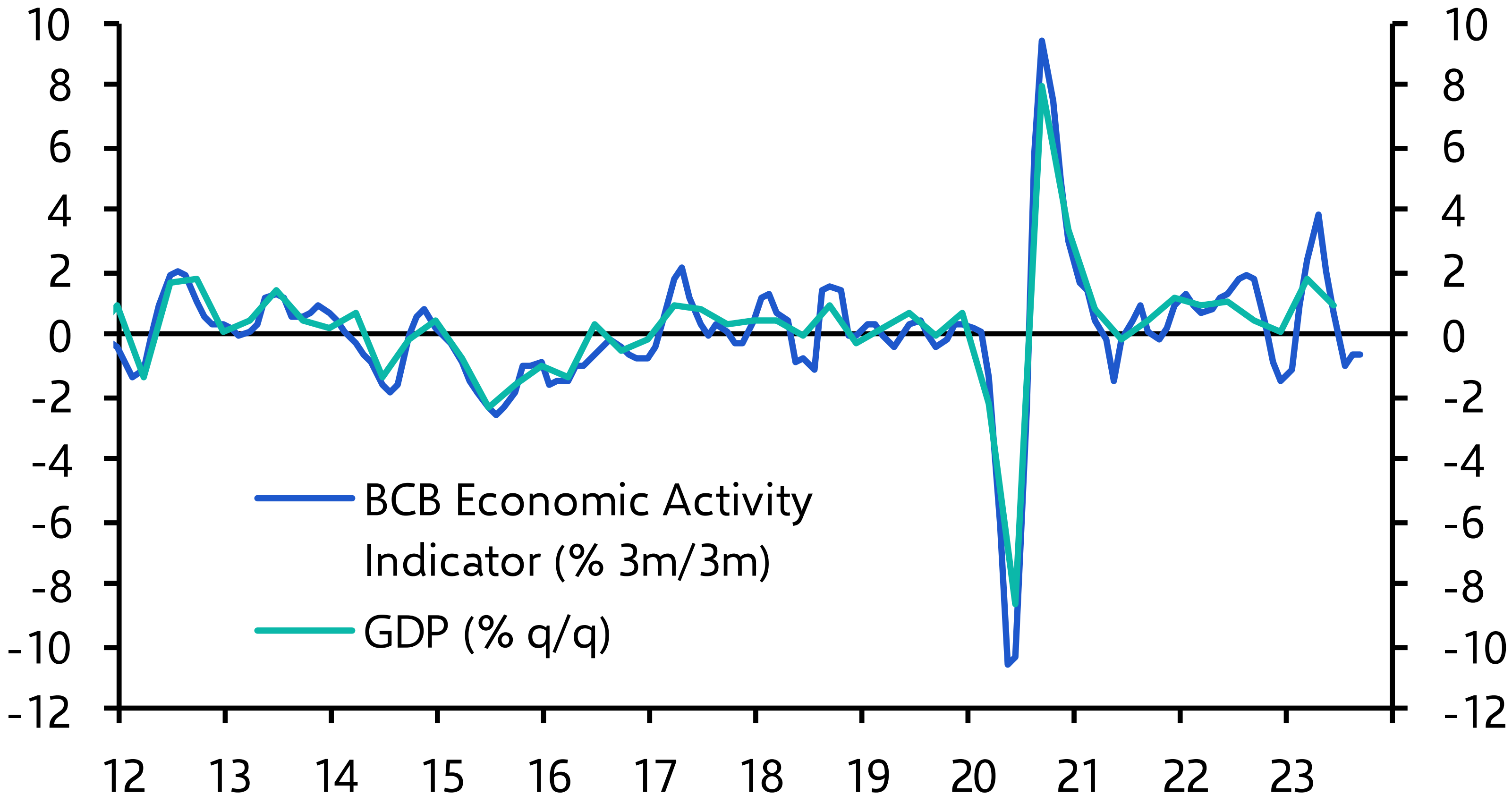
GDP (2024, % y/y)



Sources: Refinitiv, Capital Economics

In Brazil, after posting robust growth in the first half of the year, it looks like the economy contracted in Q3, by around 0.5% q/q.

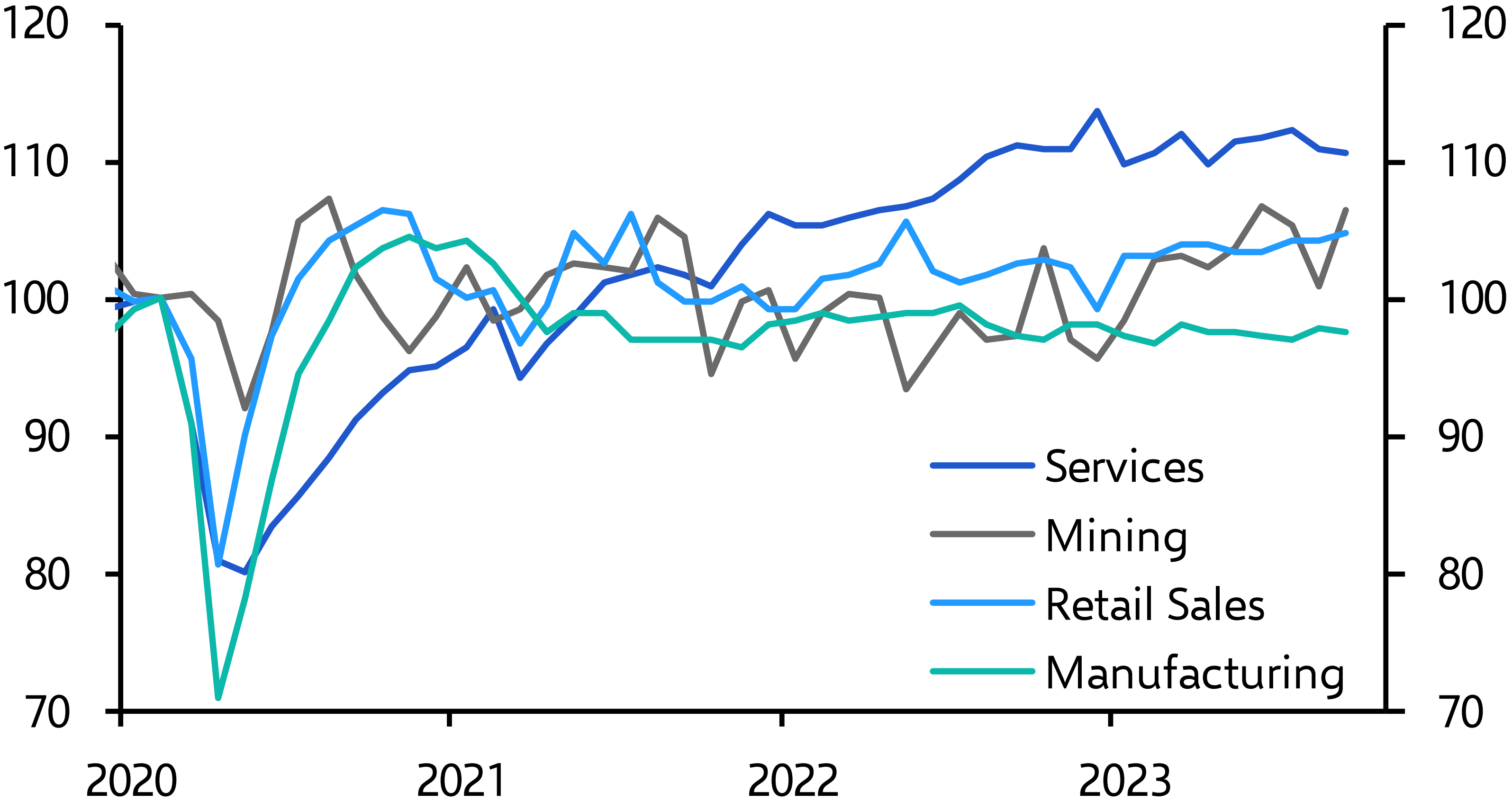
BCB Monthly Activity Indicator & Brazil GDP



Sources: Refinitiv, Capital Economics

The weakness appears partly related to declining services activity. We suspect that the recent agricultural boom has reversed too.

