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# **LATAM'S ECONOMIES HAD A DECENT Q3...** BUT RISKS LOOM, ESPECIALLY ON THE POLITICAL FRONT

## **LATIN AMERICA ECONOMIC CHARTBOOK, OCTOBER 2017**

DATA AS AT OCTOBER 30 | ANDRES ABADIA, SENIOR ECONOMIST  
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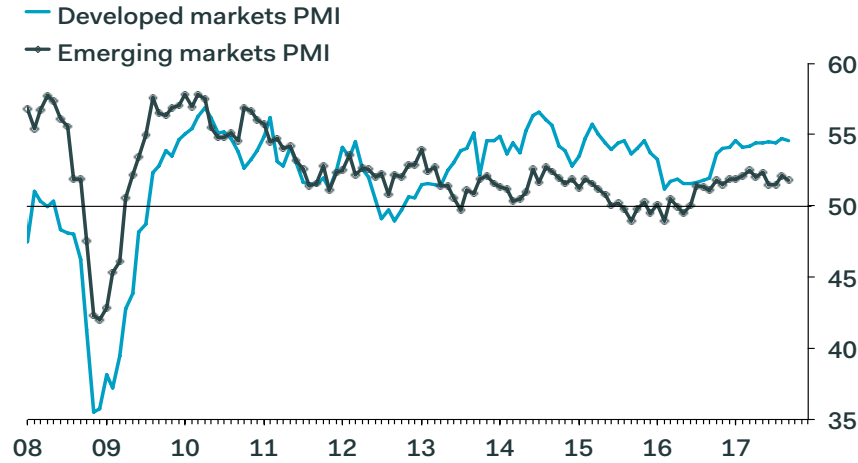


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## Summary

- Economic activity improved in LatAm in the third quarter, thanks mainly to the recovery in Brazil and improving growth in Argentina. **The near-term outlook is broadly favorable, and inflation likely will remain under control in Q4 and Q1, close to the central banks' targets.** As such, interest rates will likely fall only marginally in the near term. But risks remain, particularly on the political reform front and over NAFTA. Impending U.S. monetary tightening is a threat too, but we think that the region will be resilient to Fed action. We expect LatAm domestic demand to improve, thanks to falling inflation and interest rates. External demand is improving and currencies, excluding the MXN, remain relatively stable.
- **Brazil's** economy is recovering, thanks mainly to the sharp decline in inflation, rapid monetary easing, and the more stable political situation. Momentum has stalled in recent months, suggesting that more rate cuts are likely, but the end of the easing cycle is near. Consumption will remain the key driver of the recovery. Investment still lags, though leading indicators are pointing to a gradual rebound in Q4. The economy, however, still faces serious challenges, particularly on the fiscal front. **The lack of political consensus and uncertainty over the 2018 presidential election has the potential to delay the fiscal reforms needed for a sustained recovery.**
- **Mexico's** economy has lost momentum in recent months. Consumption is slowing, due to high interest rates and inflation. Industrial production is weak, thanks mainly to the ongoing recession in the oil sector. Recent natural disasters could put the economy under stress for a while. Capex is still falling due to NAFTA-related uncertainty and domestic fiscal consolidation, which is constraining construction spending. More positively, domestic manufacturing and services are strong and the resilience of the U.S. economy is keeping remittances flows at a healthy level. **Inflation finally is easing, but we expect Banxico to keep interest rates on hold during most of the first half of the year.** Failure of NAFTA negotiations is a big risk.
- Economic activity in **Colombia** remained sluggish in the third quarter. Private consumption is stabilizing and industrial output is on the mend, but they aren't accelerating. Improving terms of trade and monetary easing point to a better Q4, but the turnaround will be modest, constrained by soft—albeit improving—oil prices and weak confidence. The country's external accounts are finally improving. **The easing cycle is nearly over.**
- **Argentina** likely posted its fifth consecutive quarter of rising GDP in Q3. The strength of the auto and construction sectors and, more recently, consumption have driven the recovery. We expect further growth ahead as the labor and credit markets improve. A faster rebound, however, will be constrained by a relatively sticky inflation. The central bank raised the monetary policy rate by 15 bps, to 27.75%, at its October meeting.
- **Chile's** economy is starting to recover and leading indicators suggest that it will gather strength in Q4. Supportive copper prices, low interest rates, improving confidence, and the modest CLP's rebound in Q3 will all help. Inflation pressures are in check. **The BCCh likely will remain on hold for the foreseeable future.** Former President Piñera's chance of winning in November is strengthening.
- Falling interest rates, low inflation and rebounding public investment are boosting **Peru's** economy. The recovery of the copper industry, robust external demand, and improving confidence also are helping. **The BCRP likely will ease marginally in Q4 as inflation is now below 3%.**
- **Venezuela** is flirting with a default. Economic conditions are bleak, and President Maduro is heading the country into a dictatorship. Russia's lifeline and improving commodity prices are the only near-term positives. **But the economy will continue to crumble, political instability will increase, and the country will remain on the verge of default in 2018.** Further sanctions from the U.S. and Europe will eventually trigger a default.

