Scotiabank.

GLOBAL ECONOMICS

LATAM DAILY

October 31, 2022


Contributors

**Juan Manuel Herrera**
Senior Economist/Strategist
+44.207.826.5654
Scotiabank GBM
juanmanuel.herrera@scotiabank.com

**Guillermo Arbe,** Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

**Sergio Olarte,** Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

**Jorge Selaive,** Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

**Eduardo Suárez,** VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

**Aníbal Alarcón,** Senior Economist
+56.2.2619.5465 (Chile)
anibal.alarcon@scotiabank.cl


# Latam Daily: Lula Defeats Bolsonaro; Strong Beat in Mexican GDP

- **Chile: Notable destruction of salaried employment**

**As expected, Lula defeated the incumbent, Bolsonaro, in yesterday's Brazilian runoff election.** With practically all votes counted, Lula is leading with a 50.9% share compared to Bolsonaro's 49.1% which represents a much smaller margin of victory than what polls had shown in recent days (5–6ppts in Lula's advantage). This is not terribly surprising, however, as the first election round evidenced the underestimation of possible Bolsonaro votes in polls. The narrow victory for Lula and victories by more business-friendly/right-wing candidates outside of the presidency, such as former Infrastructure Minister de Freitas in Sao Paulo and the conservative victory in congressional elections in early-October, means that he will have to stick to a relatively more centrist agenda.

While congratulatory messages to Lula have come in from leaders around the world, **Bolsonaro has yet to concede defeat and markets are attentive to any indication that he may challenge the results.** With no major signs of social unrest among Bolsonaro supporters and some of his allies recognizing Lula's victory, the chances of the President refuting the results look smaller—but Bolsonaro's unpredictability makes it difficult to be certain that he won't. The BRL is around 0.8% weaker to start the week (around twice the decline in the MXN amid broad dollar gains) while Ibovespa futures are about 2.5% cheaper at writing. We also await news on who Lula will pick to his cabinet, namely the role of economy minister currently held by Guedes.

**Mexican GDP for Q3 far exceeded economists' expectations with a 4.2% y/y expansion against a median forecast of 3.3% y/y;** this follows beats in IGAE readings in five of the past eight months. On a quarter-on-quarter basis, the economy grew 1.0% (vs 0.8% median), accelerating slightly from the Q2 gain of 0.9%. Overall, the year-on-year gain was broad-based as the primary sector climbed 3.8% compared to gains of 3.9% and 4.3% in secondary and tertiary activities, respectively. All-in-all, the print should give Banxico additional confidence that it can keep pace with the Fed's rate increases in the near-term without a weak economic backdrop presenting a dilemma.

**On Friday, BanRep met economists' forecasts with a 100bps increase in a relatively hawkish decision with unanimous support for a full-point hike** and more muted concerns about economic activity in Colombia. **We think the COP will react positively to the response from the central bank** to stubbornly-high inflation and the pressure in rates markets ahead of the decision. Our Bogota team now expects a final 50bps hike from the central bank at its December meeting (see ***Latam Flash***) to reach a terminal rate of 11.50%—though markets remain convinced that an additional ~200bps in hikes are in the pipeline. **Colombia's DANE publishes September unemployment rate data this morning;** economists see a practically unchanged jobless rate at 10.7% vs 10.8% in August.

**Note that Chilean markets are closed today, and tomorrow alongside Peru's, with Mexico and Brazil on holidays on Wednesday. The main events in the region this week will be Peruvian CPI tomorrow and Chilean economic activity on Wednesday**—but the Fed's decision that day and US jobs to close out the week will likely be the main driver of moves in regional markets.

**—Juan Manuel Herrera**

## CHILE: NOTABLE DESTRUCTION OF SALARIED EMPLOYMENT

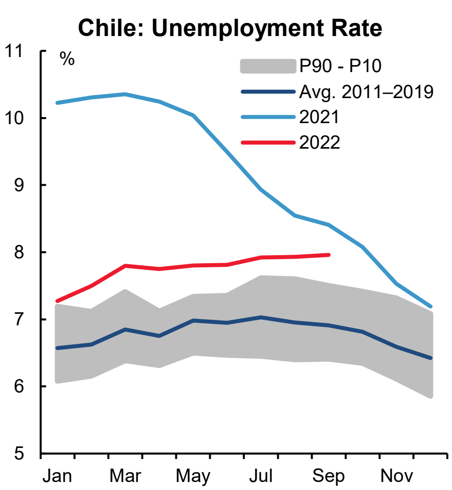
**The hard landing has begun for Chile's labour market with a deterioration in construction and trade employment—**and the worst is yet to come.

**On Friday, the statistical agency (INE) released unemployment rate data for the quarter ending in September, which showed an increase to 8% (chart 1), in line with both market and our expectations.** The deterioration of the labour market has begun to be reflected in the data, supporting our view regarding the negative impact of the persistent political and regulatory uncertainty, the end of elevated liquidity among households and firms, and highly restrictive monetary policy.

**The employment destruction was mainly in construction and commerce (chart 2).** The former has been affected by an increase in costs this year, as well as delays in public and private investment projects. In September, the construction sector shed 20k jobs, mainly salaried (17k). The trade sector showed a slight loss of employment (-3k), in a month during which its performance is historically positive. With the monthly drop, the sector has accumulated four consecutive months of job losses.

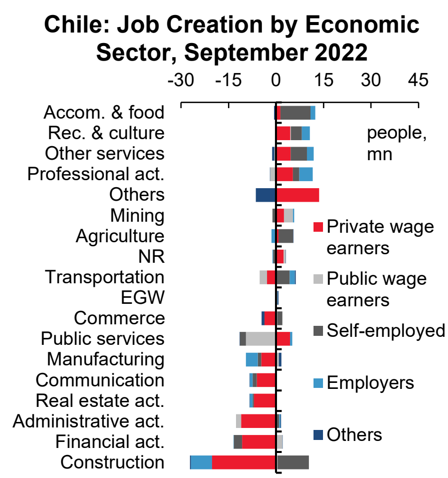
In this context, we reiterate that the central bank will have a worse diagnosis of economic activity in January which, in a scenario of decelerating inflation, would support a large cut in the policy rate, that we expect to between 100 and 200bps, accompanied by a dovish bias.

Chart 1




Sources: Scotiabank Economics, INE.

Chart 2




Sources: Scotiabank Economics, INE.

**—Aníbal Alarcón**