Brazil Monthly Activity Indicator (SA, Feb. '20 = 100)

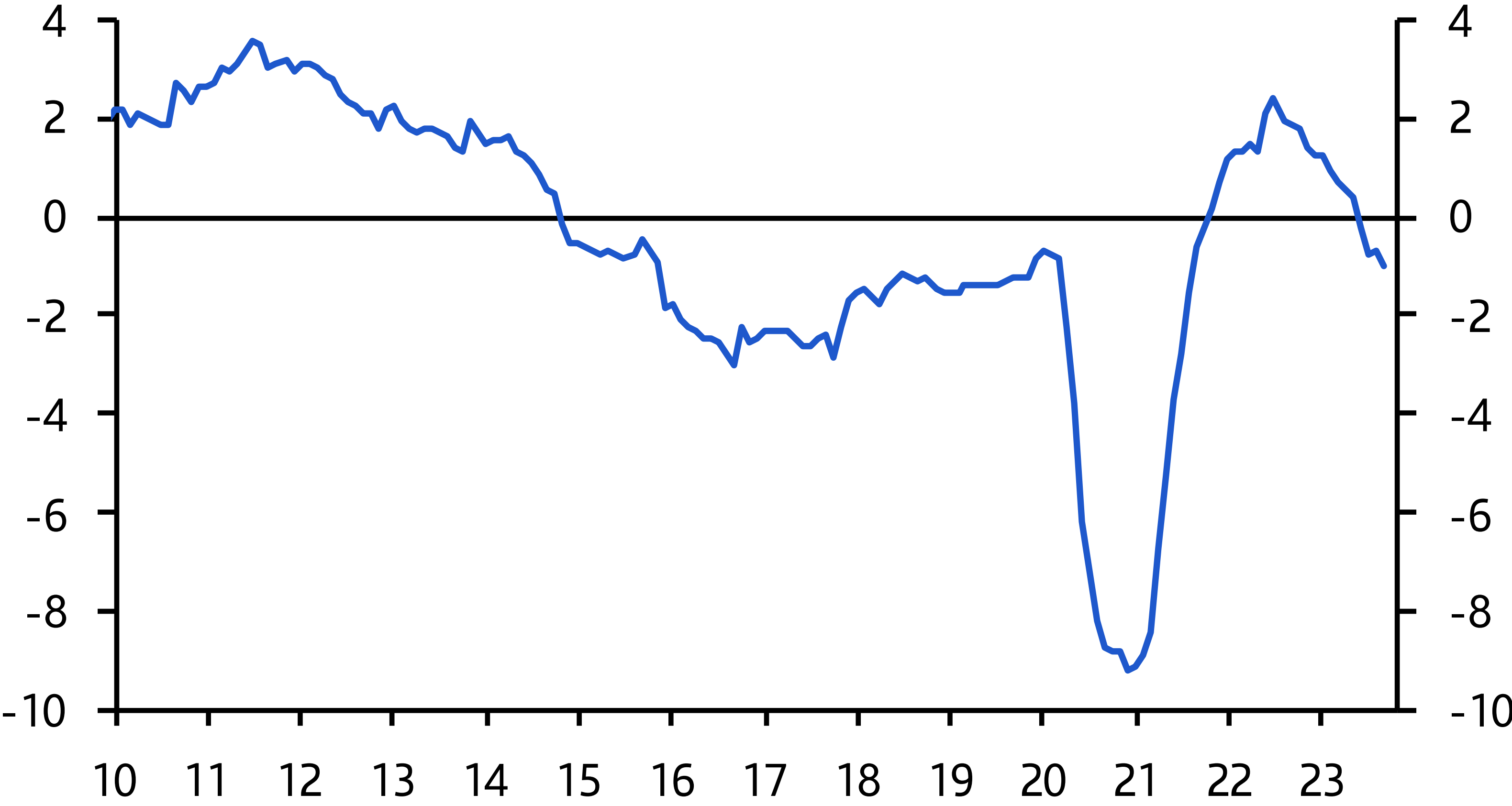


Sources: Refinitiv, Capital Economics



Fiscal concerns have grown after the government threatened to water down the new fiscal framework. This comes against the backdrop of a widening primary deficit.

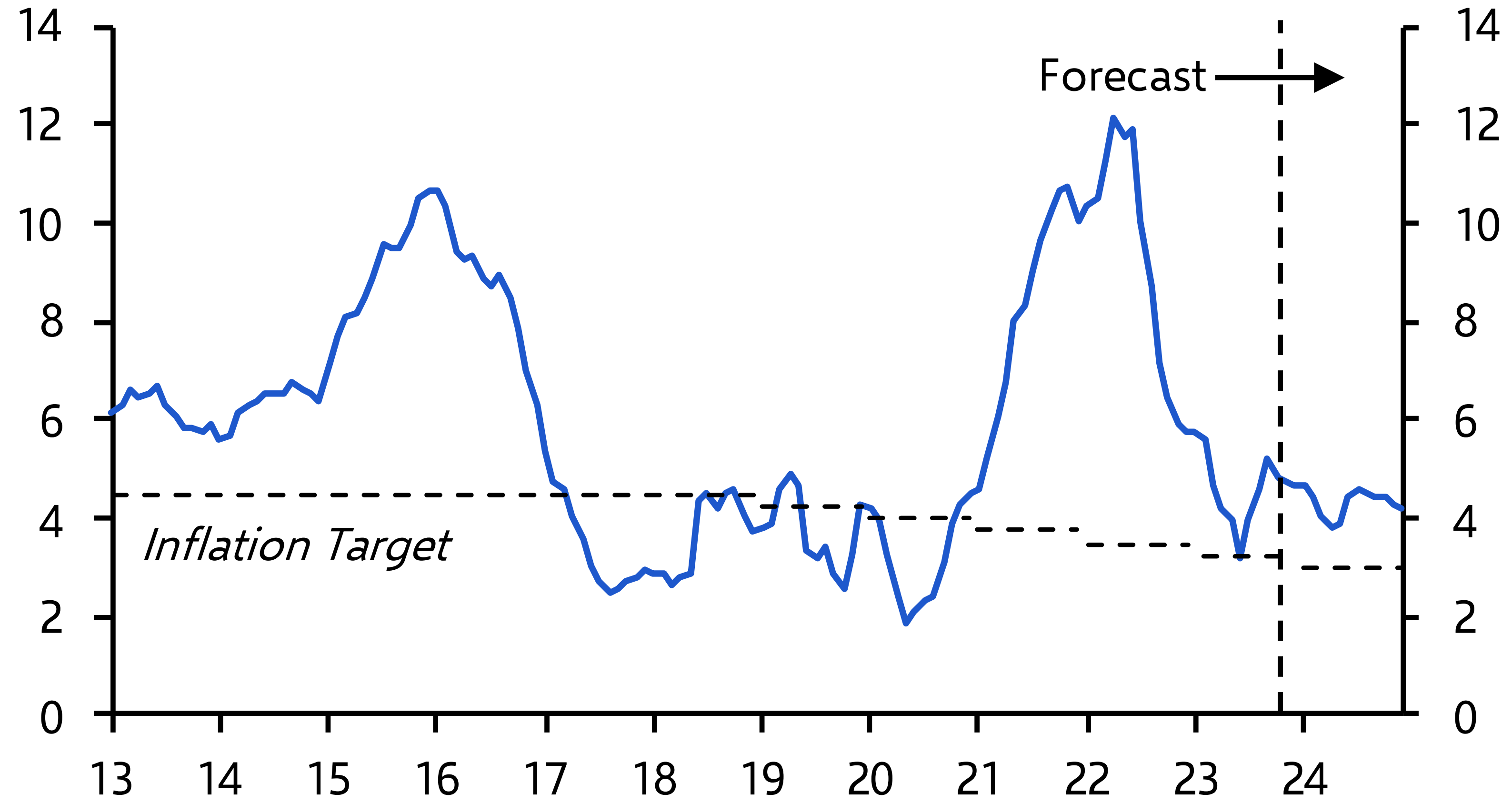
Brazil Public Sector Primary Balance (12m Sum, % of GDP)



Sources: Refinitiv, Capital Economics

The recent jump in inflation has now topped out, and the central bank's easing cycle is set to continue in 50bp steps at the next few meetings.