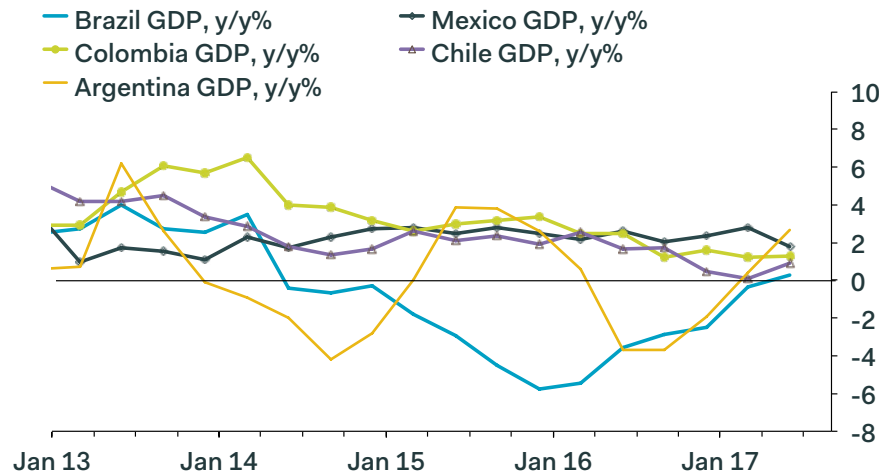
**1. THE RESILIENCE OF THE DEVELOPED ECONOMIES WILL HELP LATAM**



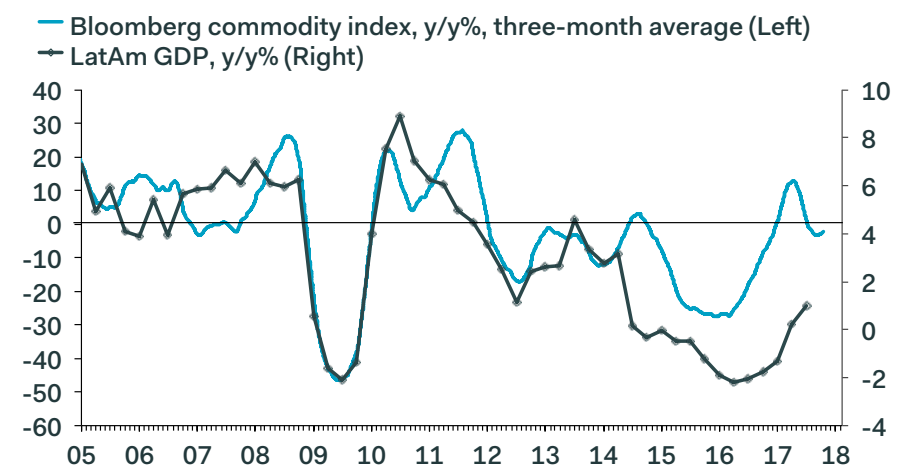
**3. FED RATE HIKE ARE A RISK, BUT LATAM LIKELY WILL BE RESILIENT**



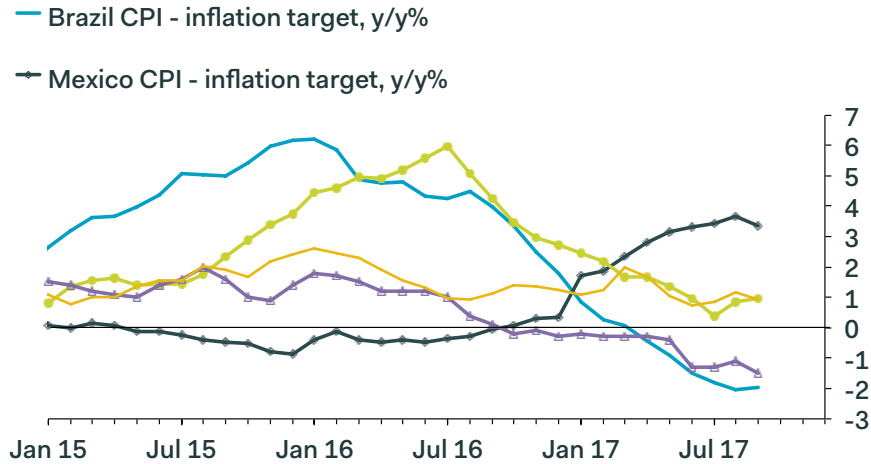
**2. GROWTH HAS BEEN RESILIENT, DESPITE SHOCKS IN H1**



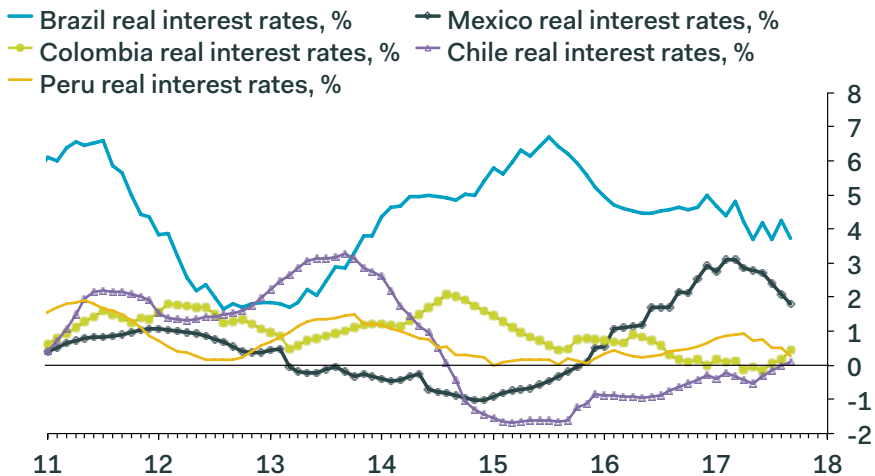
**4. COMMODITY PRICES HAS STABILIZED RECENTLY**



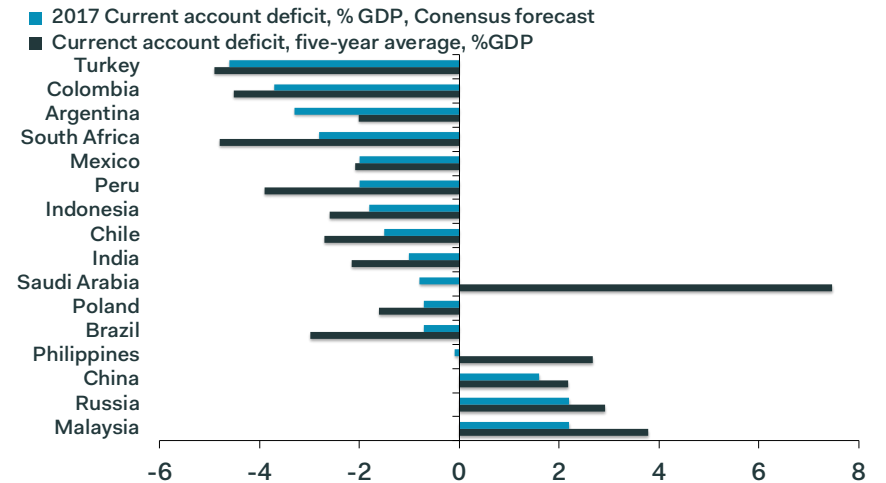
**5. INFLATION IS UNDER CONTROL IN MOST OF LATAM**



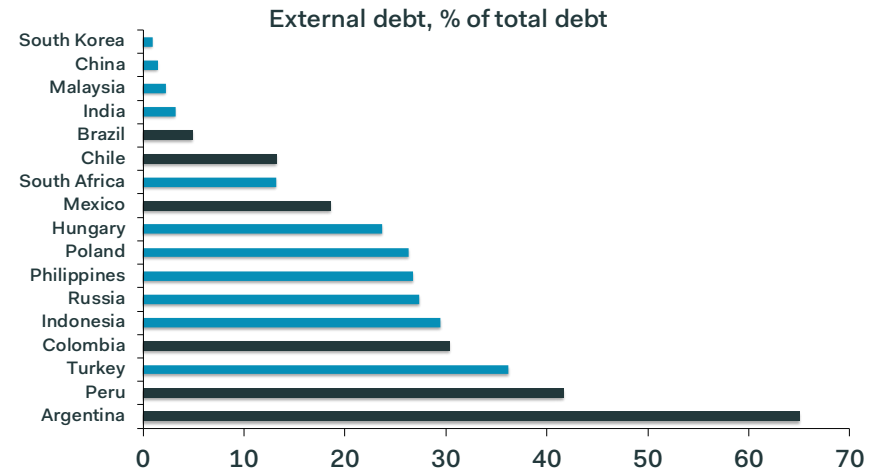
**6. REAL RATES WILL FALL CONSIDERABLY IN BRAZIL AND MEXICO**



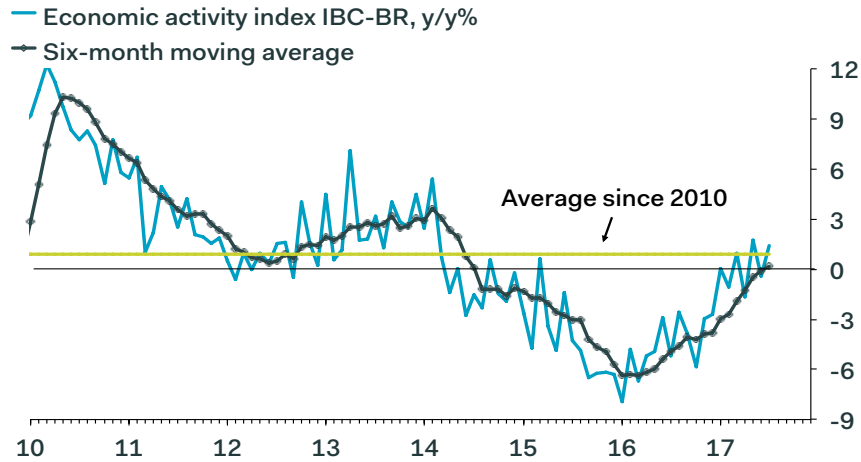
