

Latam Charts: Indicators Dispel Uncertainty

- Economic indicators continue to point to strong growth in the Latam region, reducing the uncertainty that had prevailed with respect to the resilience of the recovery. Strong growth will soon restore output to its pre-pandemic level—or has already done so.
- The big questions now concern the level and persistence of inflation, and what it will take in terms of central bank tightening to contain price pressures. Latam central banks have begun tightening, with additional policy rates hikes on the way.
- At the same time, continued growth remains hostage to possible adverse developments in the pandemic that could, for example, exacerbate existing supply chain disruptions or propagate new bottlenecks.

KEY ECONOMIC CHARTS

Only a few months ago, uncertainty regarding the resiliency and the pace of economic recovery hung over the Latam region. While Latam economies experienced a rebound from the pandemic-induced contractions in 2020 (chart 1), questions remained as to whether the recovery would be maintained. These doubts reflected several factors; not surprisingly, the most important unknowns related to the transmission and virulence of COVID-19.

Much of that uncertainty has dissipated. As additional data points on economic activity have come in (chart 2), projected growth rates have been raised, and there is growing confidence that output will soon return to pre-COVID-19 levels and, indeed, has likely already done so in Colombia, where September indicators [provide](#) a strong close to Q3.

Growth rates across the region are expected to moderate, however, as base effects, which reflect the contraction in output early in the pandemic, wane. Over 2022, growth is projected to broadly return to pre-pandemic levels. In this regard, raising long-run potential output growth remains an important policy challenge in terms of addressing long-standing development issues. And boosting potential output would also have a salutary effect on inflationary pressures.

The Latam region, like the rest of the global economy, has experienced a sharp rise in inflation as economies have recovered (chart 3). For the most part, recent data releases underscore this trend: October numbers for [Chile](#) and [Mexico](#) show inflation at 6% y/y, above the upper range of inflation targets, while in [Peru](#) the most recent survey of 12-month inflation expectations by the BCRP revealed expected inflation at 3.6%, above the upper limit of the central bank's target range for the third consecutive month. In [Colombia](#), in contrast, October CPI came in at 0.1% m/m, with a VAT holiday offsetting other price rises. While that temporary measure may provide short-term benefits by containing year-end indexation effects, our team in Bogota do not expect it to affect the central bank's tightening plans.

Price pressures are expected to be transitory, with inflation rates projected to gradually decline in 2022 as temporary supply-side bottlenecks and

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supply chain disruptions are corrected. But this forecast is contingent on Latam central banks following through on price stability commitments to firmly anchor inflation expectations.

Central banks across the region have reacted by embarking on a tightening cycle to unwind the extraordinarily stimulative monetary conditions introduced in the pandemic. Key policy rates have been raised across the region; the latest increases coming in Mexico, where Banxico raised its policy rate 25 bps on November 11, and Peru, with the BCRP hiking its policy rate 50 bps, also on [November 11](#). Despite recent increases, however, policy rates remain negative in real terms (adjusted for inflation) in Chile, Colombia, and Peru (chart 4). Central banks in Brazil and Mexico have been more aggressive in hiking rates, setting them apart from their peers in the region and around the globe (chart 5).

Fiscal authorities also responded to the pandemic with extraordinary measures to support the most vulnerable and sustain economic activity. The result was a marked deterioration in fiscal balances (chart 6) and a corresponding increase in general government gross debt as a share of GDP (chart 7). While public sector balance sheets provided a shock absorber through the pandemic, and an increase in debt-to-GDP ratios is consistent with that role, increases in Argentina and Brazil, which pre-date the COVID-19 event are noteworthy. Looking ahead, a further deterioration in public finances, particularly in the run-up to elections, could weigh on investor confidence.

Such concerns could be aggravated by external vulnerabilities, including external debt burdens (chart 8), current account balances (chart 9), and international reserves (chart 10). At this point, however, there is little indication of potential problems.

KEY MARKET CHARTS

Financial markets in the Latam region have largely reflected two factors over the past six months: central banks' tightening cycle and political uncertainty. In Brazil, for example, the real has appreciated against the US dollar in recent weeks on the back of the central bank's policy (chart 3). The Peruvian currency, meanwhile, has rallied against the dollar, recouping the losses sustained earlier in the year as political uncertainty in the run-up to the presidential elections and the extended interregnum that followed took a toll on the pen. With that uncertainty reduced, and the administration in Lima projecting a more moderate tone, the financial environment has improved. In contrast, increased political uncertainty in Brazil, reflecting growing opposition to the president, has likely hurt local equity markets, which have underperformed relative to all other regional markets (chart 4).

The effects of the same two factors can also be discerned in a longer-term perspective. Latam currencies depreciated early in the pandemic, consistent with inflation-targeting regimes with flexible exchange rates, as central banks took extraordinary actions (chart 5). Similarly, 10-year CDS spreads on Latam sovereigns widened considerably in March 2020, but narrowed through the balance of the year (chart 6). Spread widening in Brazil, Colombia and Peru in 2021 has likely reflected political considerations and other idiosyncratic factors, such as the nationwide strikes in Colombia that had disrupted production earlier in the year.

YIELD CURVE CHARTS

Latam sovereign yield curves have shifted up over the year as central banks started tightening monetary conditions (charts 1–12). Most sovereign curves have shifted up more or less uniformly over all maturities as markets have priced-in the effects of inflation and central banks' responses to price pressures. Argentina, which features a highly inverted yield curve reflecting the pervasive uncertainty regarding near-term debt sustainability, is an exception. Mexico's curve is another exception. While the short-end of the curve has shifted up since the start of the year, beyond the medium-term it remains firmly anchored at its position at the start of the year.