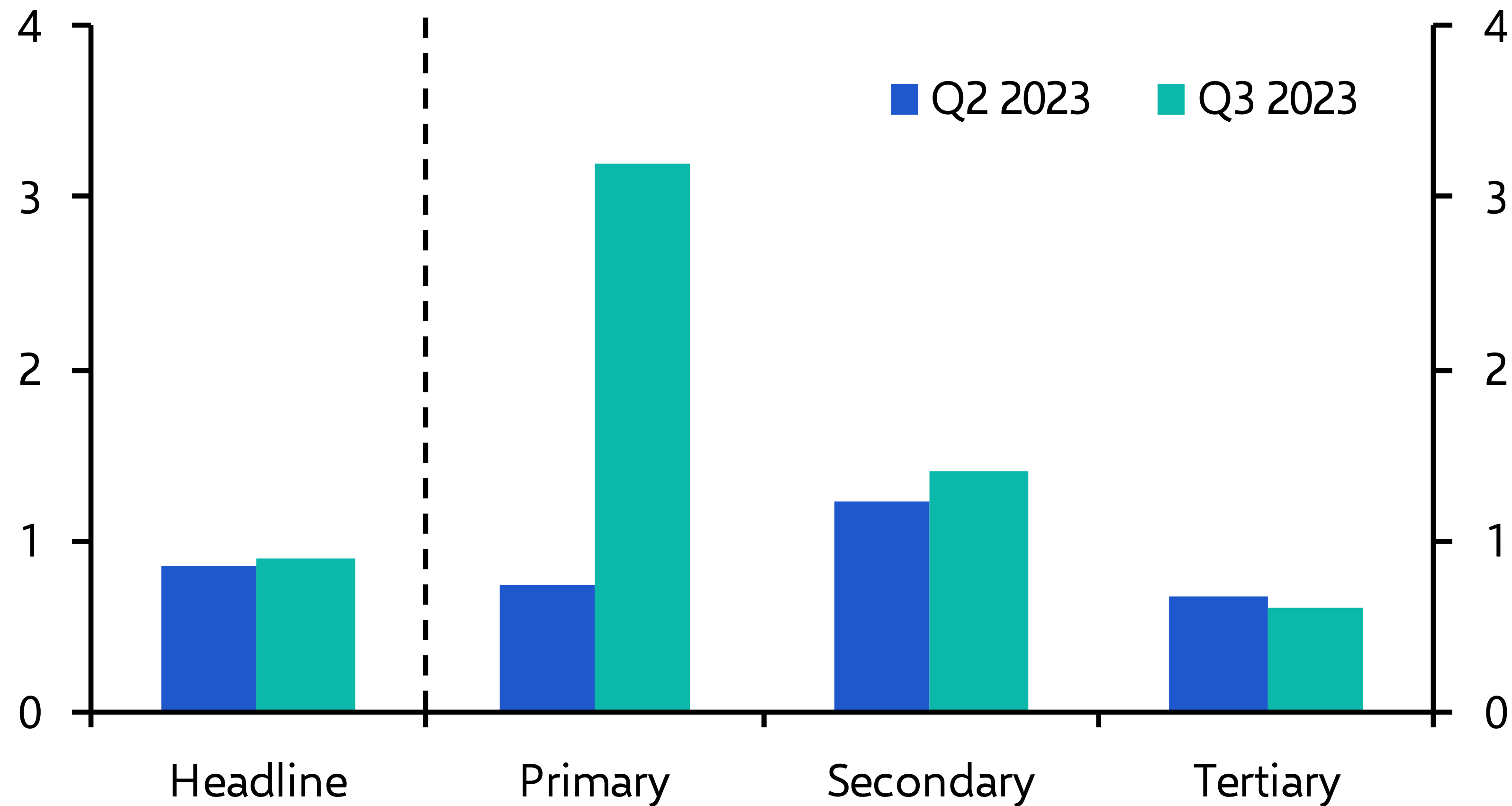
Brazil Consumer Prices (% y/y)



Sources: Refinitiv, Capital Economics

Mexico is the one major economy in the region that was still going strong in Q3.

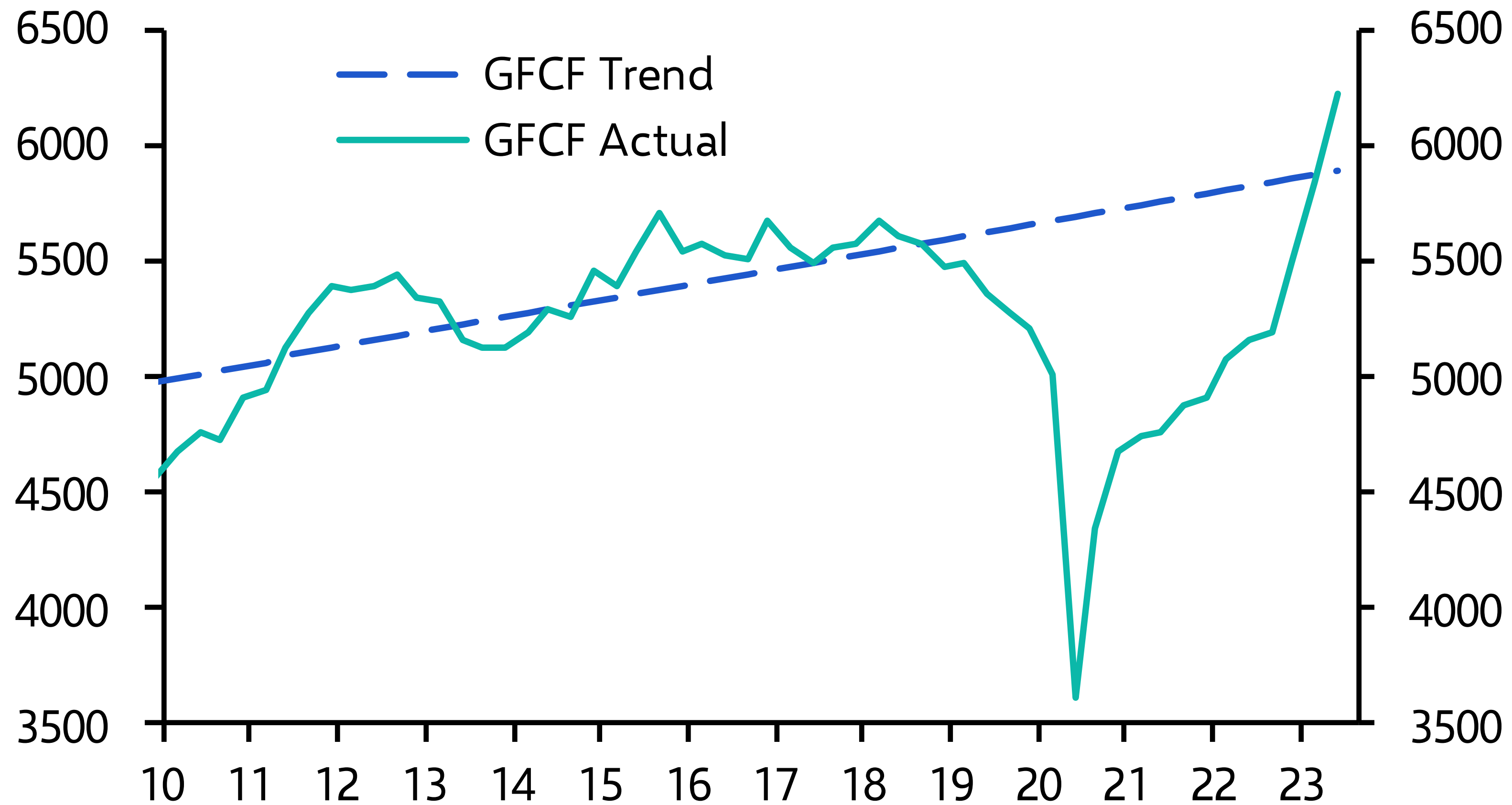
Mexico GDP (SA, % q/q)



Sources: Refinitiv, Capital Economics

A boom in investment has supported this recent bout of strong growth. But we expect this to unwind as major infrastructure projects are completed.

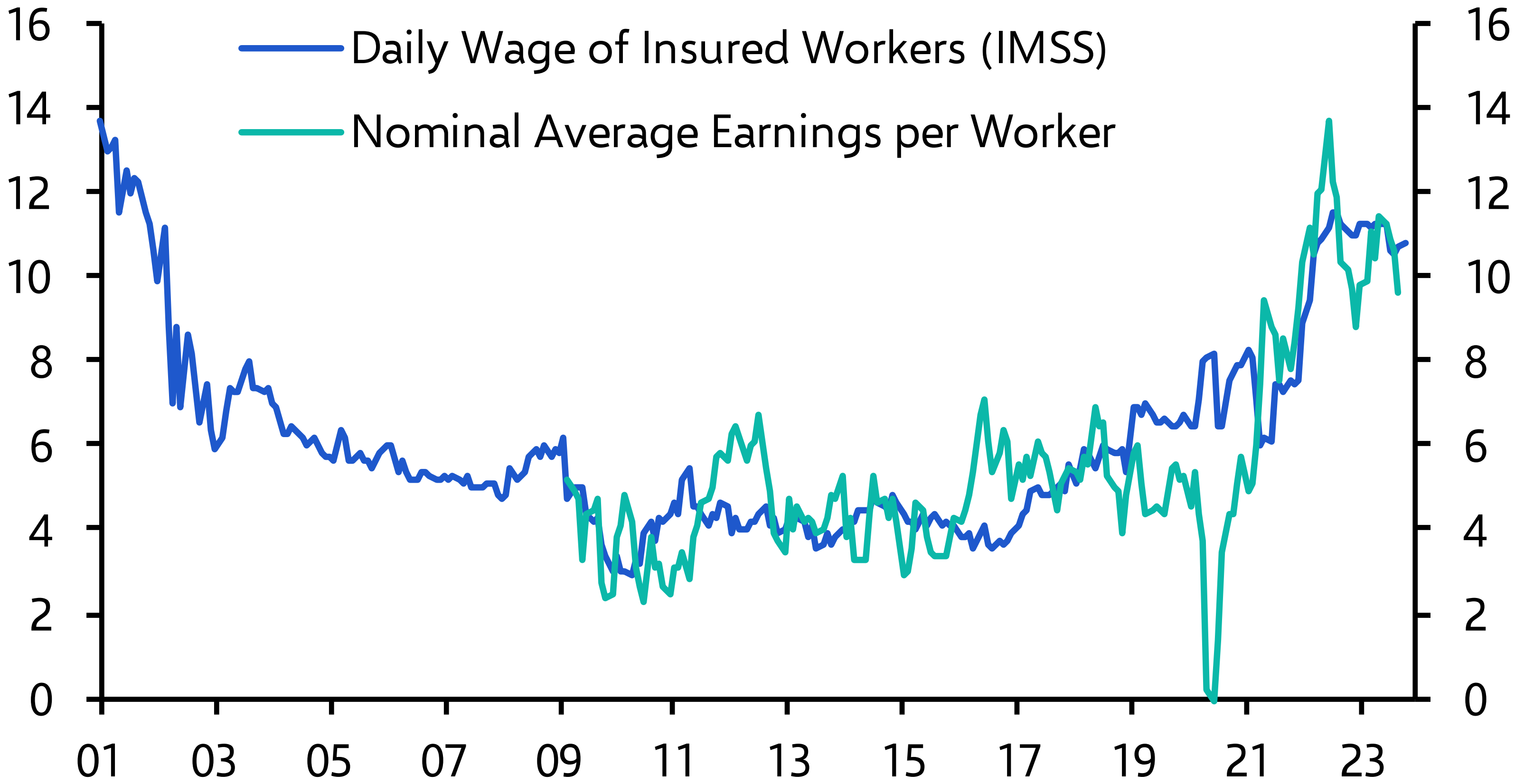
Mexico Gross Fixed Capital Formation (MXN bn, 2013 Prices)



Sources: Refinitiv, Capital Economics

Labour market conditions remain strong. Rapid wage growth will continue to support consumer spending...