**7. IMPROVING EXTERNAL ACCOUNTS, BUT MORE NEEDS TO BE DONE**



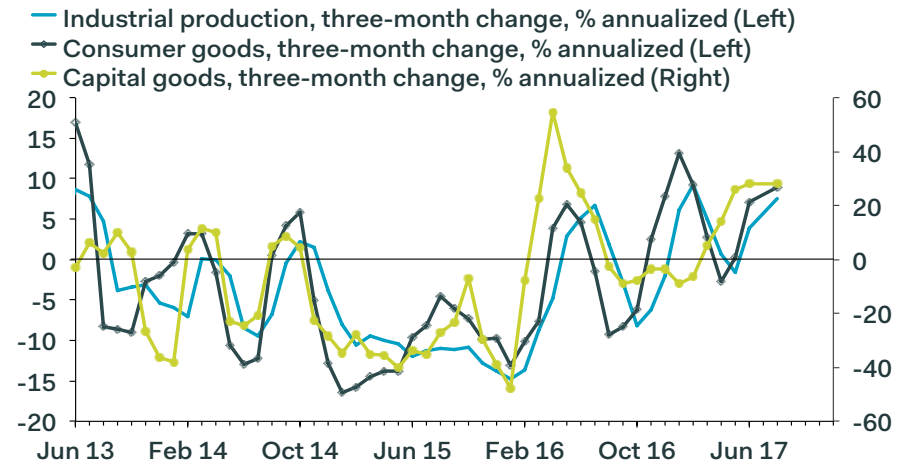
**8. LARGE EXTERNAL DEBT POSITIONS ARE STILL A THREAT**



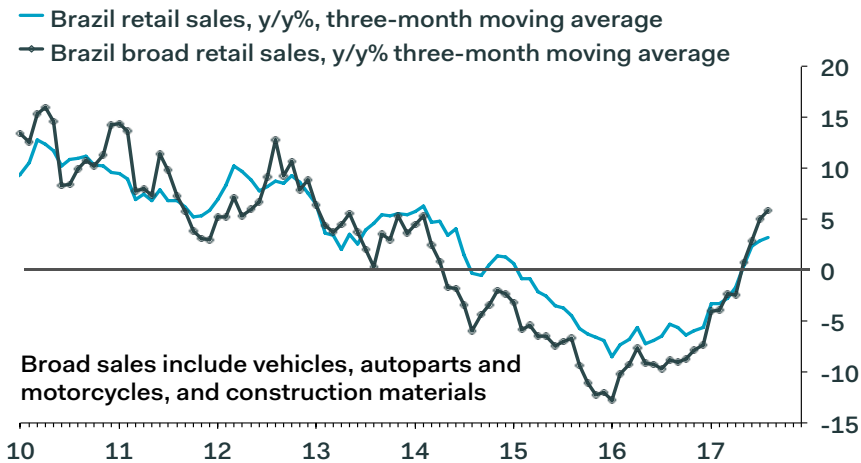
**9. BRAZIL: GROWTH IS IMPROVING, BUT EXPECT NO MIRACLES**



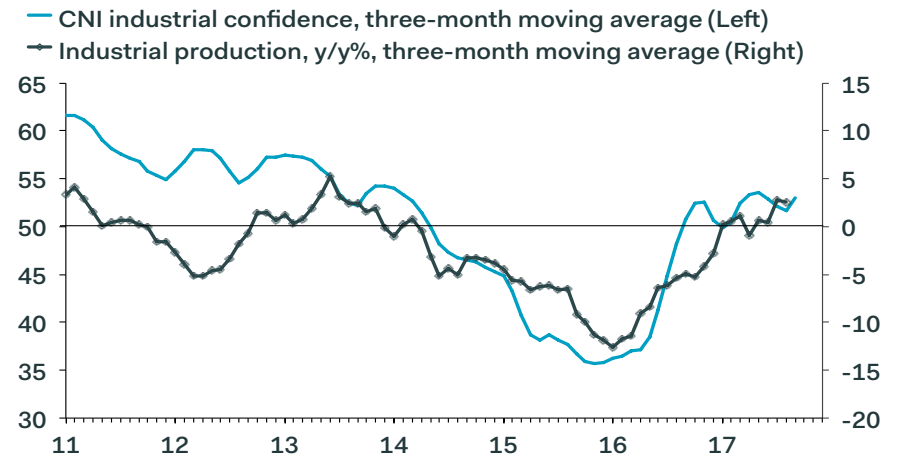
**11. INDUSTRIAL MOMENTUM REMAINS, DESPITE RECENT SOFT DATA**



**10. CONSUMPTION IS CARRYING THE RECOVERY**

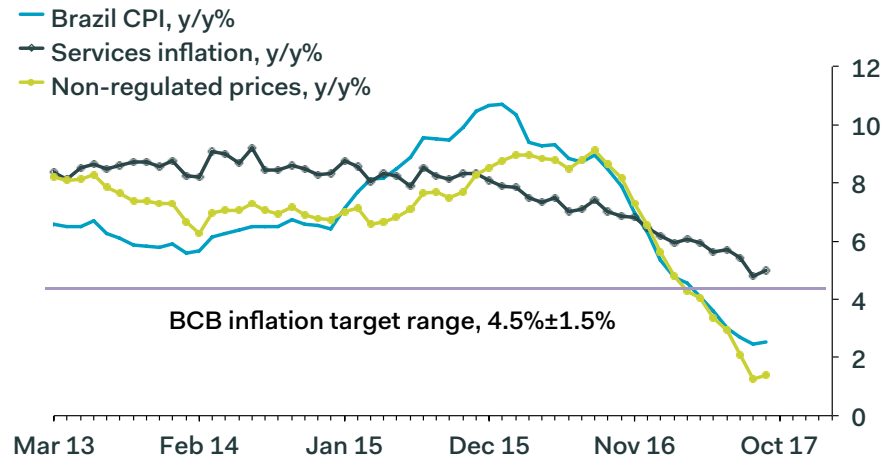


**12. CONFIDENCE WILL IMPROVE AS POLITICAL RISKS IS DIMINISHING**

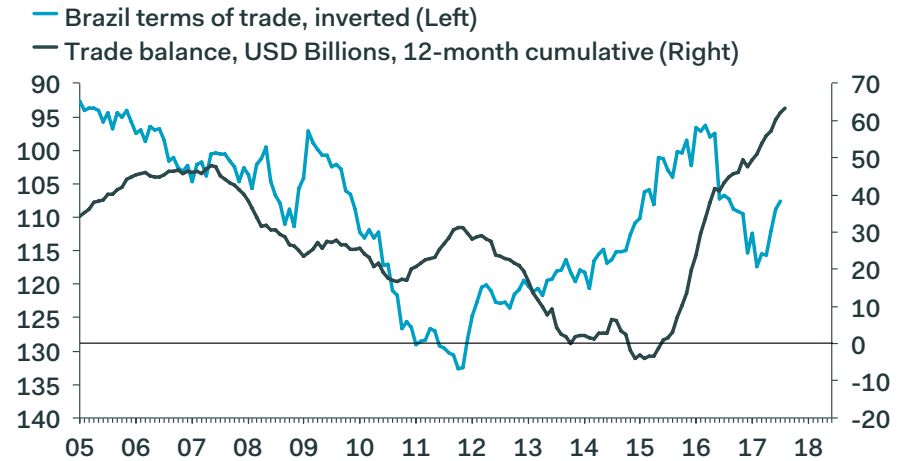




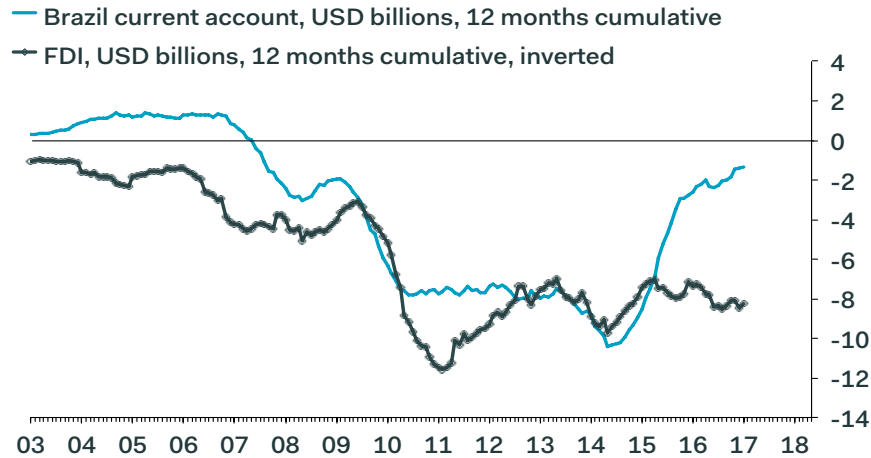