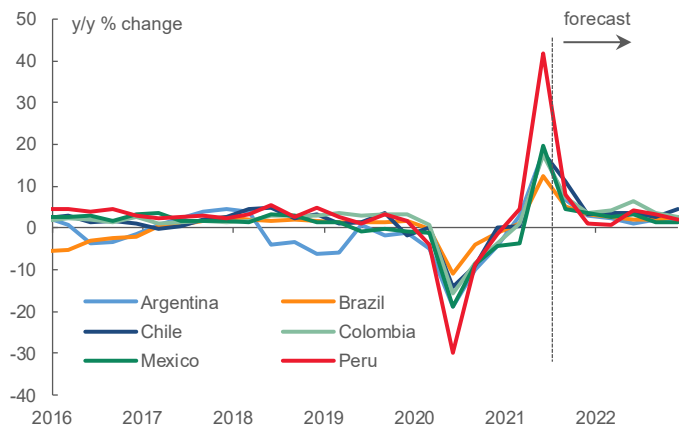
KEY COVID-19 CHARTS

It was noted above that much of the uncertainty clouding near-term prospects has cleared. Unknowns related to the evolution of the pandemic remain, however. Charts 1–12 provide key monitoring tools. Of especial importance in this regard is the continued decline in new daily cases (chart 7) and test positivity rates (chart 12). At the same time, tracking vaccine doses administered (chart 10) provides a guide to the robustness of the recovery. Chile continues to stand out, not only in the region, but internationally, in this regard.

Key Economic Charts

Chart 1

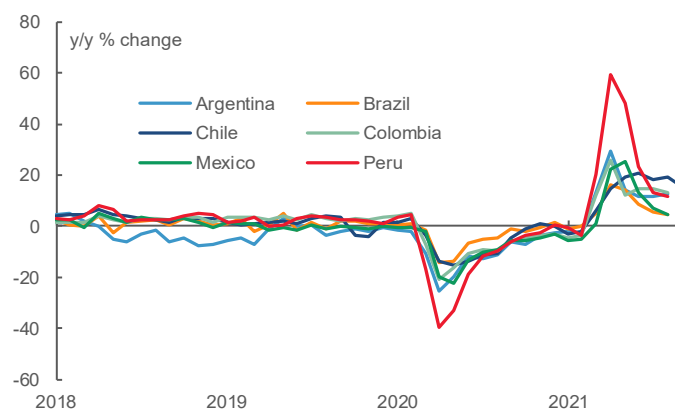
Real GDP



Sources: Scotiabank Economics, Haver Analytics.

Chart 2

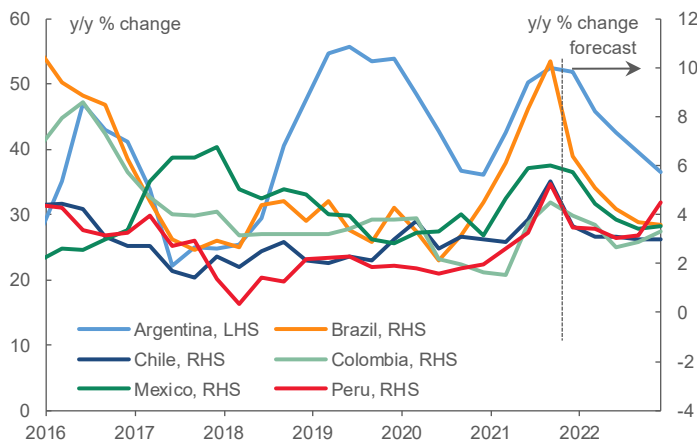
Latam: Monthly Economic Activity Index Tracker



Sources: Scotiabank Economics, Haver Analytics.

Chart 3

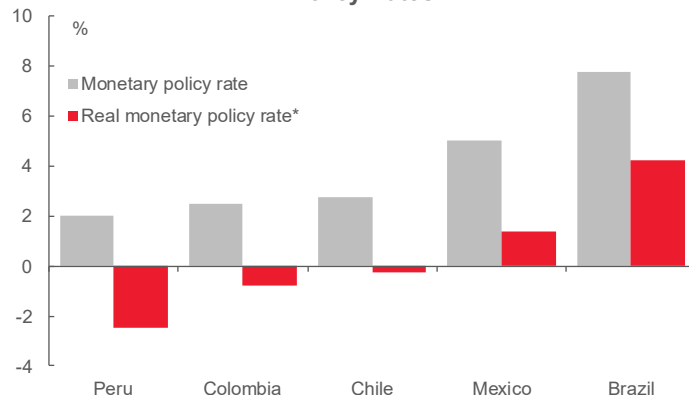
Inflation



Sources: Scotiabank Economics, Haver Analytics.

Chart 4

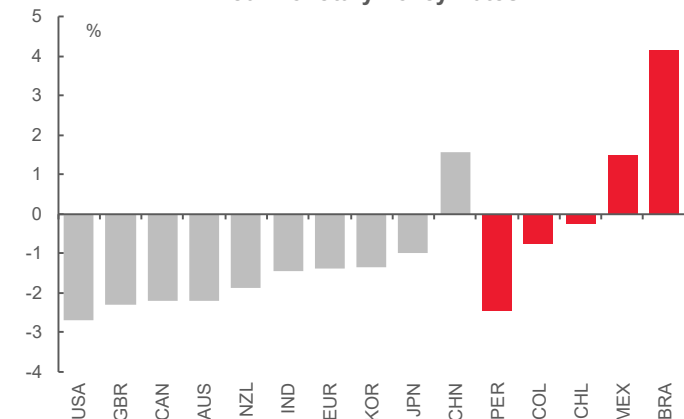
Policy Rates



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q4-2022, % y/y. Argentina: MPR = 38.0%; Real MPR = 1.5%.
Sources: Scotiabank Economics, Haver Analytics.

Chart 5

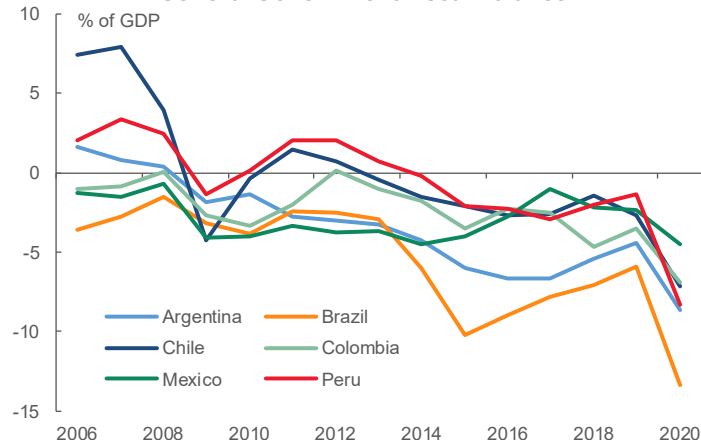
Real Monetary Policy Rates*



* Real monetary policy rate = current policy rate - BNS expected inflation, end-Q4-2022, % y/y. Sources: Scotiabank Economics, Bloomberg.