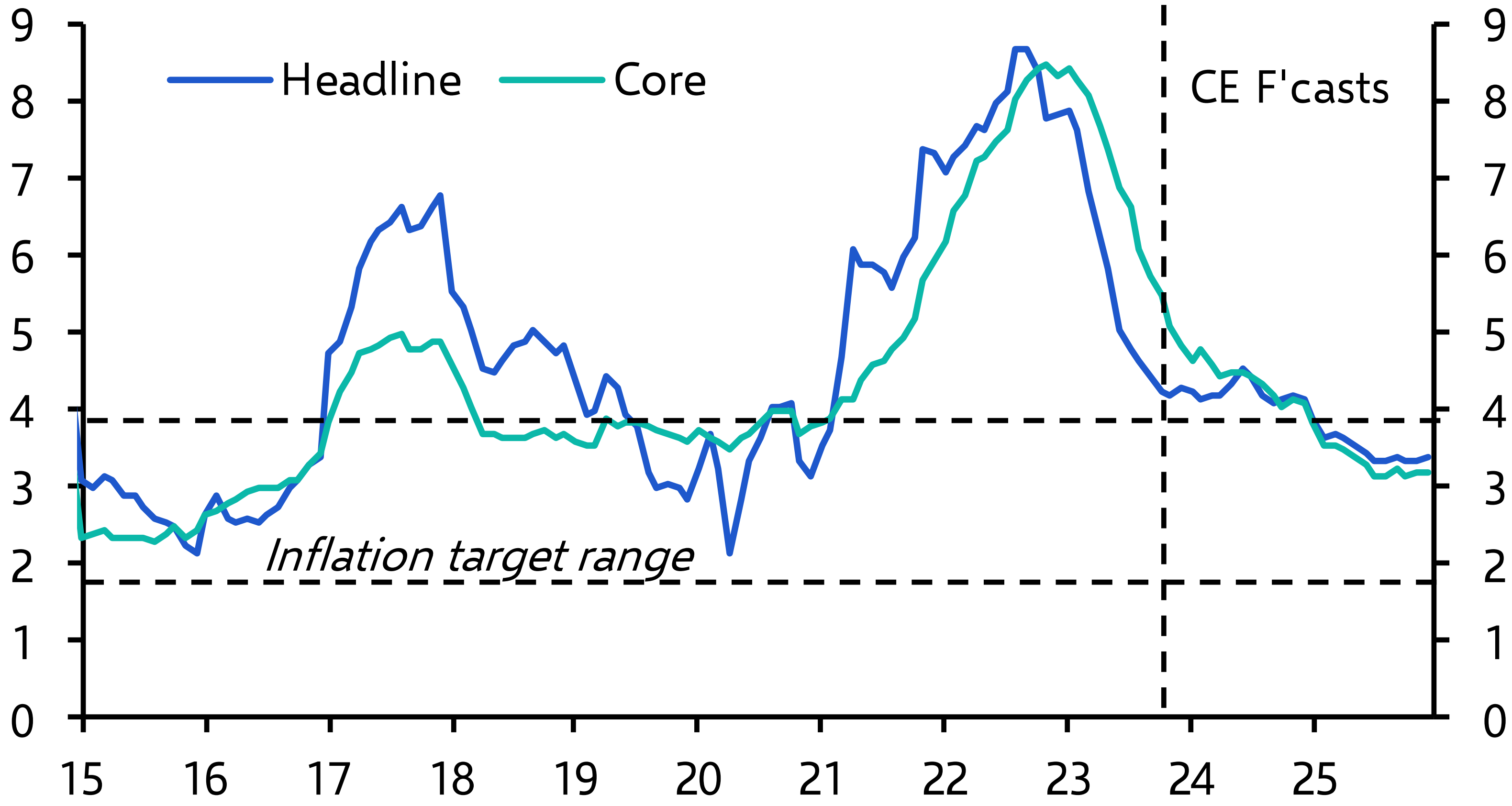
Mexico Wage Growth (% y/y)



Sources: Refinitiv, Capital Economics

...but that will continue to keep inflation (particularly services inflation) high. Banxico has opened the door to rate cuts, but the loosening cycle will proceed gradually.

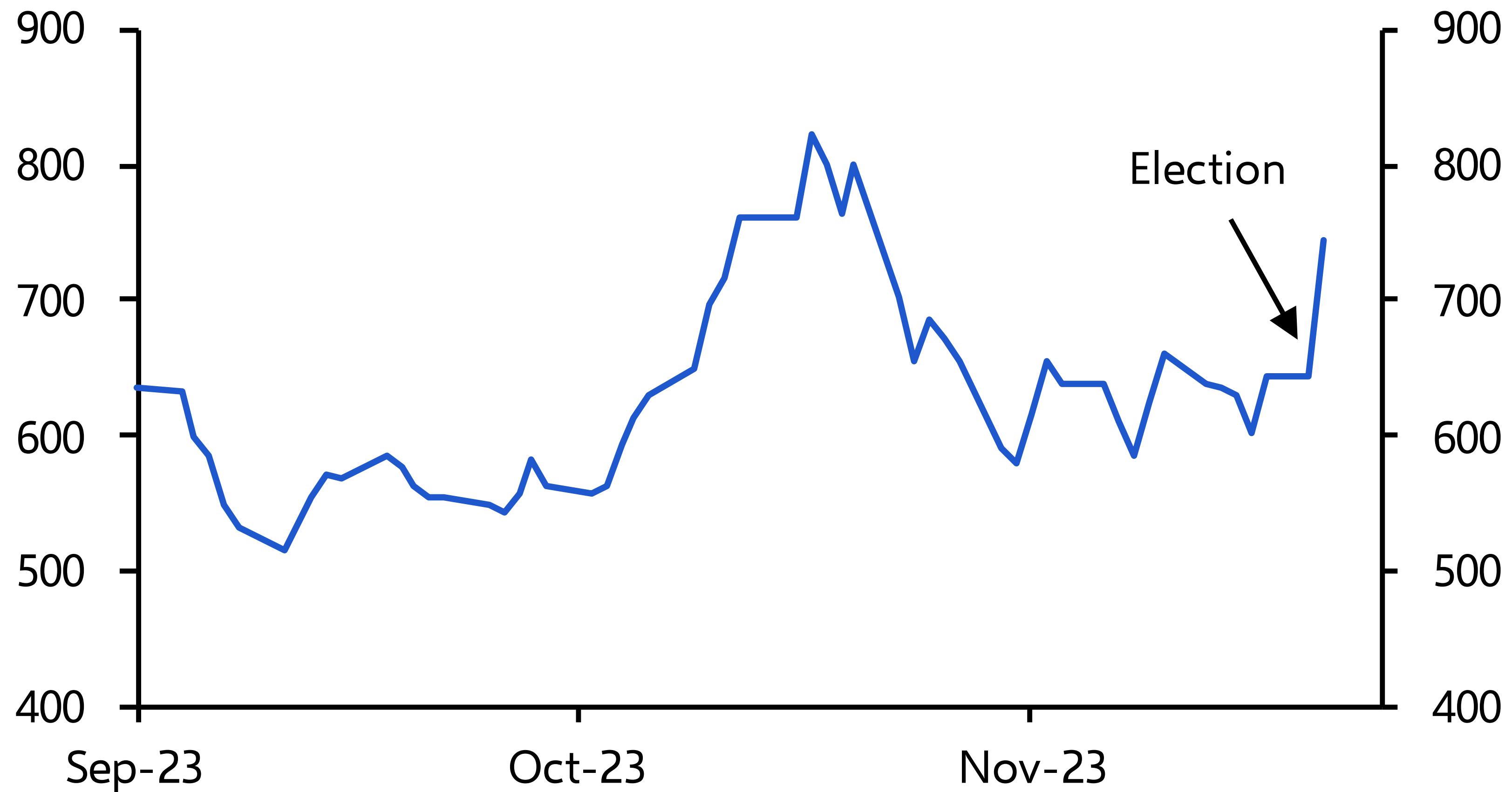
Mexico Consumer Prices (%)



Sources: Refinitiv, Capital Economics

In Argentina, Javier Milei's victory in the presidential election was greeted warmly by markets. Dollar bond spreads narrowed and equities jumped.