**13. INFLATION HAS BOTTOMED IN BRAZIL; NO WORRIES HERE**



**15. ...BUT THE CURRENT ACCOUNT WON'T IMPROVE MUCH FURTHER**



**14. IMPRESSIVE EXTERNAL PERFORMANCE LIMITS FX RISKS**

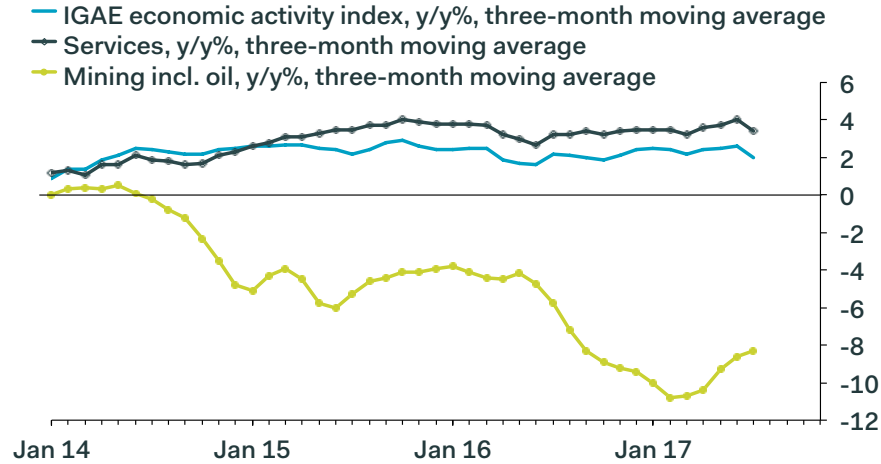


**16. ARGENTINA'S TURNAROUND IS HELPING BRAZIL**

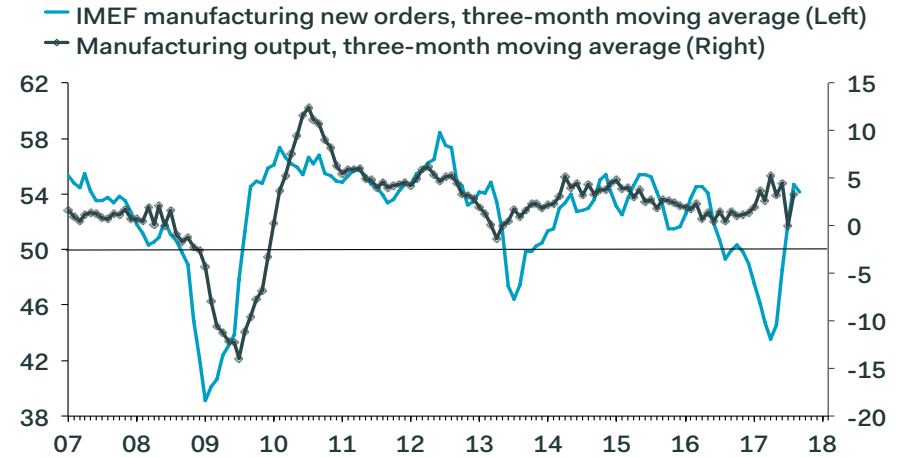




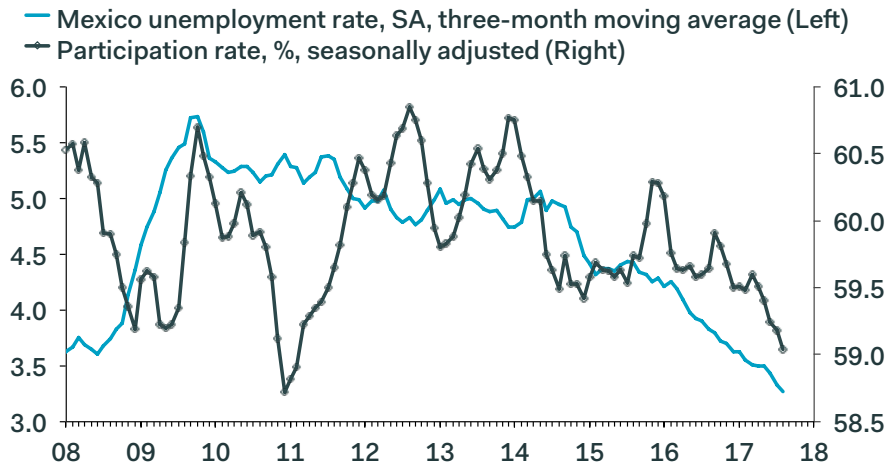
**17. MEXICO: THE ECONOMY STARTED THE SECOND HALF “DESPACITO”**



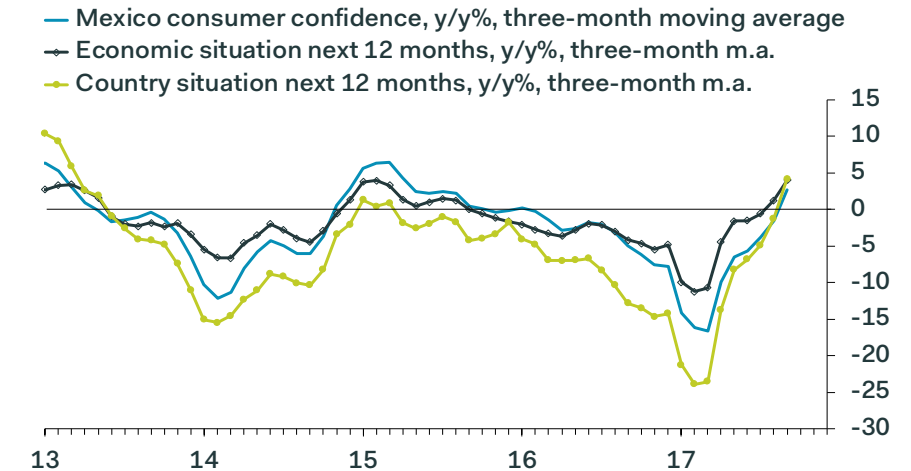
**19. THE SECOND HALF WILL BE GOOD, BUT NOT AS BRIGHT AS H1**



**18. REAL WAGES ARE STABILIZING, BUT A LONG WAY TO GO**

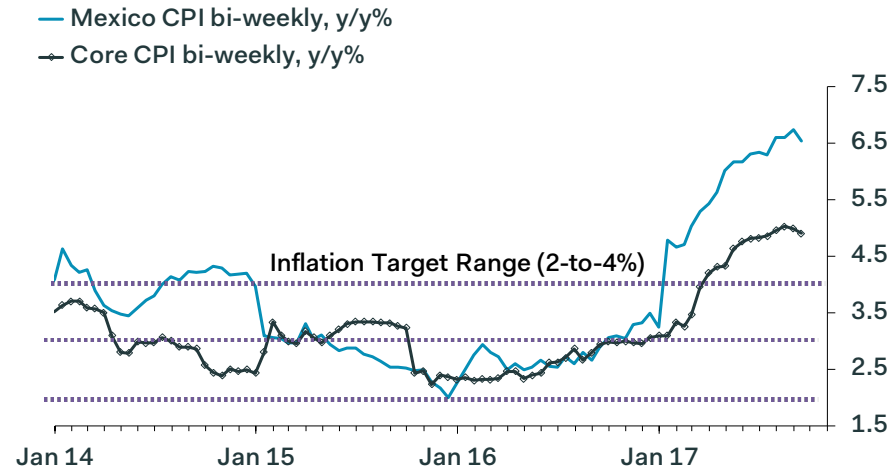


**20. CONFIDENCE IS ON THE MEND BUT DOWNSIDE RISKS LOOM**





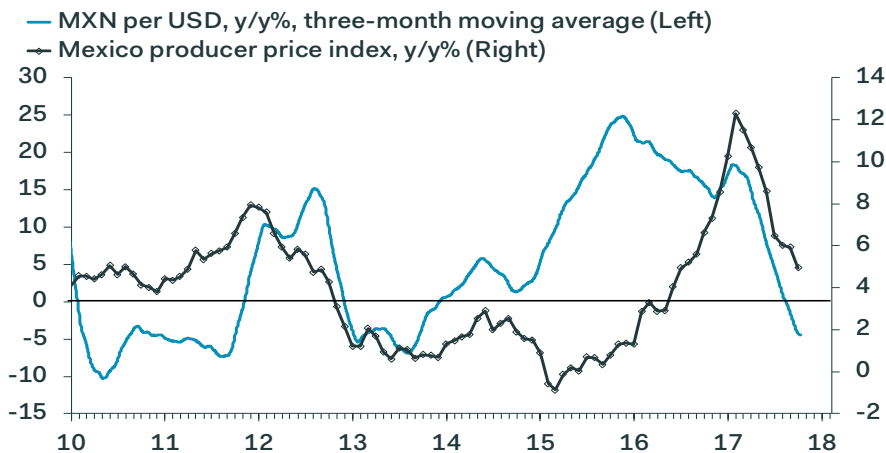