Chart 6

General Government Fiscal Balance



Sources: Scotiabank Economics, IMF Fiscal Monitor, Apr. 2021.

Key Economic Charts

Chart 7

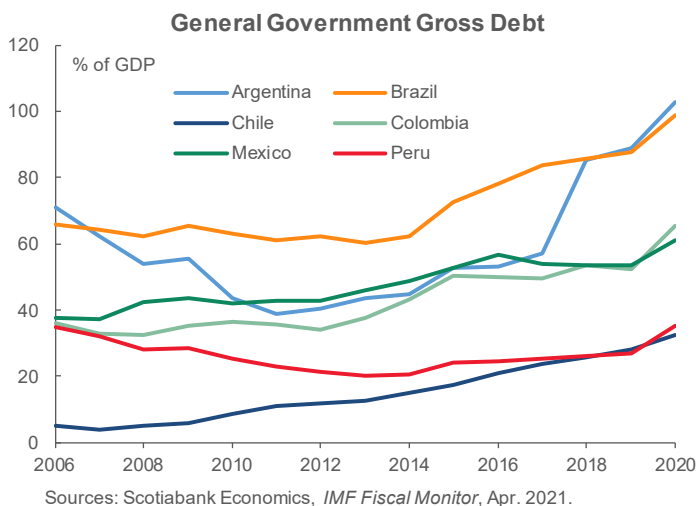


Chart 8



Chart 9

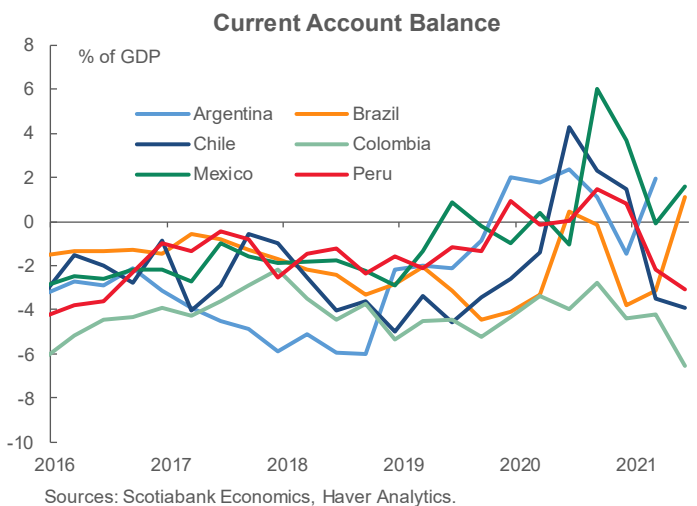
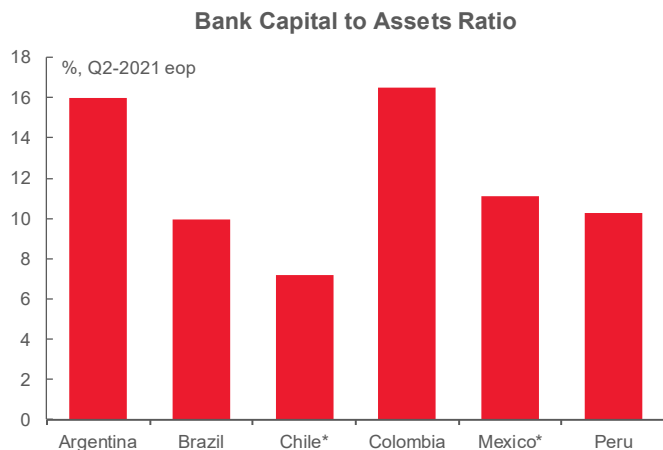


Chart 10



Key Market Charts

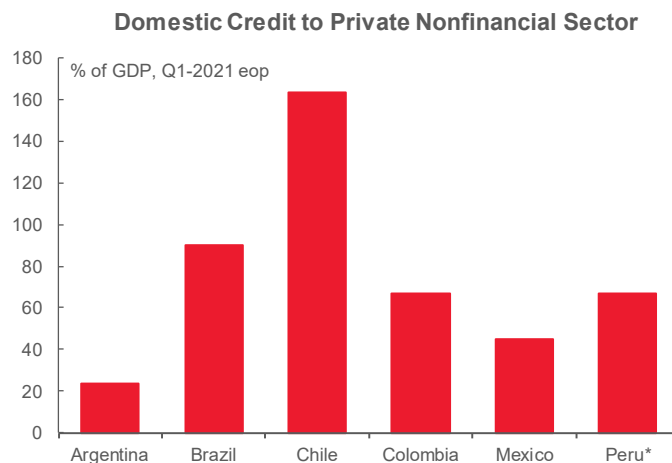
Chart 1



* Data to Q1-2021.

Sources: Scotiabank Economics, IMF.

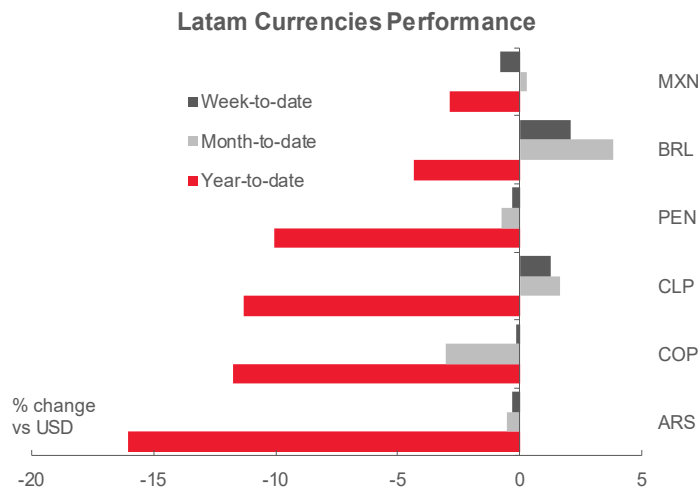
Chart 2



*Data to Q2-2021.

