THE **LATIN AMERICA** ECONOMIC MONITOR

SEPTEMBER 22, 2014
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Latin America has been growing only moderately over the last few years...

... But some countries are outperforming, thanks in part to the pick-up of the U.S. economy.

Brazil is struggling badly, Mexico is improving; Argentina and Venezuela in chaos...

Is Growth Set to Pick Up in the Biggest LatAm Economies?

Today marks the launch of the *Latin America Monitor*. In this edition we provide a general economic view of the biggest countries in the region. In the upcoming *Monitors* we will present our analysis of the key issues of these diverse economies. I hope you will enjoy reading the *Monitor* as much as I enjoy writing it.

Latin America has grown relatively slowly over the last few years. Several factors, including lower or stable commodity prices and a sluggish U.S. economy, have constrained demand across the region. In addition, some of these economies have experienced supply bottlenecks and political chaos, which are depressing investment performance.

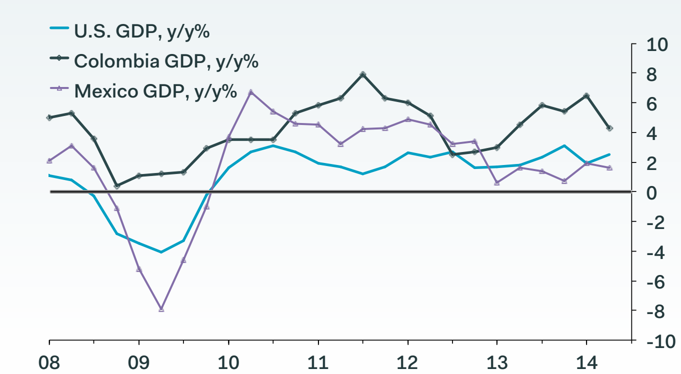
The recovery process in most LatAm economies is far from over. *In fact, some of the big players in the region have entered recession over the last few quarters, and signs of a solid and dynamic recovery are scarce.* On balance, we expect regional economic growth of around 1.3% this year, down from 2.5% in 2013. For 2015 we look for a pick up in growth if the advanced economies—in particular the U.S.—achieve the faster growth we expect.

The broad economic performance data conceal divergent paths among the countries in the region. **Brazil**, for instance, is struggling. Real GDP contracted by 0.6% quarter-over-quarter in Q2 2014, following a 0.2% dip in Q1. *These figures mean that Brazil moved into a technical recession in the first half of the year, its second in six years.* Domestic demand is extremely weak, contracting by 0.5% and 0.9% in Q1 and Q2 respectively. Fixed capital formation was also weak during the first half of the year, contributing significantly to the Brazilian economic retrenchment.

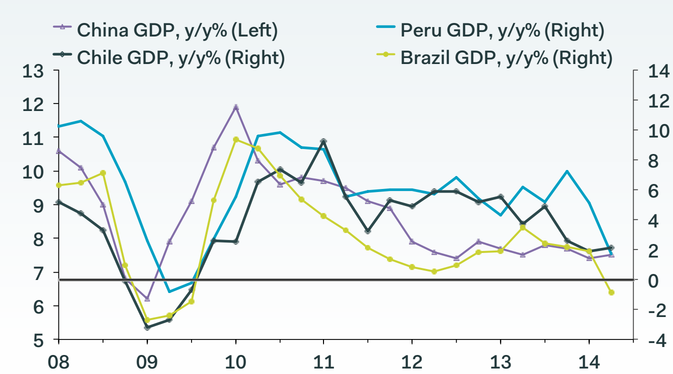
There are many factors behind Brazil's poor economic performance, especially the end of the credit-driven, consumption–led growth model and rising uncertainty in the political environment before next month's elections. The latter is likely delaying investment projects until the policy agenda is clarified, so the political landscape will be the key factor for investors during the next few weeks.

Under these circumstances, growth in Brazil will remain weak. At the same time, though, inflation is likely to remain well above the center of the inflation

MEXICO AND COLOMBIA BENEFITING FROM U.S. RECOVERY...



... CHILE AND PERU HIGHLY DEPENDENT ON COMMODITY PRICES



target range—2.5% to 6.5%—despite the economic slowdown and the recent monetary policy tightening.