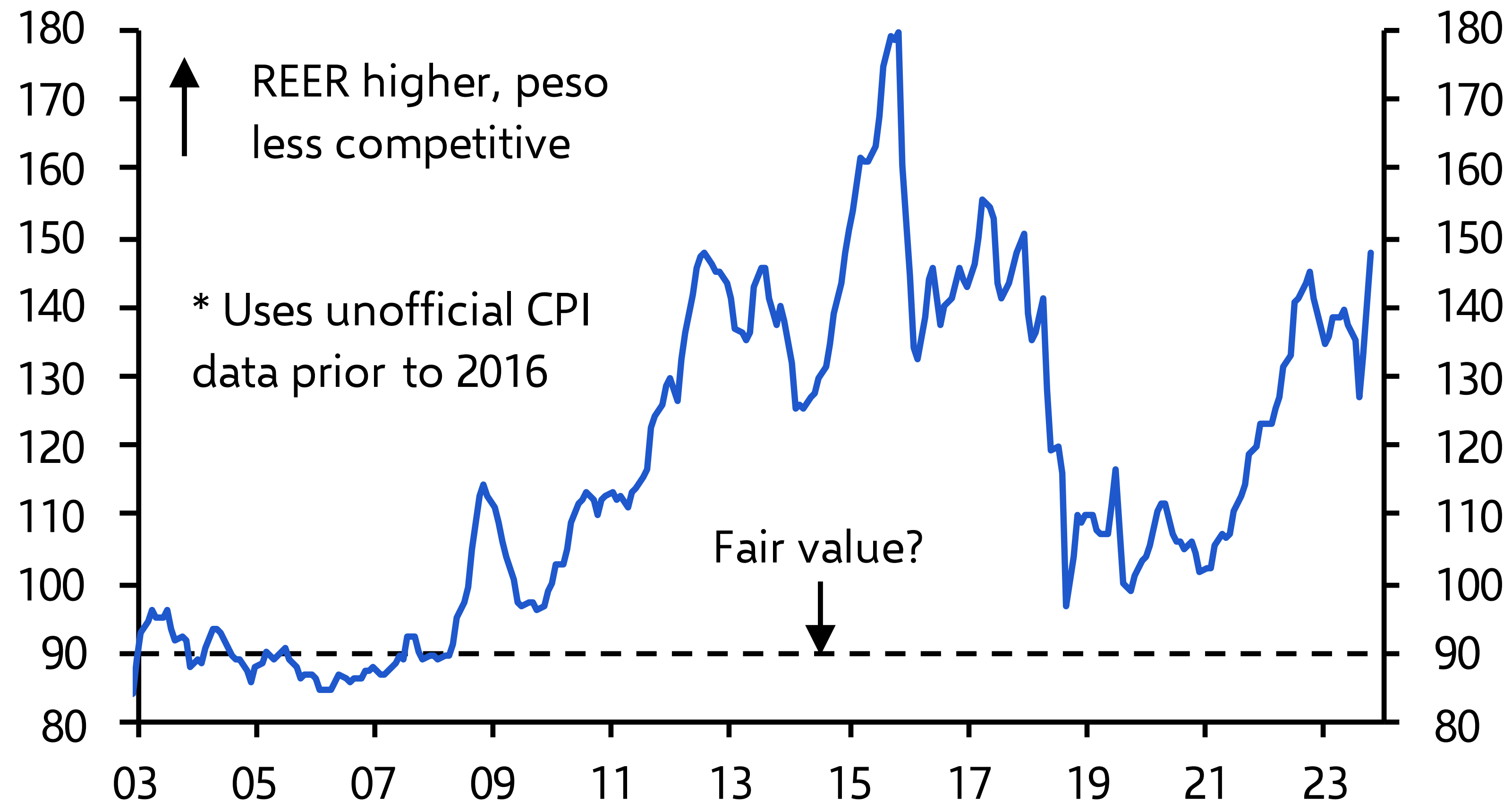
Argentina Merval Equity Index (Thds.)



Sources: Refinitiv, Capital Economics

But even though Milei's plans address some of Argentina's problems, the currency will need a very large adjustment – the official rate looks highly overvalued.

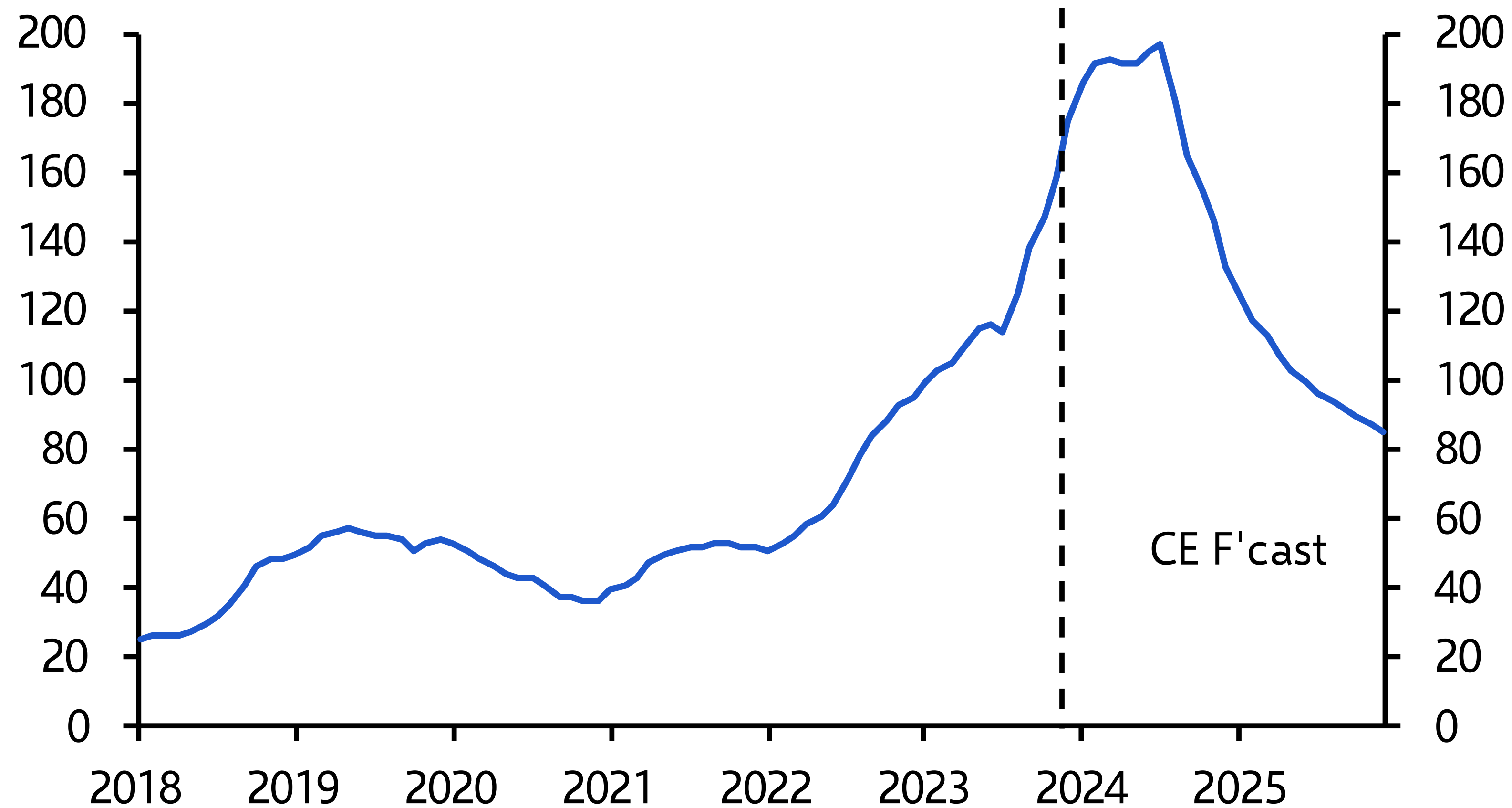
Argentina Real Effective Exchange Rate* (Jan. '10 = 100)



Sources: Refinitiv, Capital Economics

A large currency fall will push inflation up even further – we think it might top out around 200% next year.

Argentina Consumer Prices (% y/y)



Sources: Refinitiv, Capital Economics

And sovereign dollar bonds are still trading in distressed territory. Another debt restructuring will be needed.