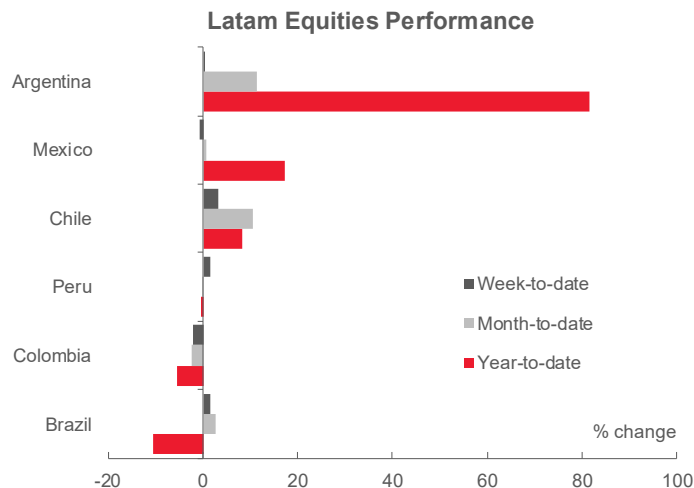
Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 3



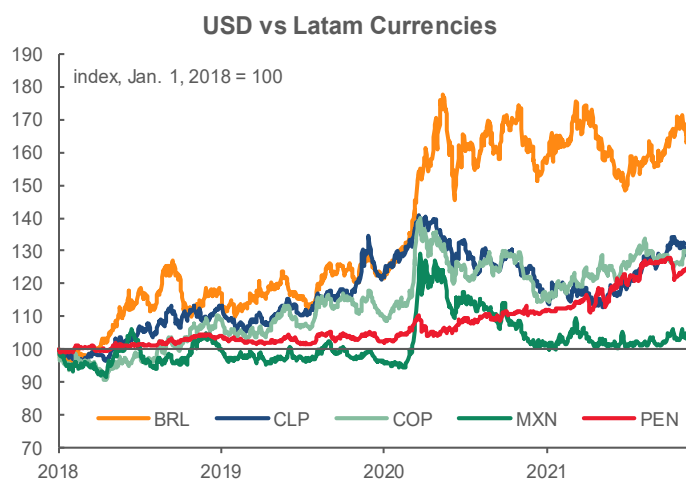
Sources: Scotiabank Economics, Bloomberg.

Chart 4



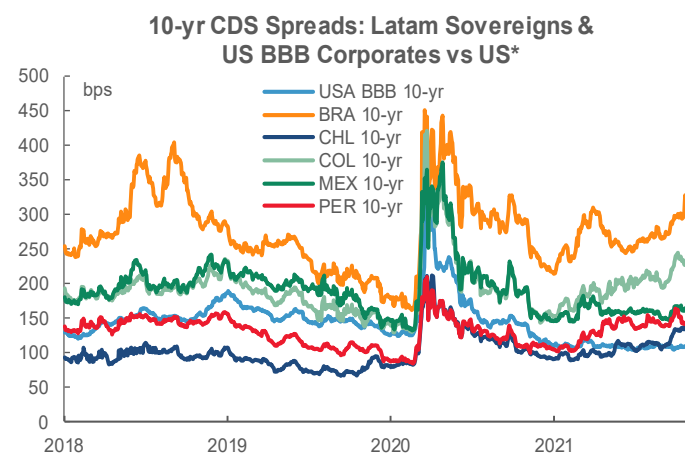
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

Chart 6



*Sovereigns vs US swaps; BBB corporates vs 10-yr USTs.

Sources: Scotiabank Economics, Bloomberg.