The **Mexican** economy has been weak so far this year, but it has outperformed other countries in the region thanks to the relatively solid expansion of the U.S. Mexico's GDP grew 1.6% year-over-year in Q2, after 1.9% in Q1. This positive momentum hides, however, some weaknesses in the industrial sector that requires close attention in the months to come.

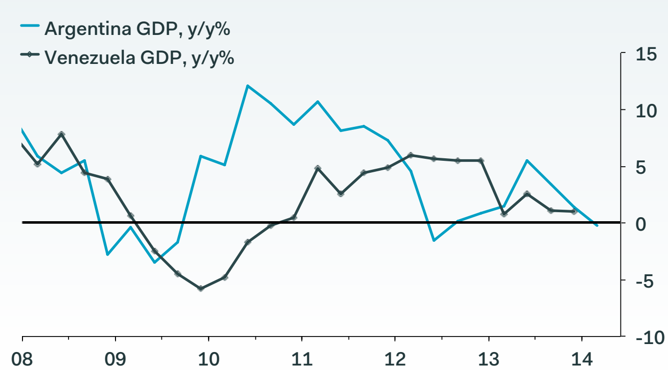
Mexico's growth should improve over the next few quarters thanks to the acceleration in U.S. demand, more accommodative fiscal policy, and the benefits of the structural reforms carried out recently. Monetary policy will help too: The central bank—Banxico—unexpectedly cut interest rates in June by 50 basis points to 3.0%, a record low.

Our forecast for the Mexican economy is highly dependent on the future performance of the U.S. economy, especially the automobile sector. U.S. auto sales hit an eight-year high in August, and are trending strongly upwards.

Argentina and **Venezuela**, by contrast, are both facing very difficult situations, with inflation and debt-to-GDP ratios excessively high. Consumer and investment confidence is falling sharply and private consumption is under sustained pressure from real wage losses and high interest rates.

The Argentinian economy, in particular, is virtually in recession mode. Activity slowed sharply during the first half of 2014 and confidence has deteriorated significantly. GDP contracted 0.2% year-over-year in Q1, and activity indicators such as the EMAE index, a proxy for GDP, have been bleak over the last few months. Consumer and business confidence

VENEZUELA AND ARGENTINA ON A DIFFICULT PATH



indicators, industrial production, and employment rates all point to a deterioration in economic conditions. Argentina also has been affected by Brazil's weak economic performance. About one-fifth of Argentina's exports flow into its neighbor, but Brazilian willingness to buy is shrinking and is set now to remain steady at best.

The difficult political situation in Argentina, continually falling confidence levels, and the loss of purchasing power as a result of mounting inflationary and devaluation pressures will all have a damaging effect over the coming quarters, continuing their negative impact on investment and consumption.

Venezuela is also suffering from these symptoms, but its economic health is even worse. The Venezuelan central bank has not published GDP figures since the beginning of the year and inflation measures are being announced with a considerable lag, a clear indication that the economy is in serious trouble.

Peru and **Chile** are rebounding from their slowest growth rates in four and ten years respectively, thanks to recent fiscal and monetary stimuli, which have offset the slump in commodity prices and the resultant negative effect on domestic demand. Both countries have managed to maintain positive economic growth rates despite these circumstances, and some leading indicators suggest that these trends will continue over the coming quarters, though with only moderate further upward movement.

Colombia is one of the few larger economies in the region to have recently enjoyed a solid positive economic trend. The country grew more than 6.5% in Q1 of 2014, the fastest pace since the end of 2011, although it moderated its pace in Q2 to 4.3%. This was expected, given the deceleration in the mining and manufacturing sectors, due to lower commodity prices and recent Banrep tightening. *While Mexico, Peru and Chile have reduced their main policy rates, Colombia's central bank started tightening in April to curb the costs of high inflation.* We do not expect a change in the monetary policy stance this year, due to downside risks to the economy from lower oil revenue.

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THIS WEEK IN BRIEF

Note: "**D**" prefix denotes Datanotes for these releases.