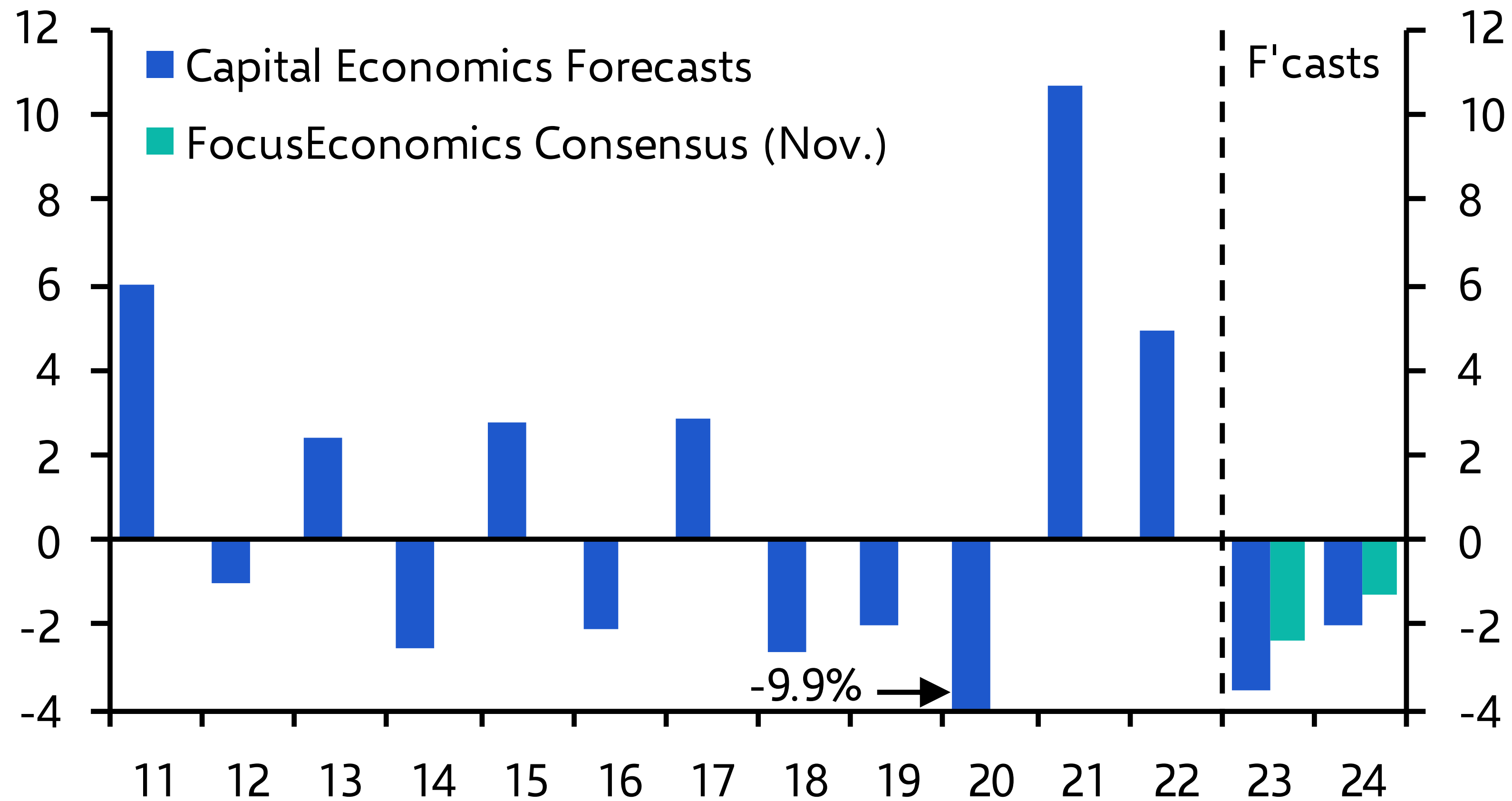
Spread of JPM Argentina EMBI Index Over USTs (bp)



Sources: Refinitiv, Capital Economics

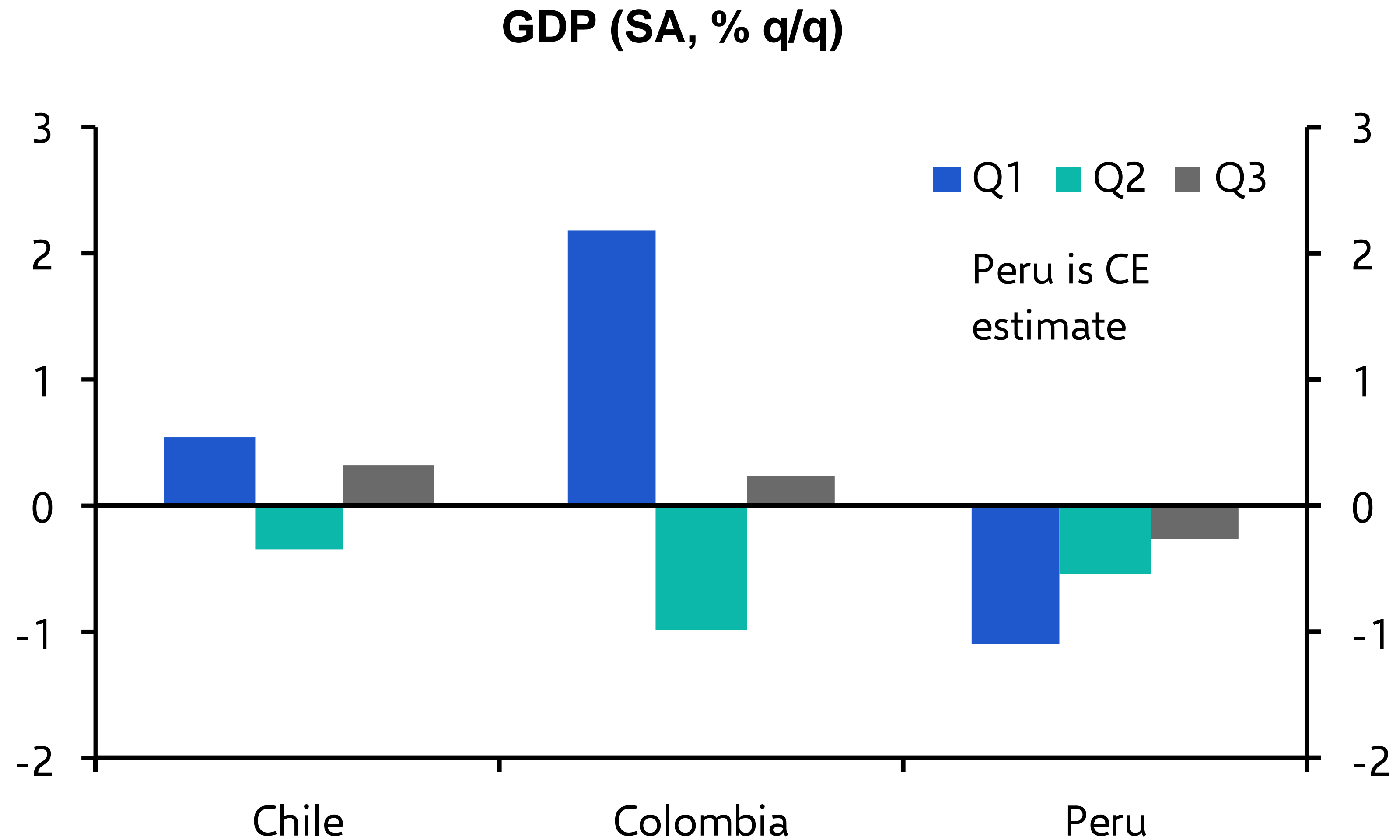
The economy is already heading for recession. And while Milei's fiscal plans would help the public finances, they would also steepen the downturn.

Argentina GDP (% y/y)



Sources: Refinitiv, Capital Economics

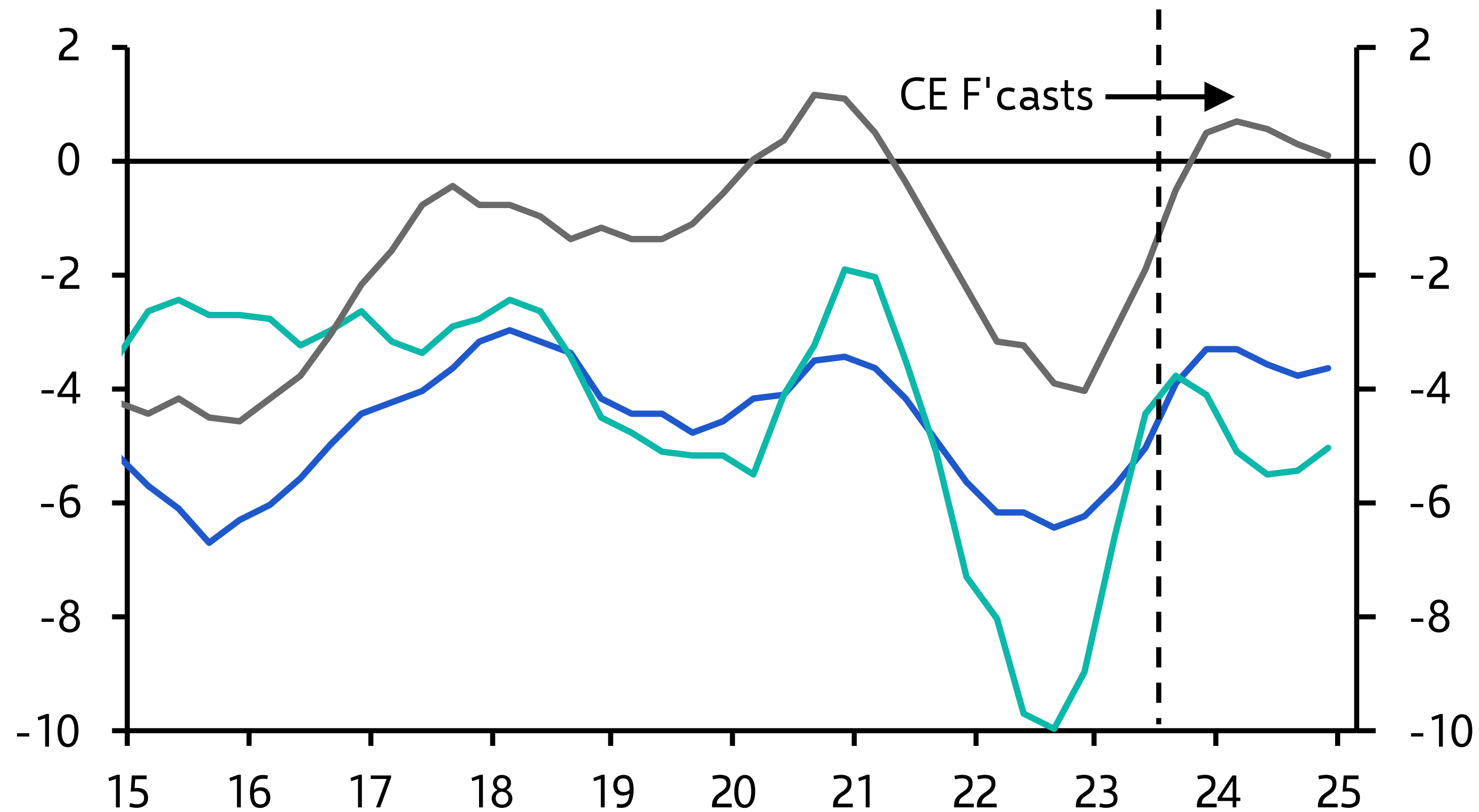
In the major Andean economies, growth strengthened in Q3. But it remained sluggish. And Peru was still stuck in recession.



