Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Calm Before Regional Inflation Flood

- **Mexico: Gross fixed investment accelerated in August, with surging construction; Private consumption continues to be led by imported goods**

Outside of APac markets reopening to catch up to Friday's US moves—and in Japan to price action since Thursday—the week is starting out quietly with a small bias for paring the rates rally and lift oil prices. Equity futures are holding to the gains made while the USD is leaking lower in European trading, but the ranges are relatively small (the MXN is little changed in the mid-17s). The rest of the G-10 week is also mostly uneventful on the data front alongside the usual post-decision parade of central bank speakers (Powell on Friday).

USTs are bear flattening (2s10s down 1bp), in contrast to bear steepening EGBs (2s10s up 3bps) and gilts (2s10s up 4bps). The USD is down against all major currencies except those seeing firmer domestic rates, i.e. the JPY, AUD, and NZD, but even there the weakness is minor but notable in that the BBDXY is extending weakness below its 50-day MA (trading at lowest since Sep 20). Saudi Arabia and Russia confirmed that they would continue their supply/export cuts in December which, combined with Israel making inroads in Northern Gaza, has oil up ~1.5% in a broad commodities-positive day as iron ore rises 0.7% and copper adds about 1%. SPX futures are up 0.1/2%, partly buoyed by a Reuters report that Tesla will produce €25k cars at a Berlin factory.

The Latam day ahead, with Colombia closed today for holidays, only has the usual weekly BCB economists survey results and Brazilian S&P PMIs that generally get little attention from markets. Tomorrow may be a bit busier thanks to the release of Chilean international trade and nominal wages data, but traders should keep their powder dry on Monday and Tuesday for the release of Chilean and Colombian CPI on Wednesday, followed by Mexican inflation on Thursday ahead of Banxico (hawkish hold) and BCRP decision (neutral 25bps cut), to close the week with Brazilian prices figures and the BCCh's economists survey. You can read more about our views for the week ahead in the ***Latam Weekly***.

—Juan Manuel Herrera

MEXICO: GROSS FIXED INVESTMENT ACCELERATED IN AUGUST, WITH SURGING CONSTRUCTION; PRIVATE CONSUMPTION CONTINUES TO BE LED BY IMPORTED GOODS

In August, gross fixed investment accelerated annually, going from 28.8% to 32.0% (chart 1). Machinery and equipment moderated 15.2% (19.8% previously), with the domestic subcomponent slowing down to 11.3% (17.5% previously) and the imported one to 17.8% (21.3% previously). Construction increased its pace to 48.1% (37.4% previously), non-residential construction increased to 99.5% y/y (71.1% previous) and residential fell -2.7% (3.5% previously) (chart2). In the seasonally adjusted monthly comparison, the GFI had a significant increase of 3.1% (0.7% previously), machinery and equipment rose 0.9% (-1.1% previously), and construction rose 5.2% (1.9% previously). Despite the annual advances, these strong increases have been supported by the change in the base year to 2018. Additionally, we highlight that the indicator has already exceeded the levels observed before the pandemic.

It should be noted that although the increase in non-residential construction is the main factor for the recent increases, the best has come from private construction (+50.0 y/y) and to a lesser extent public construction (+38.4%). On the machinery and equipment side, the pace is much lower, both in public (+15.9% y/y) and private (+0.8%).

Chart 1

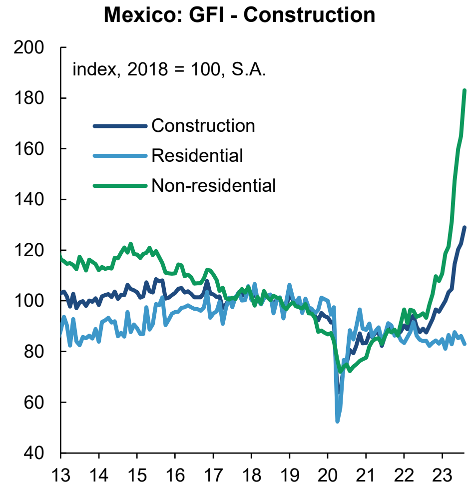
Sources: Scotiabank Economics, INEGI.

In August, private consumption slightly increased its pace in real annual terms, from 4.0% to 4.1%. Domestic goods fell -0.6% (-1.0% previously), imported goods (chart 3) increased 23.3% (19.4% previously), and domestic services moderated to 2.1% (3.0% previously). In its seasonally adjusted monthly comparison, private consumption rose 0.5% (0.1% previously), derived from the fact that services stagnated (0.0%) and imported goods increased 3.0%. The index has 30 months of consecutive increases, and what is most striking is the strength of imported goods, which could affect the trade deficit, and that domestic goods and services have not shown significant changes (chart 3 again).

We expect that both indices will continue to rise, and that the behaviour will remain the same for almost all their components, derived from the strong economic activity in 2023, which, although it slowed down in Q3, exceeded analysts' expectations, which can be seen modified in the following surveys. In addition, consumption is not slowed down despite high rates, which could cause inflation problems.

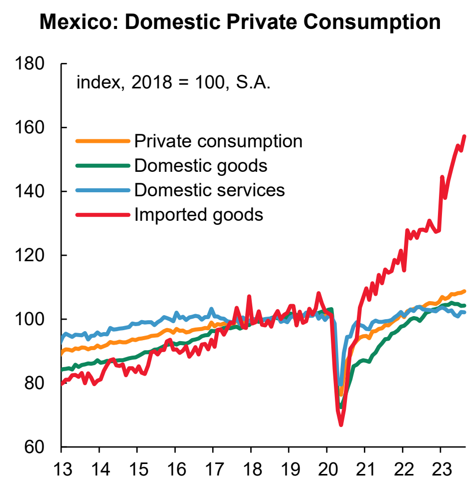
—Brian Pérez

Chart 2



Sources: Scotiabank Economics, INEGI.

Chart 3



Sources: Scotiabank Economics, INEGI.