**21. INFLATION IS FINALLY ABATING AS TEMPORARY SHOCKS FADE**



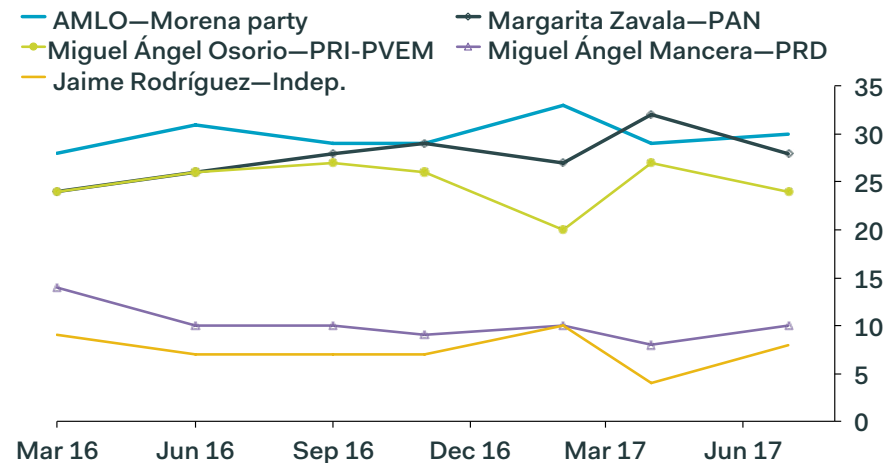
**23. ...AND EXPECTATIONS ARE STABLE DESPITE LOOMING RISKS**



**22. THE NEAR-TERM OUTLOOK REMAINS FAVOURABLE**

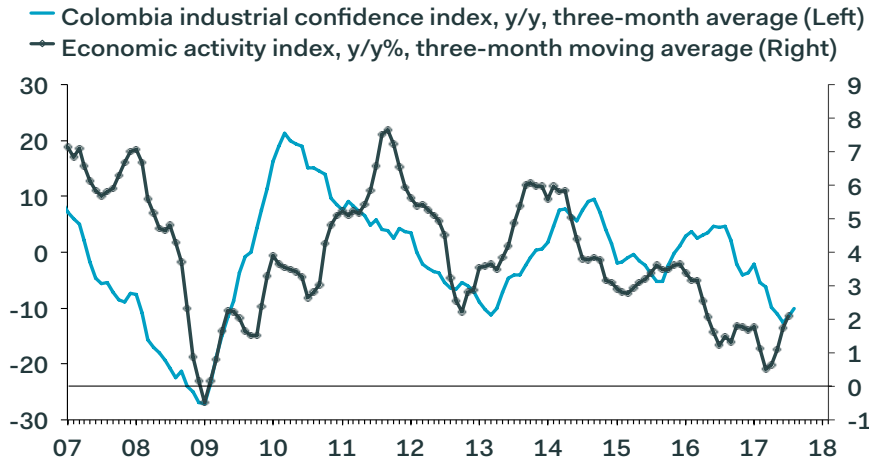


**24. POLITICS IS A MAJOR RISK IN THE MEDIUM-TERM; POLLS ARE TIED**



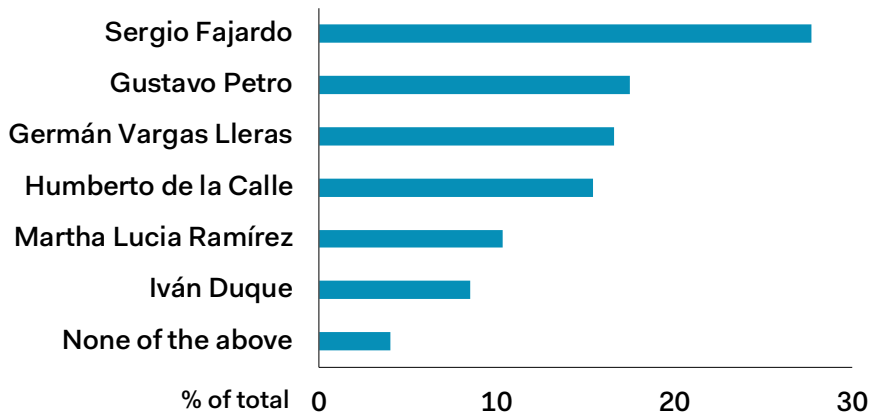


**25. COLOMBIA: ACTIVITY HAS IMPROVED, SLIGHTLY**

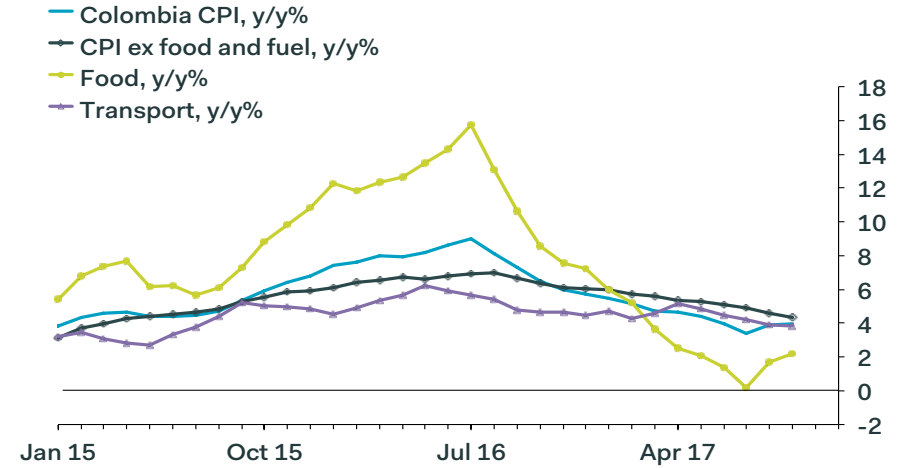


**26. POLITICS WILL BE A KEY SOURCE OF VOLATILITY IN Q1**

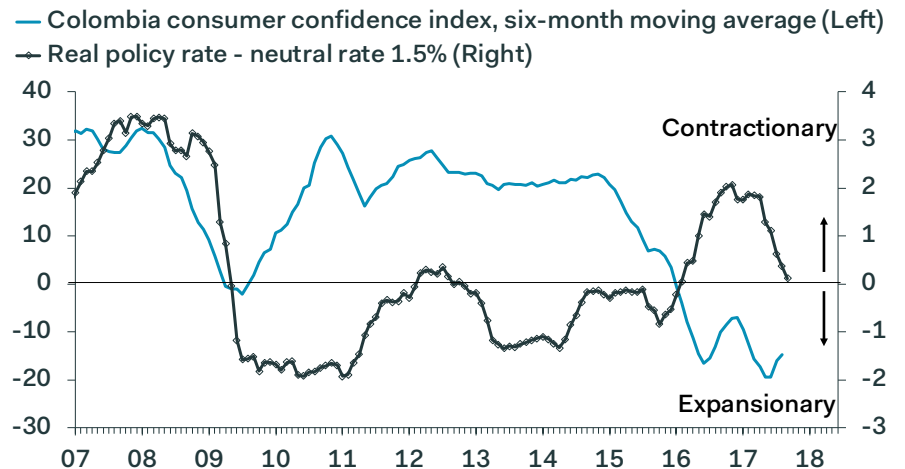
Mr. Petro, seen as non-market friendly, is second in the most recent polling