Sources: Refinitiv, Capital Economics

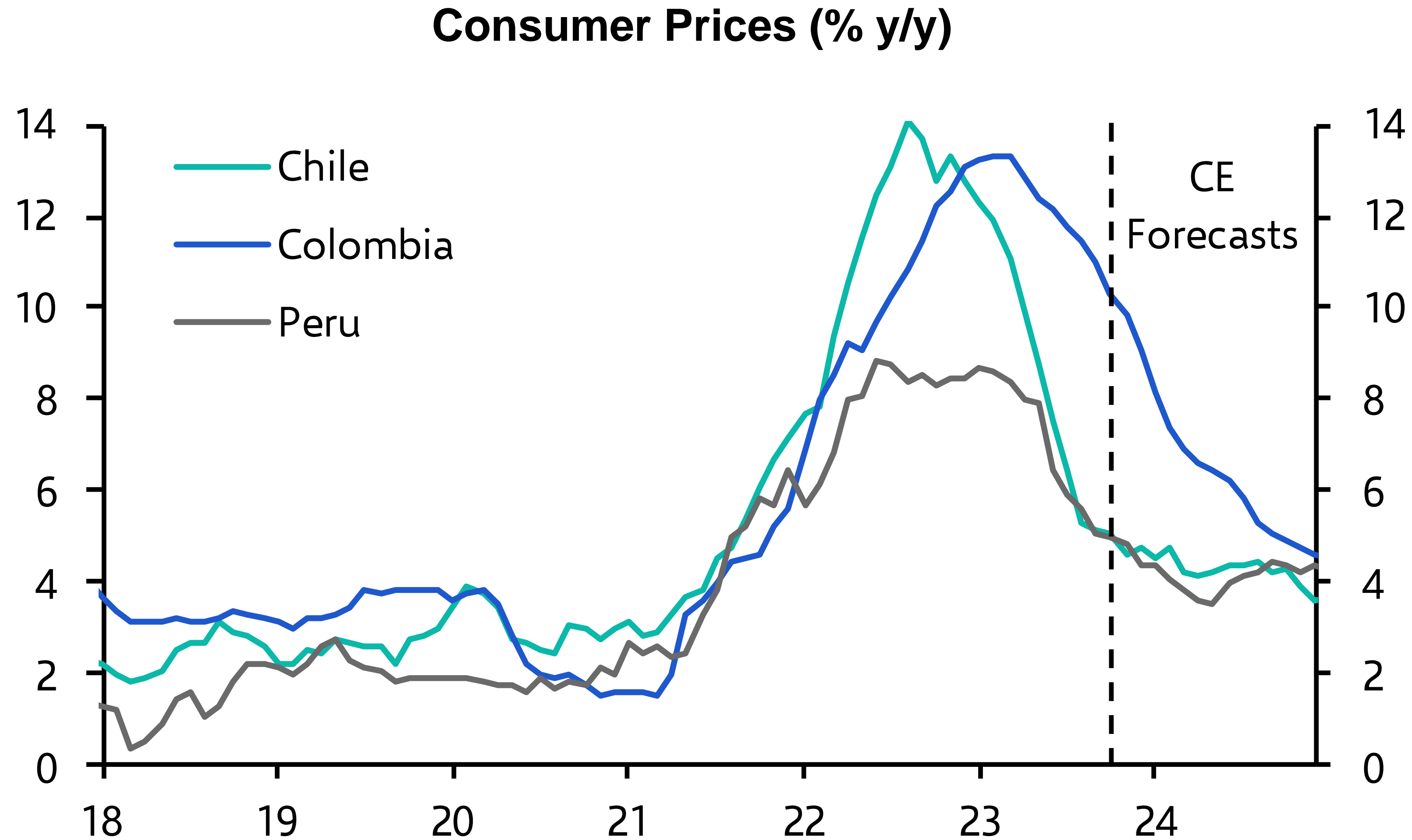
One positive of weak growth is that external risks in the Andes have diminished. Current account deficits have narrowed since last year, reducing FX risks.

Current Account Balances (4Q Sum, % of GDP)



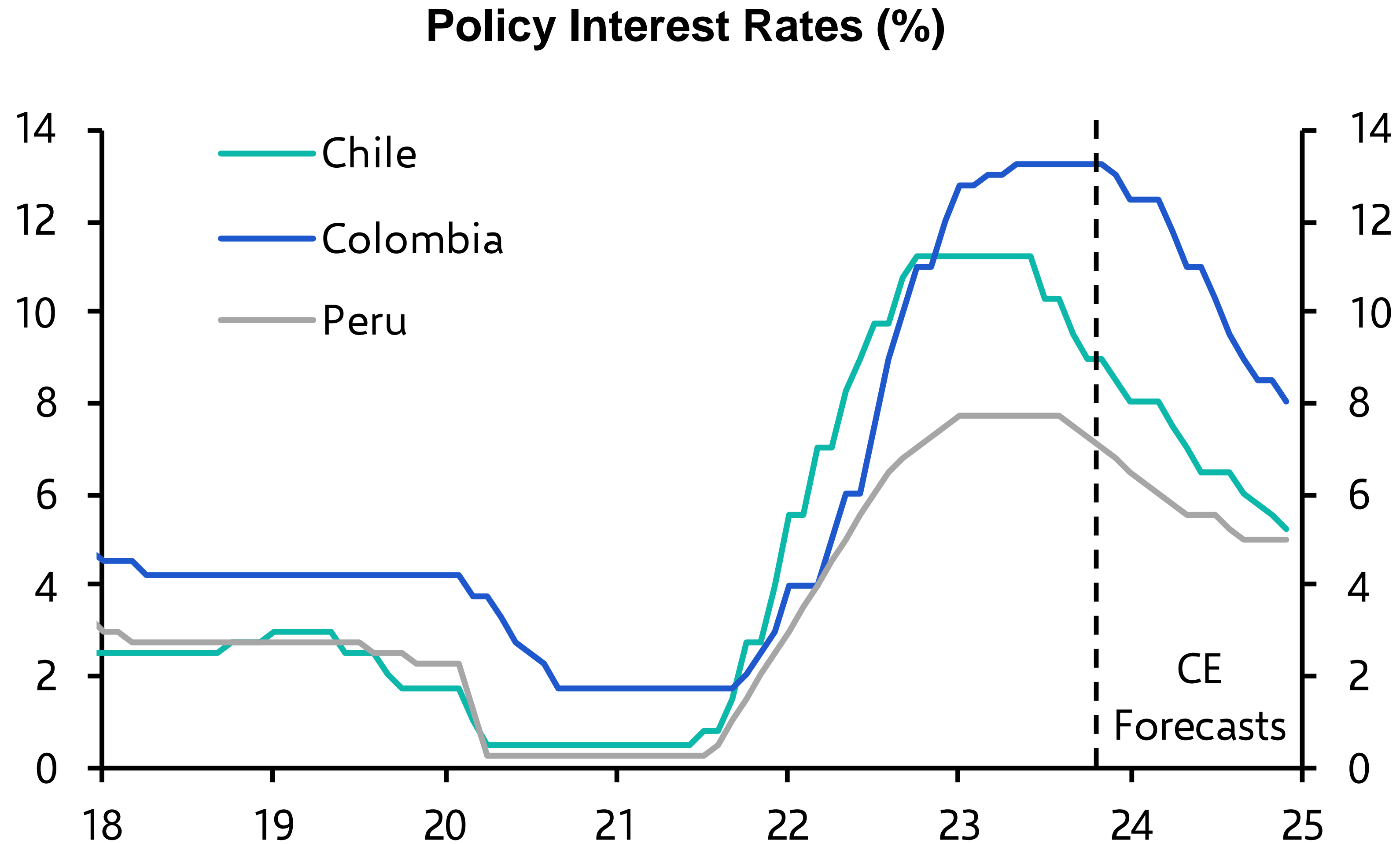
Sources: Refinitiv, Capital Economics

The disinflation process is largely over in Chile and Peru, but it has much further to run in Colombia where inflation pressures have been much stronger.