Yield Curves

Chart 1

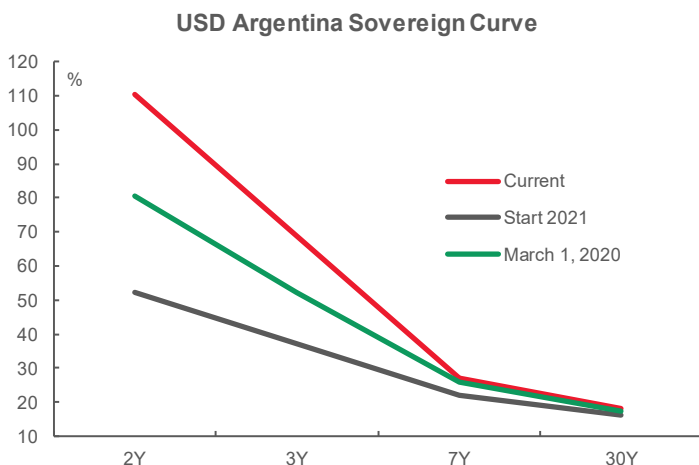


Chart 2

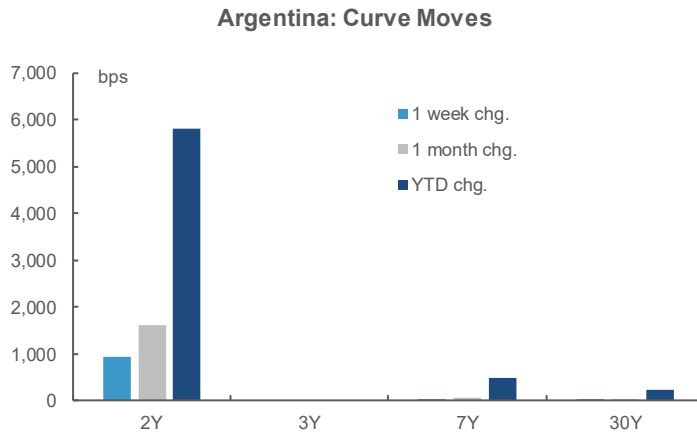


Chart 3

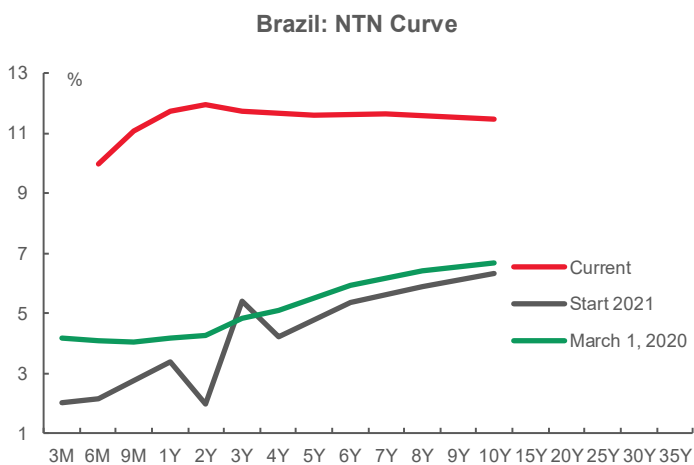


Chart 4

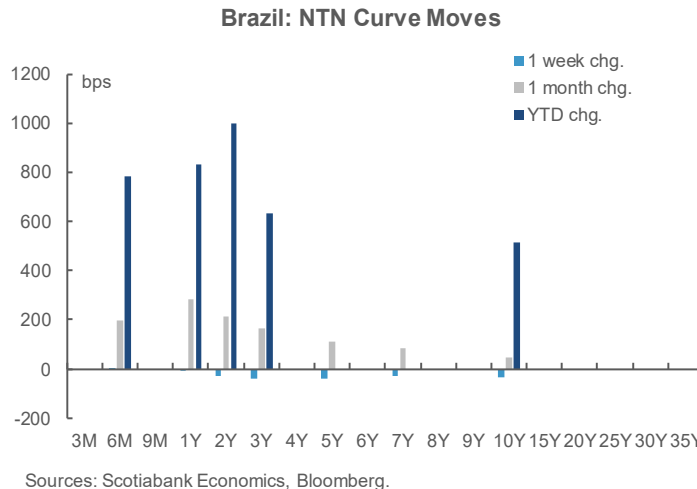


Chart 5

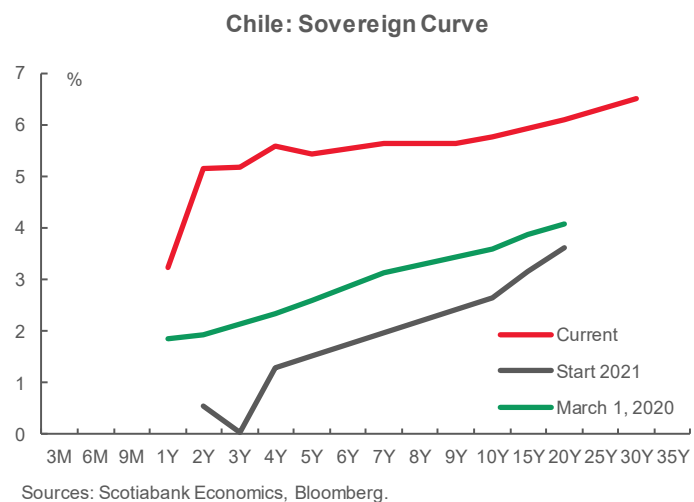
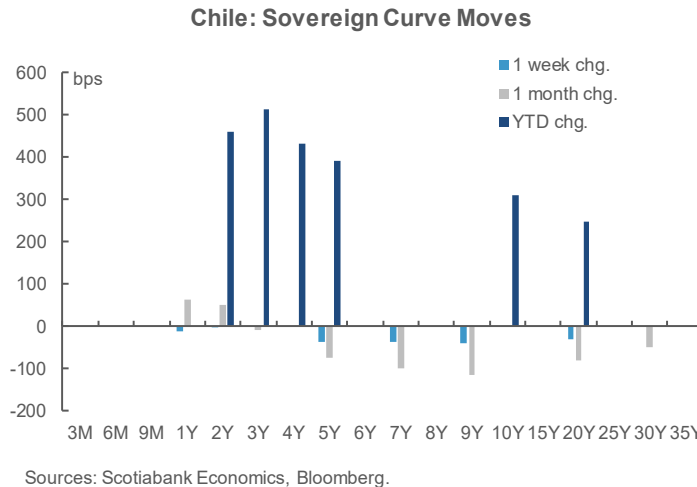