**27. UNDERLYING INFLATION PRESSURES REMAIN UNDER CONTROL**

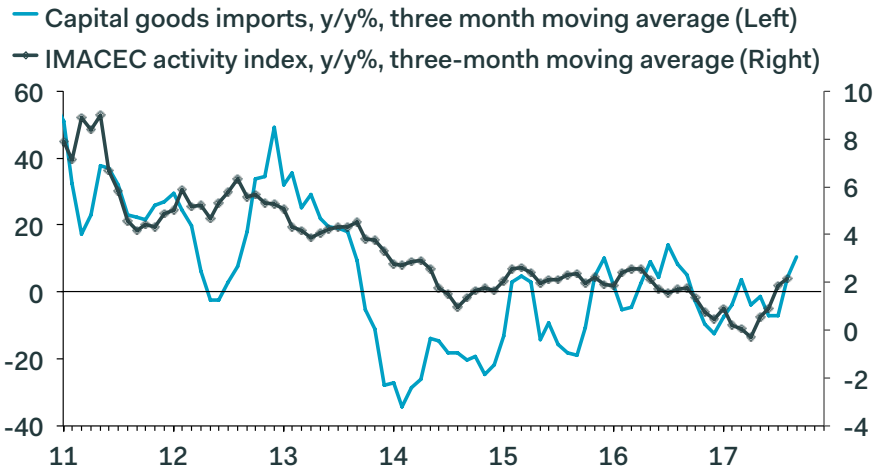


**28. TOO SOON TO BET ON AN END TO THE EASING CYCLE**

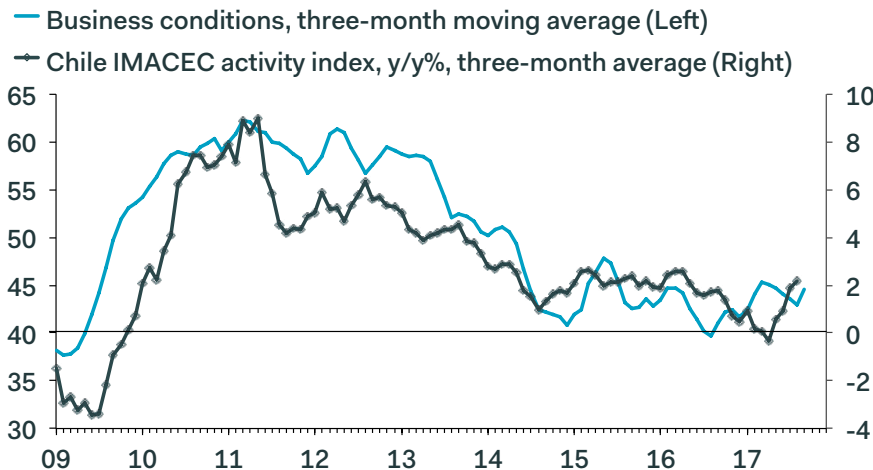




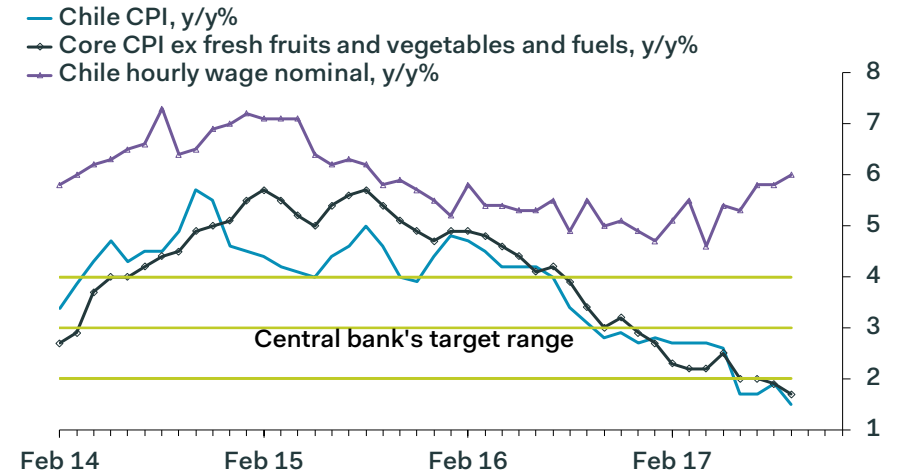
**29. CHILE'S NEAR-TERM OUTLOOK REMAINS POSITIVE**



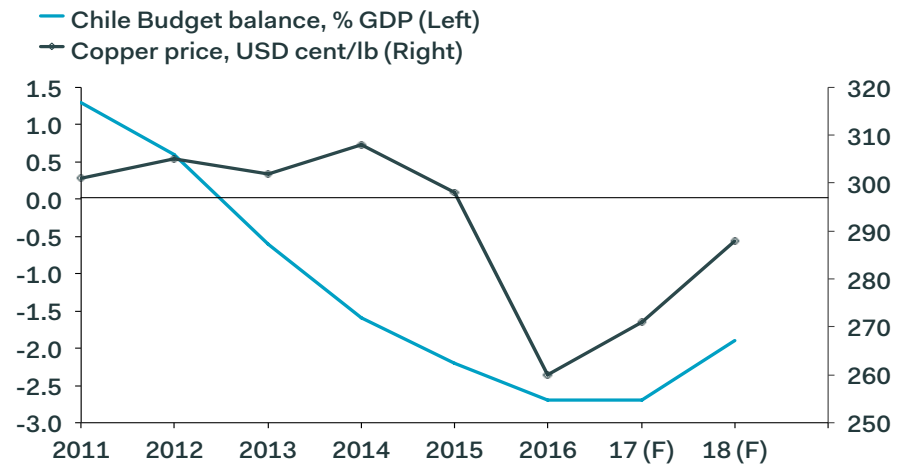
**30. LEADING INDICATORS SIGNAL BETTER GROWTH AHEAD**



**31. NO NEED TO CUT FURTHER; THE ECONOMY IS REBOUNDING**

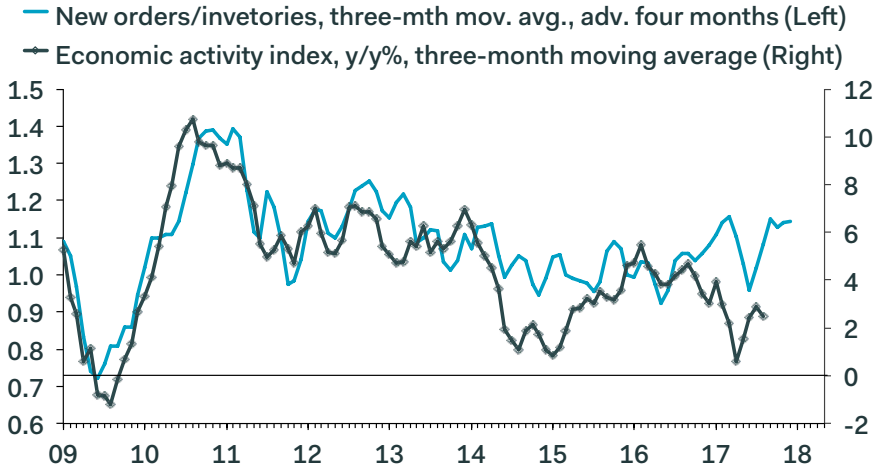


**32. COMMITMENT TO FISCAL RESPONSIBILITY, BUT COPPER-RELIANT**

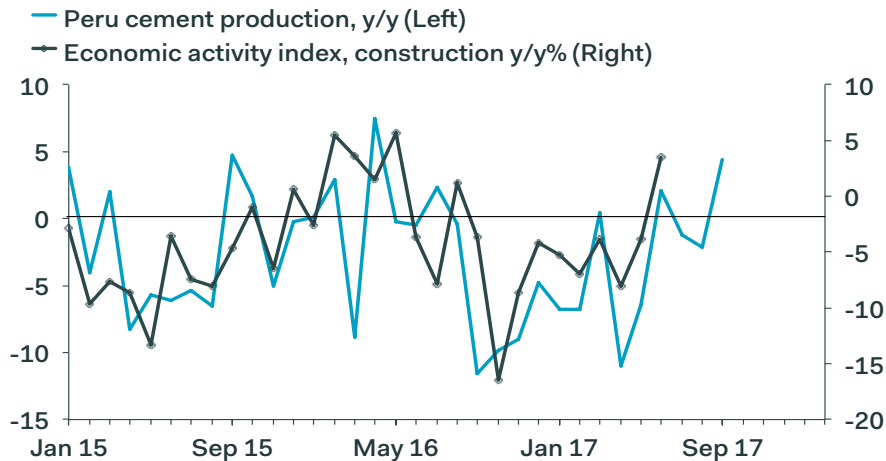




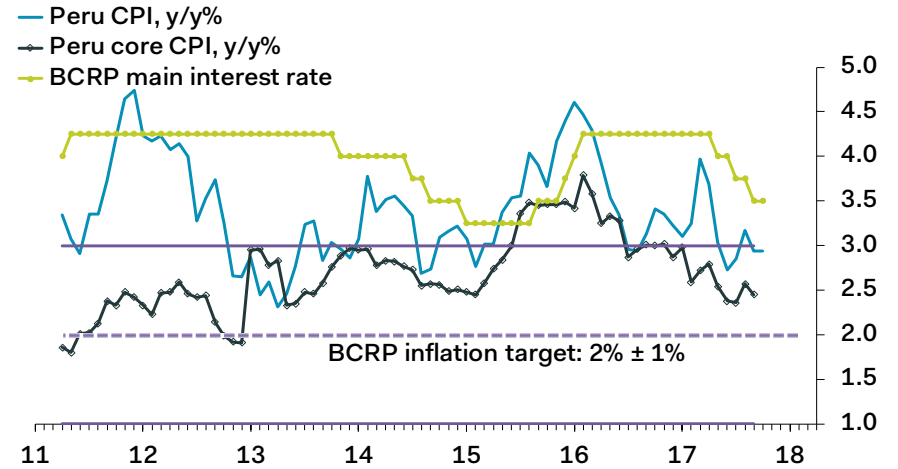
**33. PERU: THE ECONOMY IS ON THE MEND, FOLLOWING A TOUGH H1**



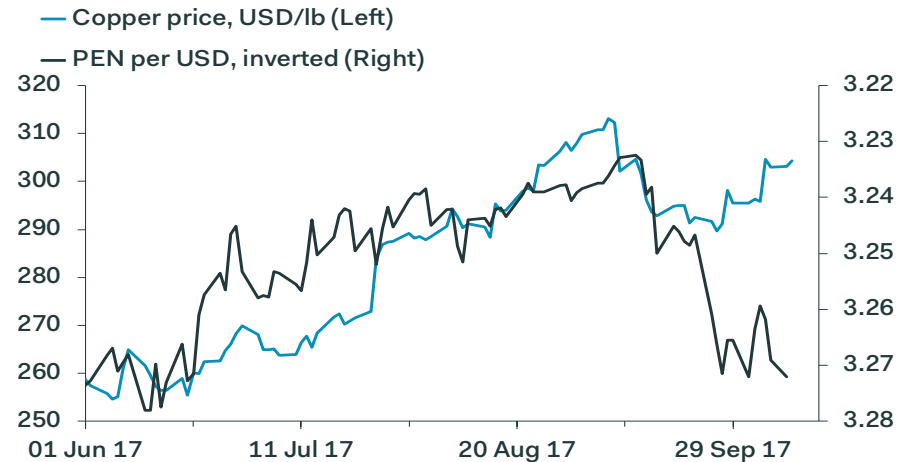