Monday, September 22

- **D: Mexico unemployment rate (8)/8:00 Local**
The unemployment rate should fall to **5.1%**, reversing the unexpectedly solid increase in July. **Consensus: 5.3%.**

Tuesday, September 23

- **D: Mexico retail sales (7)/8:00 Local**
We look for **1.8%** year-over-year increase in retail sales in July, up from 1.1% in June, in line with Mexico's retailers association sales jump. **Consensus: 1.6%.**
- **Argentina trade balance (8)/17:00 Local**
We expect a trade surplus of **$780M**, lower than last month due the decline in exports of commodities and manufactured goods. **Consensus: $826M.**

Wednesday, September 24

- **D: Mexico economic activity IGAE (7)/8:00 Local**
The activity index is likely to reverse last month's solid increase, falling to **2.4%** from 2.7%, but it will stay above its long term trend, thanks to the improvement of the industrial and service sectors. **Consensus: 2.1%.**
- **Mexico biweekly CPI (H1/8)/8:00 Local**
We expect the biweekly CPI to rise **0.18%**, keeping the annual headline close to 4.1%. **Consensus: 0.15%.**
- **D: Brazil current account balance (8)/11:30 Local**
Better trade figures should cushion the current account deficit, staying close to **-$5000M**. **Consensus: -$5350M.**
- **Argentina GDP (Q2)/17:00 Local**
High inflation, the collapse in trade—due to USD shortages—and Brazil's low growth will take a toll on Q2 activity data. We expect a **-0.3%**. **Consensus: -0.4%.**

Thursday, September 25

- **D: Brazil unemployment (May-to-Aug)/10:00 Local**
We think unemployment increased moderately between May and August due to weakness in economic activity so far this year. The rate should rise to **5%** in August from 4.8% in May. The statistical office postponed the publication of the full report since May due to a strike. **Consensus: 4.9%.**

Friday, September 26

- **D: Brazil PPI manufacturing (8)/10:00 Local**
Prices should ease further, falling for the sixth consecutive month. We expect a **0.2%** dip. **Consensus: N/A.**
- **D: Mexico trade balance (8)/8:00 Local**
Increasing auto shipments should continue boosting exports, but not enough to compensate for capital goods imports. We expect a **-850M** deficit. **Consensus: -667.5M.**
- **Argentina economic activity index (7)/17:00 Local**
Low confidence and import restrictions will continue to hurt growth, we expect a **-0.4%** drop. **Consensus: -0.3%.**
- **Colombia overnight lending rate (8)/12:00 Local**
Minutes of the last meeting took a more neutral stance, suggesting that the end of the tightening cycle is close. **Consensus: 4.5%.**

PANTHEON LATAM FINANCIAL CONDITIONS DASHBOARD

	Currency			Market		
	Value	Week, %	YTD, %	Value	Week, %	YTD, %
Argentina	8.4	-0.2	-22.5	11,536	5.2	114.0
Brazil	2.4	-2.8	0.1	58,374	0.1	13.3
Chile	597.2	-1.3	-12.0	4,028	-0.9	8.9
Colombia	1,970	0.6	-2.1	14,224	-0.1	9.0
Mexico	13.2	0.3	-1.3	46,168	0.6	8.1
Peru	2.9	-0.2	-2.3	16,908	-1.0	7.3
Venezuela	6,292	--	--	2,777	2.3	1.5

INDEX EMBI SPREAD LATAM HISTORY (01/01/2013=100)

PANTHEON'S ECONOMIC FORECAST

	Real GDP		Inflation		Interest rate	
	2013	2014	2013	2014	2013	2014
Argentina	3.0	-1.0	27.0	25.0	--	--
Brazil	2.5	0.6	5.9	6.1	10.0	11.00
Chile	4.2	2.5	2.9	3.9	4.5	3.00
Colombia	4.7	5.1	1.9	3.0	3.25	4.50
Mexico	1.1	2.5	3.9	3.9	3.5	3.00
Peru	5.8	4.5	2.9	3.1	4.0	3.25
Venezuela	1.4	-2.5	56.2	64.0	15.5	--

COMMODITY PRICES, (PRICE INDEX, 01/01/2013=100)