Chart 6



Yield Curves

Chart 7

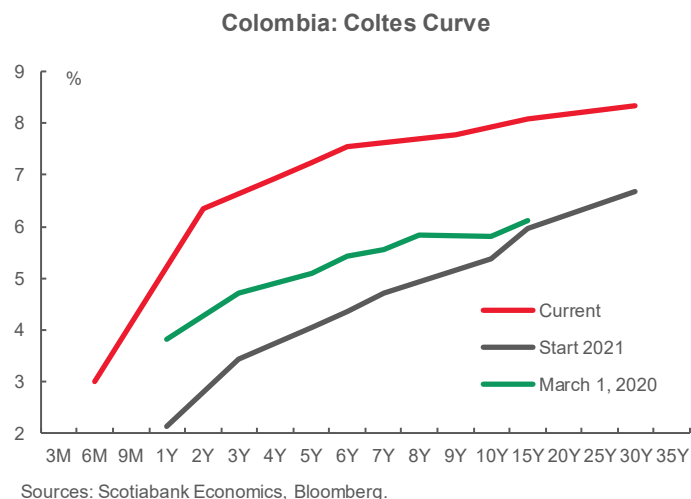


Chart 8

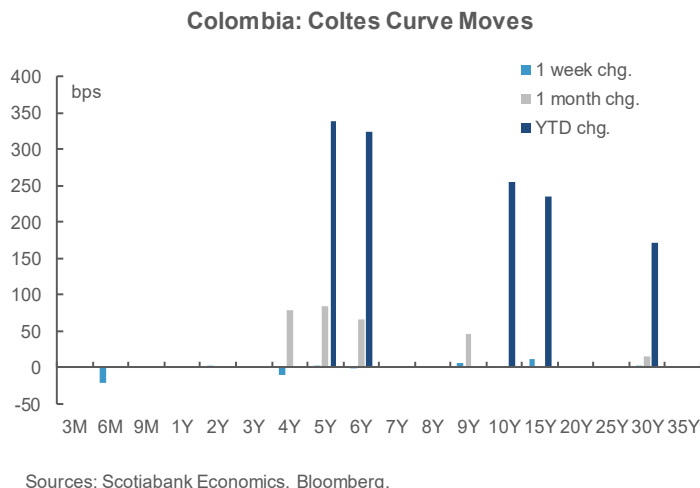


Chart 9

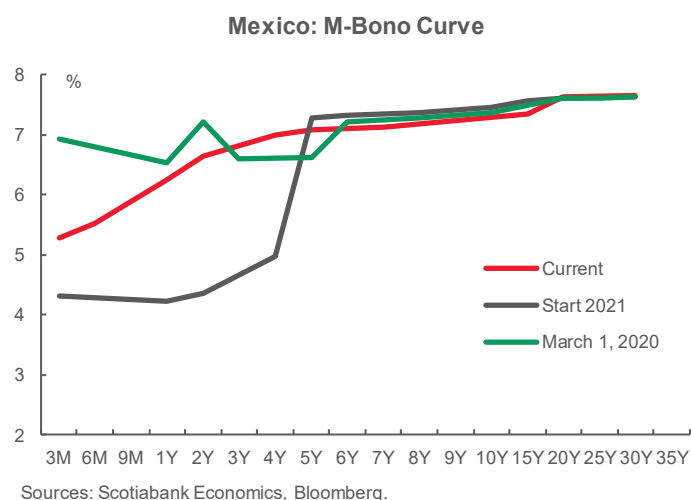


Chart 10

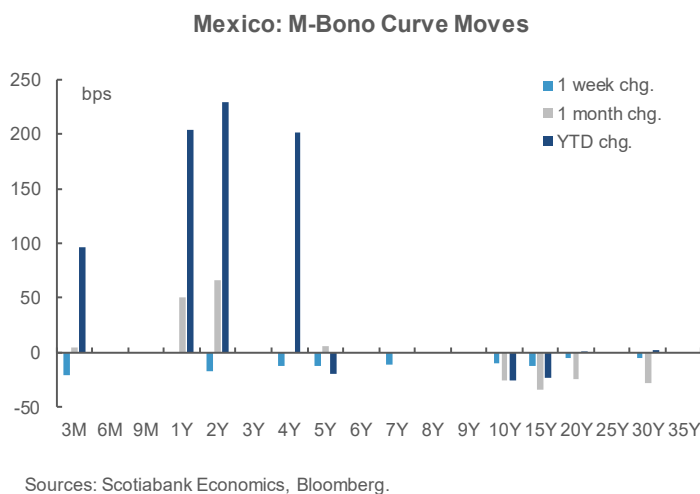


Chart 11

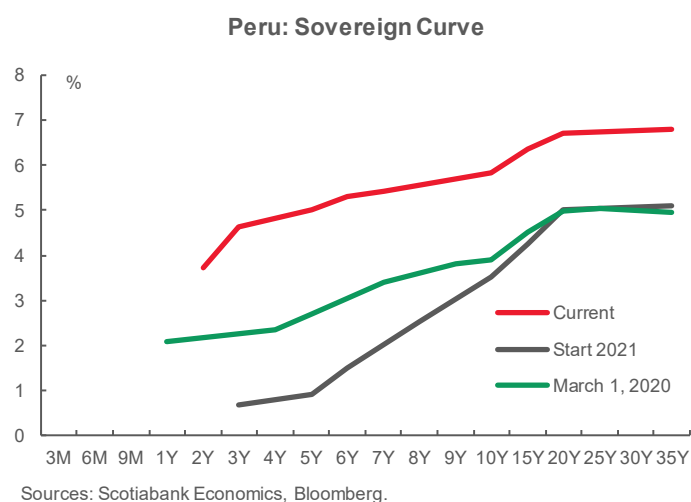
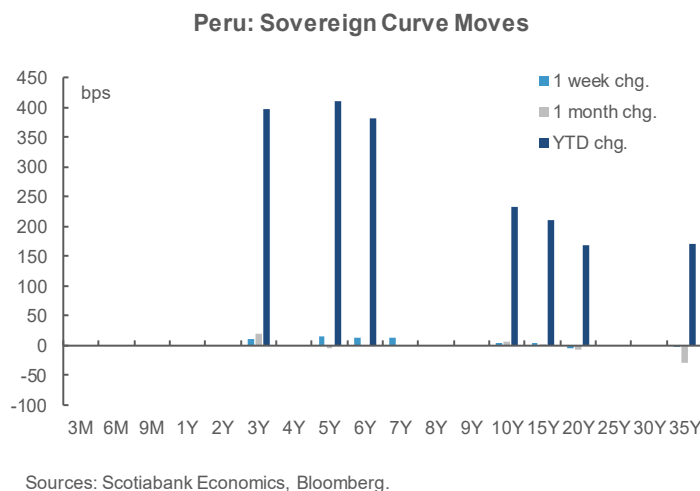


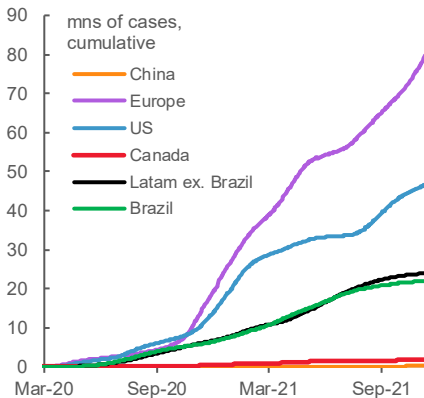
Chart 12



Key COVID-19 Charts

Chart 1

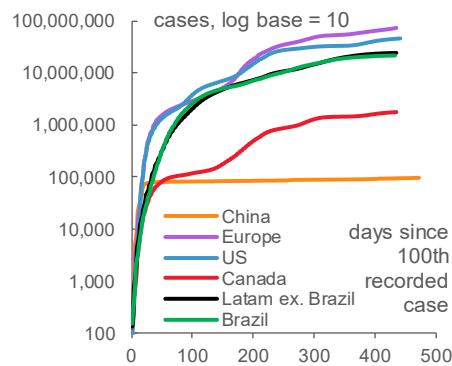
Global COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University, Oxford University.