**34. CONSTRUCTION ACTIVITY IS HELPING THE RECOVERY**



**35. INTEREST RATES TO FALL marginally IN Q4...**

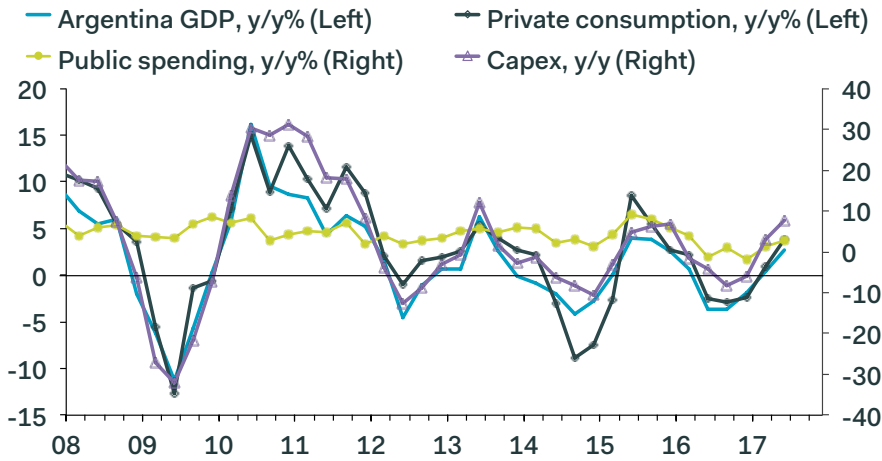


**36. ...AS FX VOLATILITY WILL BE A RISK IN THE NEAR TERM**

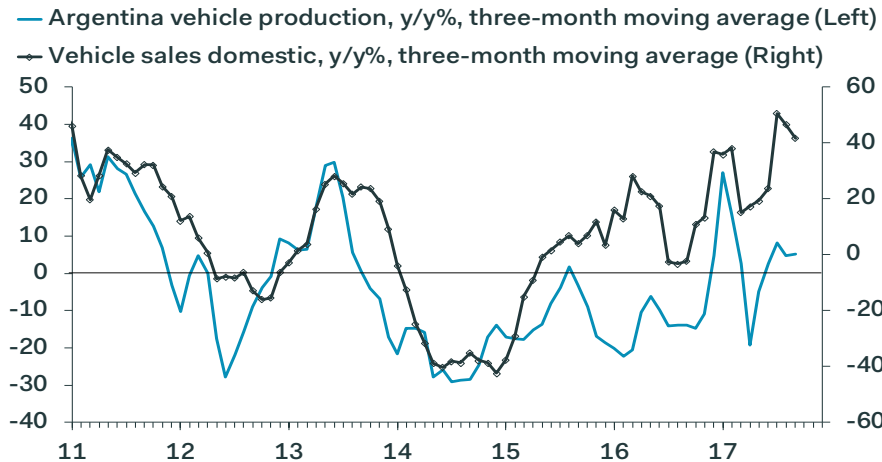




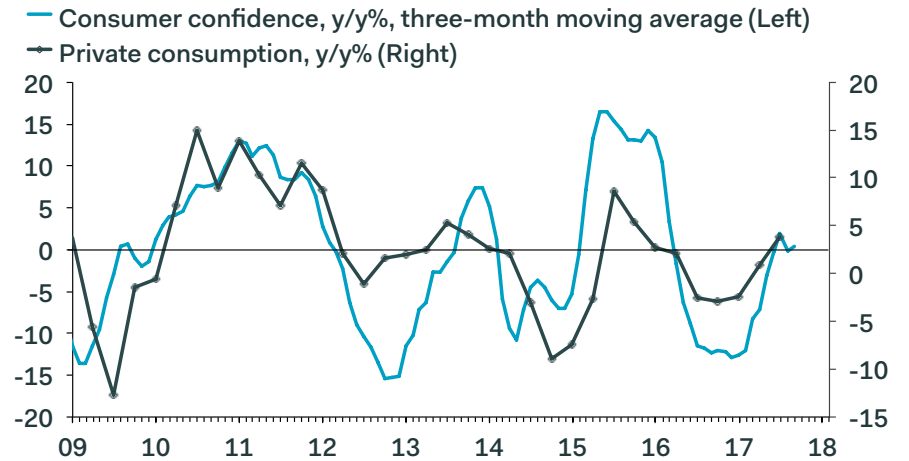
**37. ARGENTINA: THE RECOVERY HAS ARRIVED**



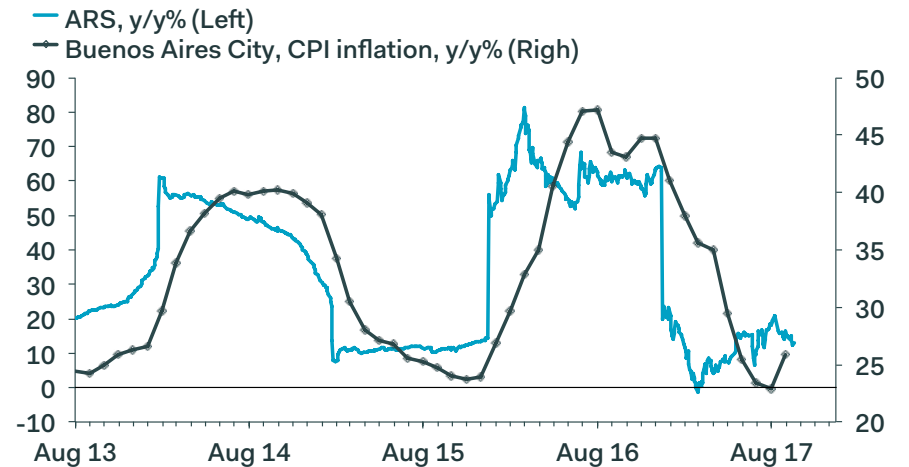
**38. THE AUTO INDUSTRY IS REVIVING AT LAST**



**39. PRIVATE CONSUMPTION IS ALSO ON THE MEND**

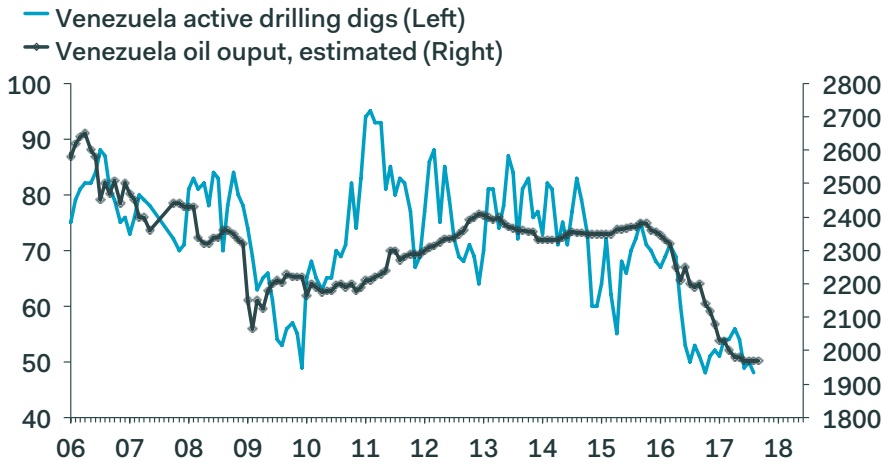


**40. INFLATION WILL START TO FALL MORE CLEARLY IN Q1**

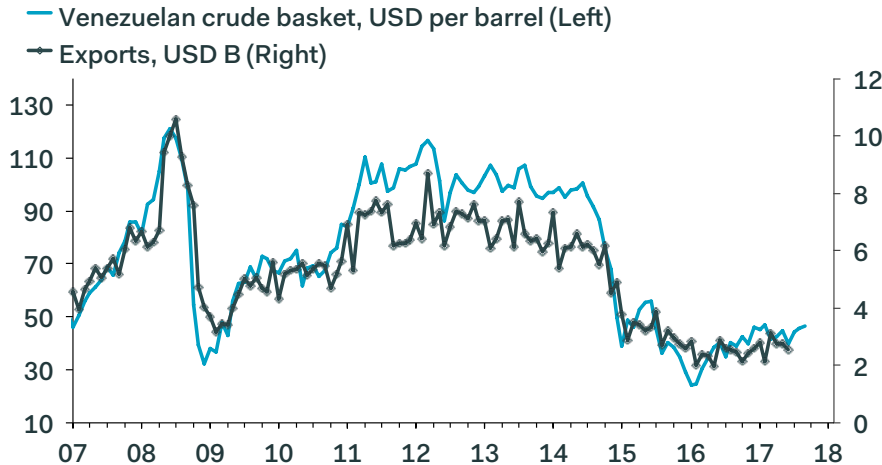




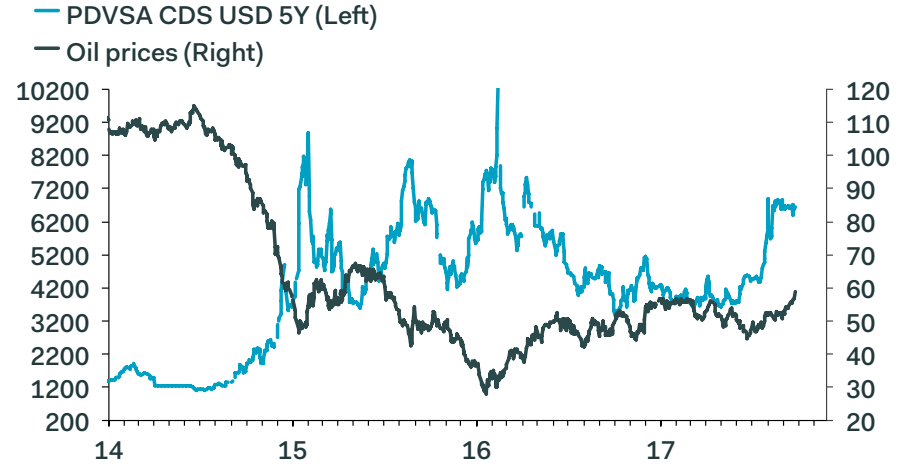
**41. VENEZUELA: THE OIL INDUSTRY IS BROKEN**