Sources: Refinitiv, Capital Economics

Colombia's central bank will probably join the others in cutting interest rates before the end of the year.



Sources: Refinitiv, Capital Economics

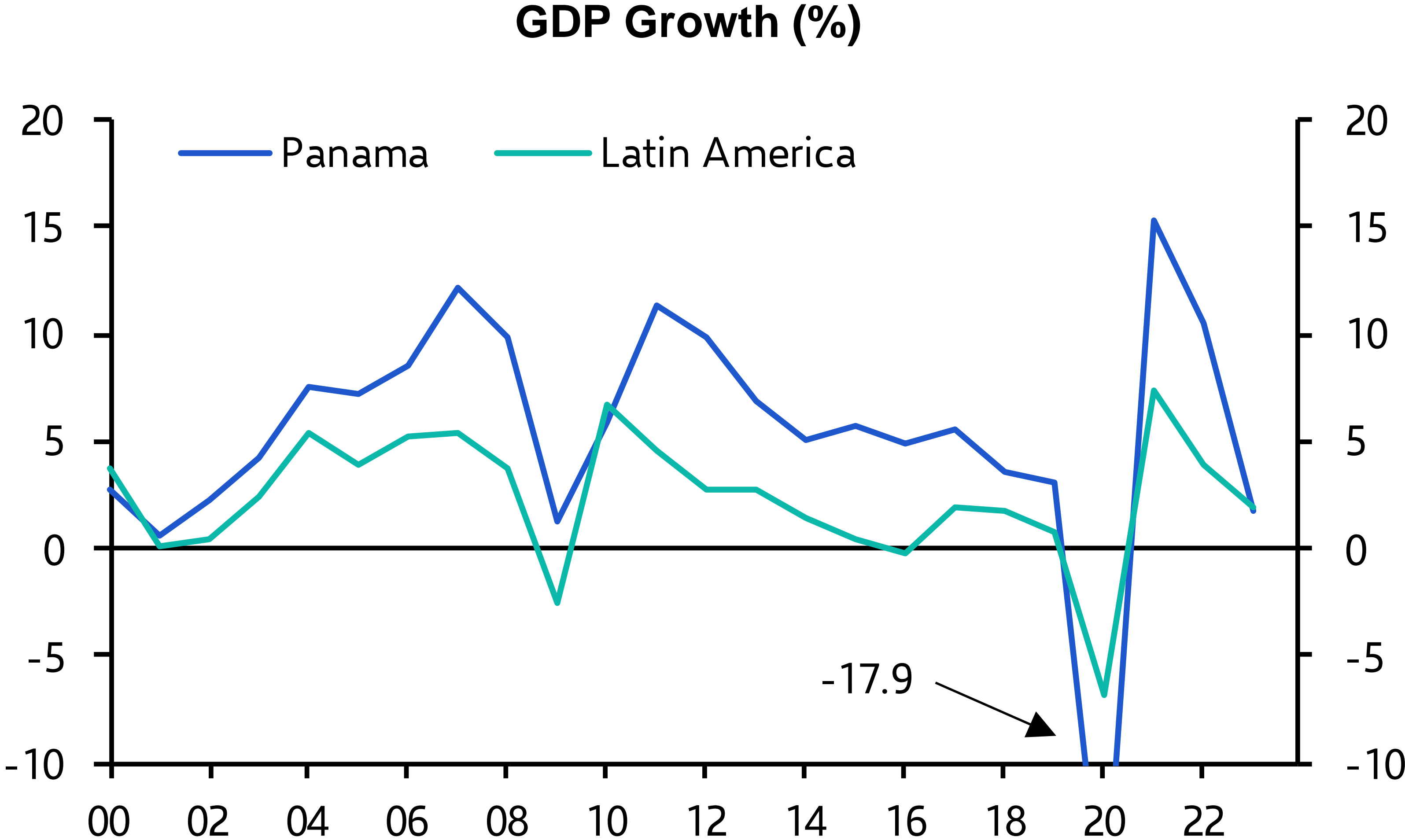
The outlook for Panama has worsened over the past month after protests flared up against a copper mine. Dollar borrowing costs have risen.

Spread of JP Morgan Panama EMBI Index Over USTs (bp)



Sources: Refinitiv, Capital Economics

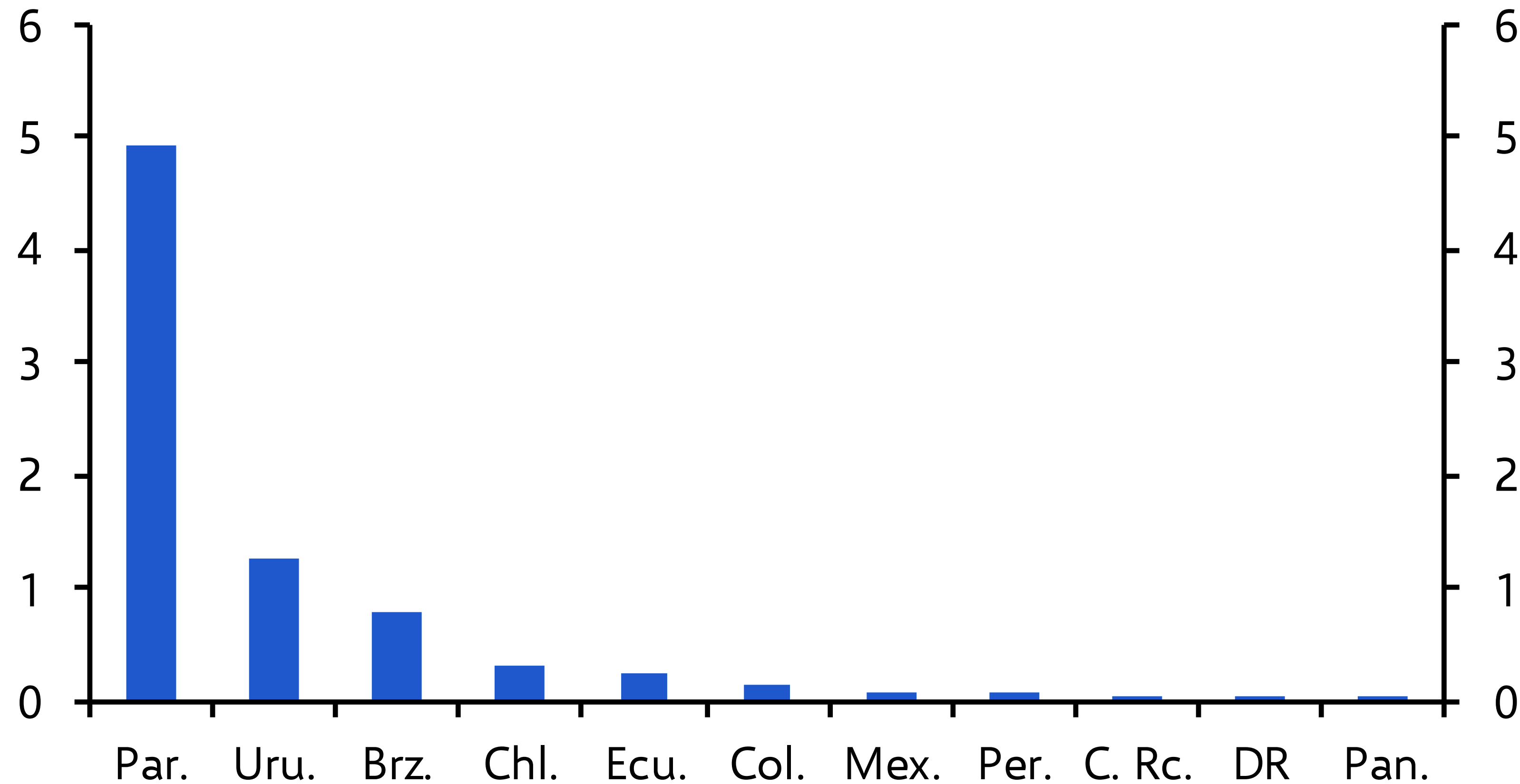
Protests as well as reduced traffic at the Panama Canal threaten the country's recent record as a Latin American growth star.



Sources: Refinitiv, Capital Economics

Elsewhere in the region, Paraguay and, to a lesser extent, Uruguay are the most vulnerable countries to the downturn in Argentina's economy.

Exports to Argentina (% of GDP, 2022)



Sources: Refinitiv, Capital Economics

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