Chart 2

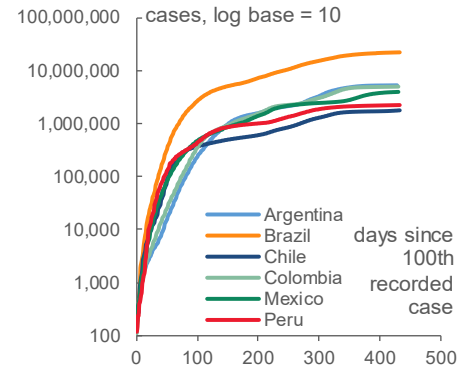
Global Cumulative COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3

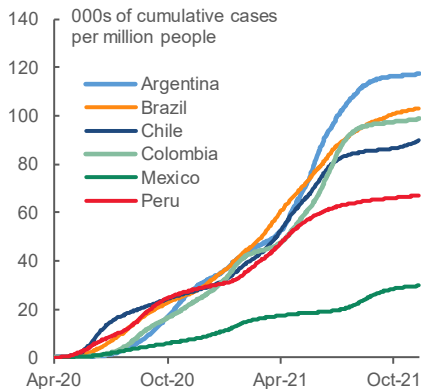
Latam Cumulative COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 4

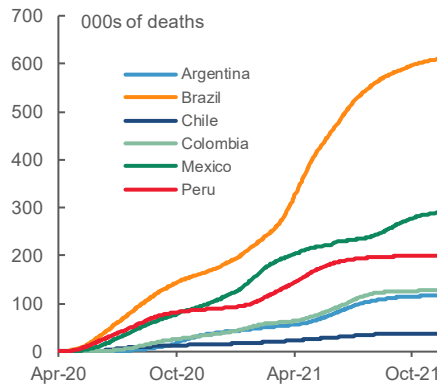
Latam Population-Adjusted COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart 5

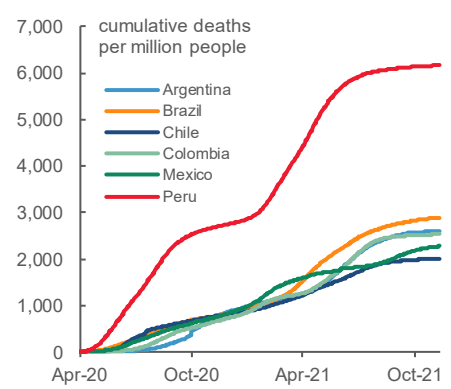
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6

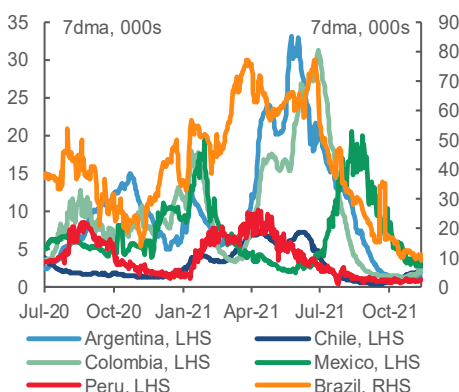
Latam Cumulative COVID-19 Deaths



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 7

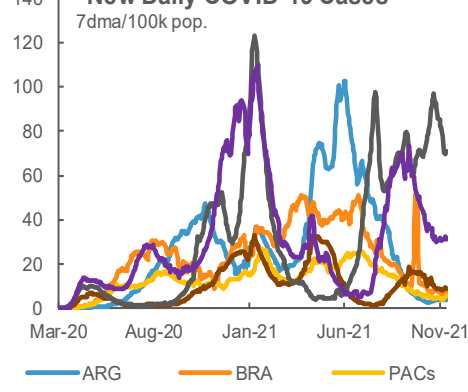
Latam: Trend in New Daily COVID-19 Cases



Sources: Scotiabank Economics, Johns Hopkins University.

Chart 8

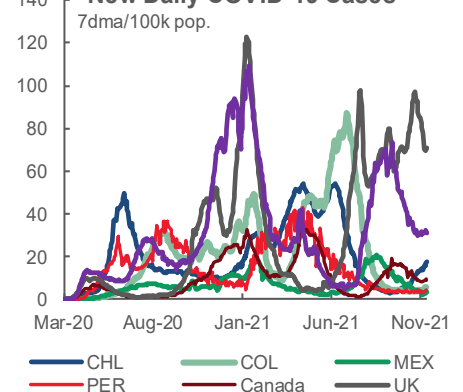
Latam vs World: New Daily COVID-19 Cases



Sources: Scotiabank Economics, JHU.

Chart 9

Pacific Alliance vs World: New Daily COVID-19 Cases



Sources: Scotiabank Economics, JHU.

Key COVID-19 Charts

Chart 10

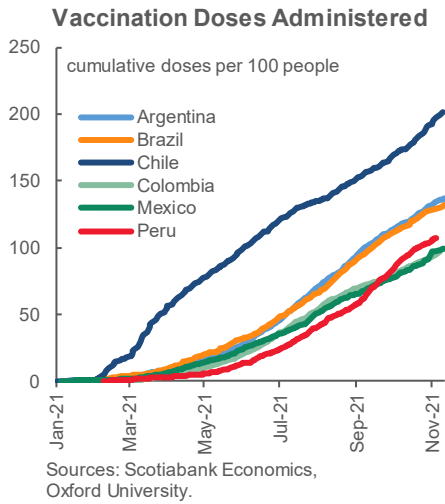


Chart 11

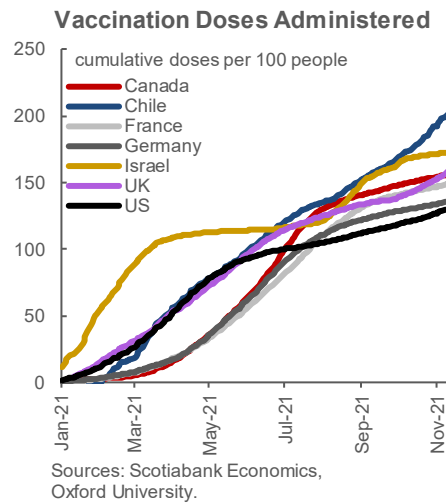
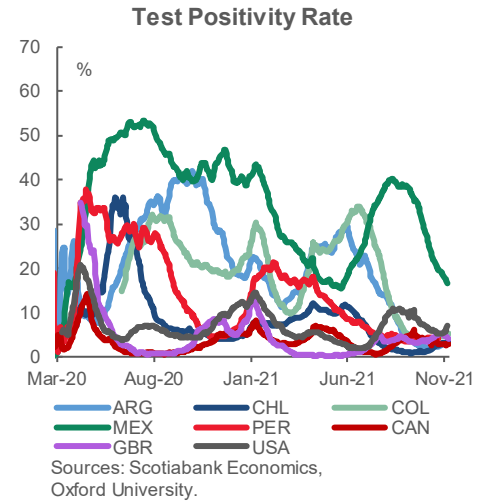