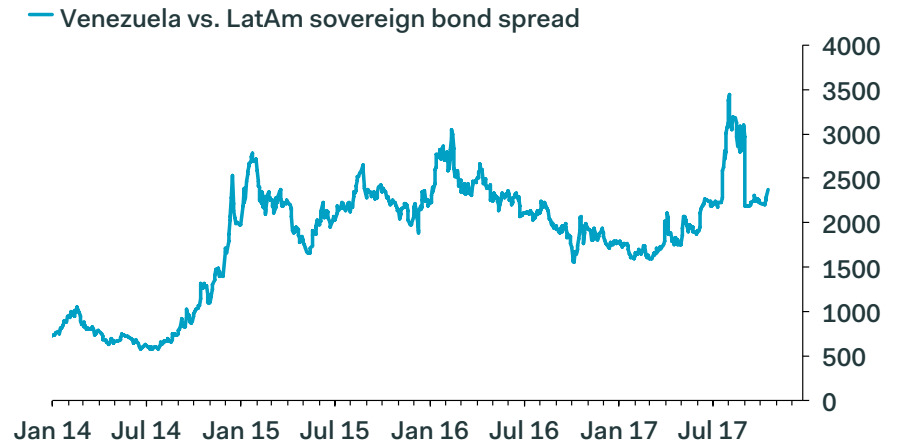
**42. THE RECENT OIL PRICE REBOUND WILL HELP, BUT ONLY marginally**



**43. RISK METRICS HAVE STABILIZED AS OIL PRICES RECOVER, JUST**

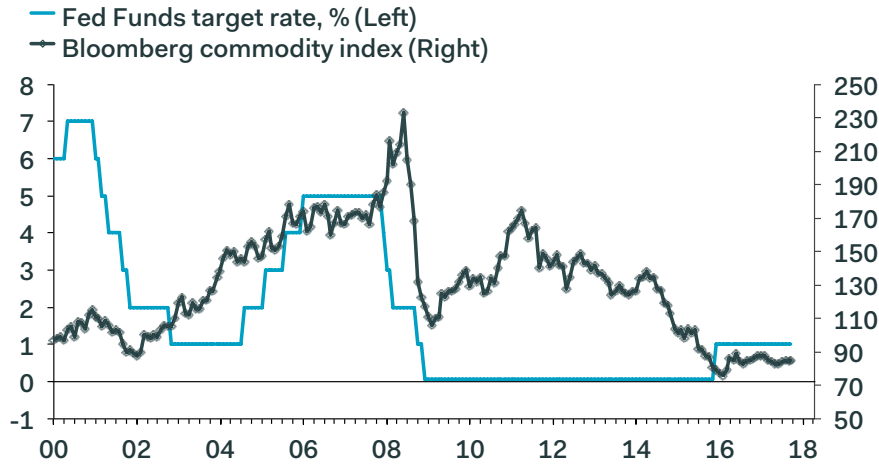


**44. RISK PREMIA WILL CONTINUE TO RISE DESPITE Q3 CORRECTION**





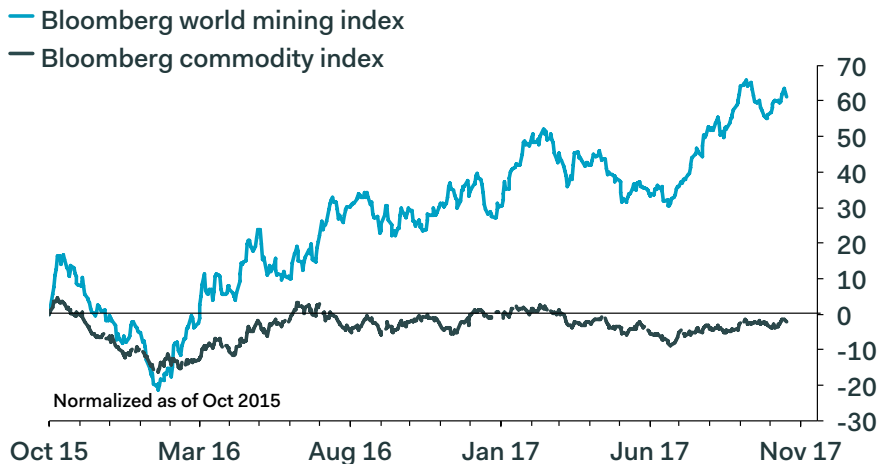
**41. COMMODITIES USUALLY DO WELL WHEN THE FED TIGHTENS**



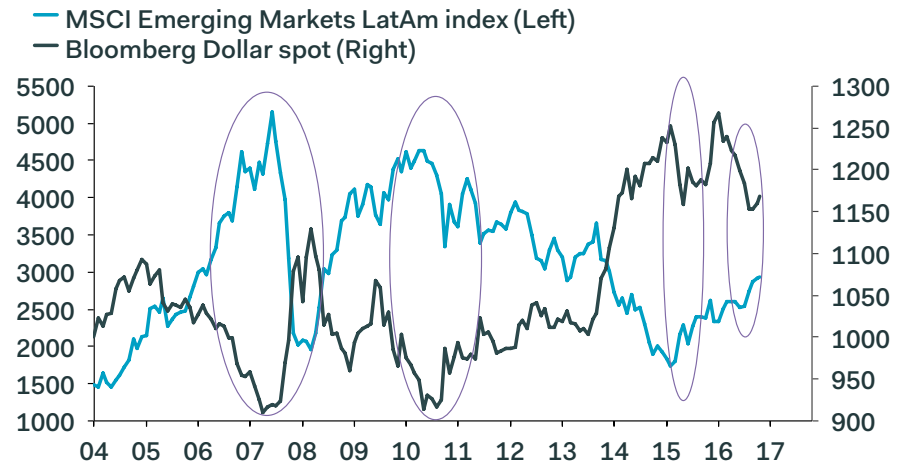
**43. LATAM MOMENTUM HAS STALLED DUE TO NAFTA FEARS**



**42. MINING COMEBACK WILL HELP CHILE AND PERU, FOR NOW**



**44. LATAM MARKETS DO WELL IN TIMES OF USD WEAKNESS**



GDP (year-over-year, %)	2014	2015	2016	2017	2018
Argentina	-2.5	2.6	-2.2	2.7	2.9
Brazil	0.5	-3.8	-3.6	0.9	2.8
Chile	1.9	2.3	1.6	1.7	2.7
Colombia	4.4	3.1	2.0	1.8	2.6
Mexico	2.2	2.5	2.3	2.2	2.3
Peru	2.4	3.3	4.0	2.5	3.7
Venezuela	-3.9	-5.7	-15.0	-10.5	-6.0
<i>Latin America</i>	0.8	-0.6	-1.3	1.4	2.5

#### Prices, CPI (year-over-year, %, average)

Argentina	37.2	28.3	41.0	27.0	18.1
Brazil	6.4	9.0	8.8	3.5	4.0
Chile	4.4	4.3	3.8	2.1	2.4
Colombia	2.9	5.0	7.5	4.3	3.4
Mexico	4.0	2.7	2.8	6.0	3.9
Peru	3.3	3.5	3.6	3.0	2.4
Venezuela	61.8	120.0	500.0	1000.0	2000.0
<i>Latin America ex-Venezuela and Argentina</i>	4.1	5.4	5.6	3.0	3.1

#### Central Bank Rate (end of year)

Argentina	29.50	--	--	27.75	22.0
Brazil	11.75	14.25	13.75	7.00	6.00
Chile	3.00	3.50	3.50	2.50	3.00
Colombia	4.50	5.75	7.50	5.00	4.50
Mexico	3.00	3.25	5.75	7.00	6.00
Peru	3.50	3.75	4.25	3.25	3.75
Venezuela	18.73	--	--	--	--
<i>Latin America</i>	6.6	8.0	8.2	5.4	5.0