Chart 12



Market Events & Indicators for November 13–26

ARGENTINA

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Nov-17	14:00 Capacity Utilization (%)	Sep	--	--	64.4	
Nov-17	UTDT Leading Indicator	Oct	--	--	0.71	
Nov-22	Budget Balance (ARS mn)	Oct	--	--	291428.4	
Nov-23	14:00 Trade Balance (USD mn)	Oct	--	--	1667	
Nov-23	14:00 Exports Total (USD mn)	Oct	--	--	7553	
Nov-23	14:00 Imports Total (USD mn)	Oct	--	--	5886	
Nov-23	14:00 Economic Activity Index (y/y)	Sep	--	--	12.8	
Nov-23	14:00 Economic Activity Index (m/m)	Sep	--	--	0.9	
Nov-25	14:00 Shop Center Sales (y/y)	Sep	--	--	245.19	
Nov-25	14:00 Supermarket Sales (y/y)	Sep	--	--	4.52	
Nov-25	Consumer Confidence Index	Nov	--	--	40.21	

BRAZIL

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Nov-16	6:00 FGV CPI IPC-S (%)	15-Nov	--	0.8	0.81	
Nov-16	6:00 FGV Inflation IGP-10 (m/m)	Nov	--	1.62	-0.31	
Nov-16	6:25 Central Bank Weekly Economist Survey					
Nov-16	7:00 Economic Activity (m/m)	Sep	--	-0.06	-0.15	
Nov-16	7:00 Economic Activity (y/y)	Sep	--	2.6	4.74	
Nov-16	13:00 Trade Balance Weekly (USD mn)	14-Nov	--	--	-30.34	
Nov-18	3:00 FIPE CPI - Weekly (%)	15-Nov	--	1.03	1.01	
Nov-22	6:25 Central Bank Weekly Economist Survey					
Nov-22	13:00 Trade Balance Weekly (USD mn)	21-Nov	--	--	-30.34	
Nov-23	6:00 FGV CPI IPC-S (%)	22-Nov	--	0.8	0.81	
Nov-24	6:00 FGV Consumer Confidence	Nov	--	--	76.3	
Nov-25	3:00 FIPE CPI - Weekly (%)	22-Nov	--	1.03	1.01	
Nov-25	6:00 FGV Construction Costs (m/m)	Nov	--	--	0.8	
Nov-25	7:00 IBGE Inflation IPCA-15 (m/m)	Nov	--	--	1.2	
Nov-25	7:00 IBGE Inflation IPCA-15 (y/y)	Nov	--	--	10.34	
Nov-25	7:30 Current Account Balance (USD mn)	Oct	--	--	-1699	
Nov-25	7:30 Foreign Direct Investment (USD mn)	Oct	--	--	4495	
Nov 22-25	Tax Collections (BRL mn)	Oct	--	--	149102	
Nov-26	7:30 Outstanding Loans (m/m)	Oct	--	--	2	
Nov-26	7:30 Total Outstanding Loans (BRL bn)	Oct	--	--	4428.781	
Nov-26	7:30 Personal Loan Default Rate (%)	Oct	--	--	4.25	
Nov-26	Formal Job Creation Total	Oct	--	--	313902	
Nov 26-30	Federal Debt Total (BRL bn)	Oct	--	--	5443	
Nov 26-30	Central Govt Budget Balance (BRL bn)	Oct	--	--	0.303	

CHILE

Date	Time Event	Period	BNS	Consensus	Latest	BNS Comments
Nov-18	6:30 Current Account Balance (USD mn)	3Q	--	--	-2637.7	
Nov-18	6:30 GDP (y/y)	3Q	--	--	18.1	
Nov-18	6:30 GDP (q/q)	3Q	--	--	1.03	
Nov-24	7:00 PPI (m/m)	Oct	--	--	-0.2	

Market Events & Indicators for November 13–26

COLOMBIA

Date	Time Event	Period	BNS	Consensus	Latest BNS Comments
Nov-16	10:00 Trade Balance (USD mn)	Sep	--	--	--
Nov-16	10:00 Imports CIF Total (USD mn)	Sep	--	--	--
Nov-16	11:00 GDP NSA (y/y)	3Q	11.1	--	-- The economy would exhibit a robust quarterly
Nov-16	11:00 Economic Activity NSA (y/y)	Sep	10.8	--	-- rebound amid a strong consumption recovery.
Nov-16	11:00 GDP (q/q)	3Q	4.7	--	-- Normality in main cities is leading to faster recovery in traditional services sectors.
Nov-22	Industrial Confidence	Oct	--	--	--
Nov-22	Retail Confidence	Oct	--	--	--
Nov-26	Central Bank Board Meeting				According to BanRep's schedule, the board won't decide on monetary policy rates.

MEXICO

Date	Time Event	Period	BNS	Consensus	Latest BNS Comments
Nov-17	10:00 International Reserves Weekly (USD mn)	12-Nov	--	--	198920
Nov-22	Citibanamex Survey of Economists				
Nov-23	7:00 Retail Sales (m/m)	Sep	--	--	0
Nov-23	7:00 Retail Sales (y/y)	Sep	--	--	7.2
Nov-23	10:00 International Reserves Weekly (USD mn)	19-Nov	--	--	198920
Nov-24	7:00 Bi-Weekly CPI (%)	15-Nov	--	--	0.38
Nov-24	7:00 Bi-Weekly Core CPI (%)	15-Nov	--	--	0.2
Nov-24	7:00 Bi-Weekly CPI (y/y)	15-Nov	--	--	6.36
Nov-25	7:00 GDP NSA (y/y)	3Q F	--	--	4.56
Nov-25	7:00 GDP SA (q/q)	3Q F	--	--	-0.23
Nov-25	7:00 GDP Nominal (y/y)	3Q	--	--	29.56
Nov-25	7:00 Economic Activity IGAE (y/y)	Sep	--	--	4.28
Nov-25	7:00 Economic Activity IGAE (m/m)	Sep	--	--	-1.57
Nov-25	10:00 Current Account Balance (USD mn)	3Q	--	--	6286.1
Nov-25	10:00 Central Bank Monetary Policy Minutes				
Nov-26	7:00 Trade Balance (USD mn)	Oct	--	--	-2398.43

PERU

Date	Time Event	Period	BNS	Consensus	Latest BNS Comments
Nov-15	10:00 Lima Unemployment Rate (%)	Oct	--	--	10
Nov-15	Economic Activity (y/y)	Sep	--	--	11.83
Nov-18	GDP (y/y)	3Q	--	--	41.9

Scotiabank Economics Latam Coverage



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