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US Recession Risks Threaten Latin American Growth

Latin America Monthly Outlook Presentation

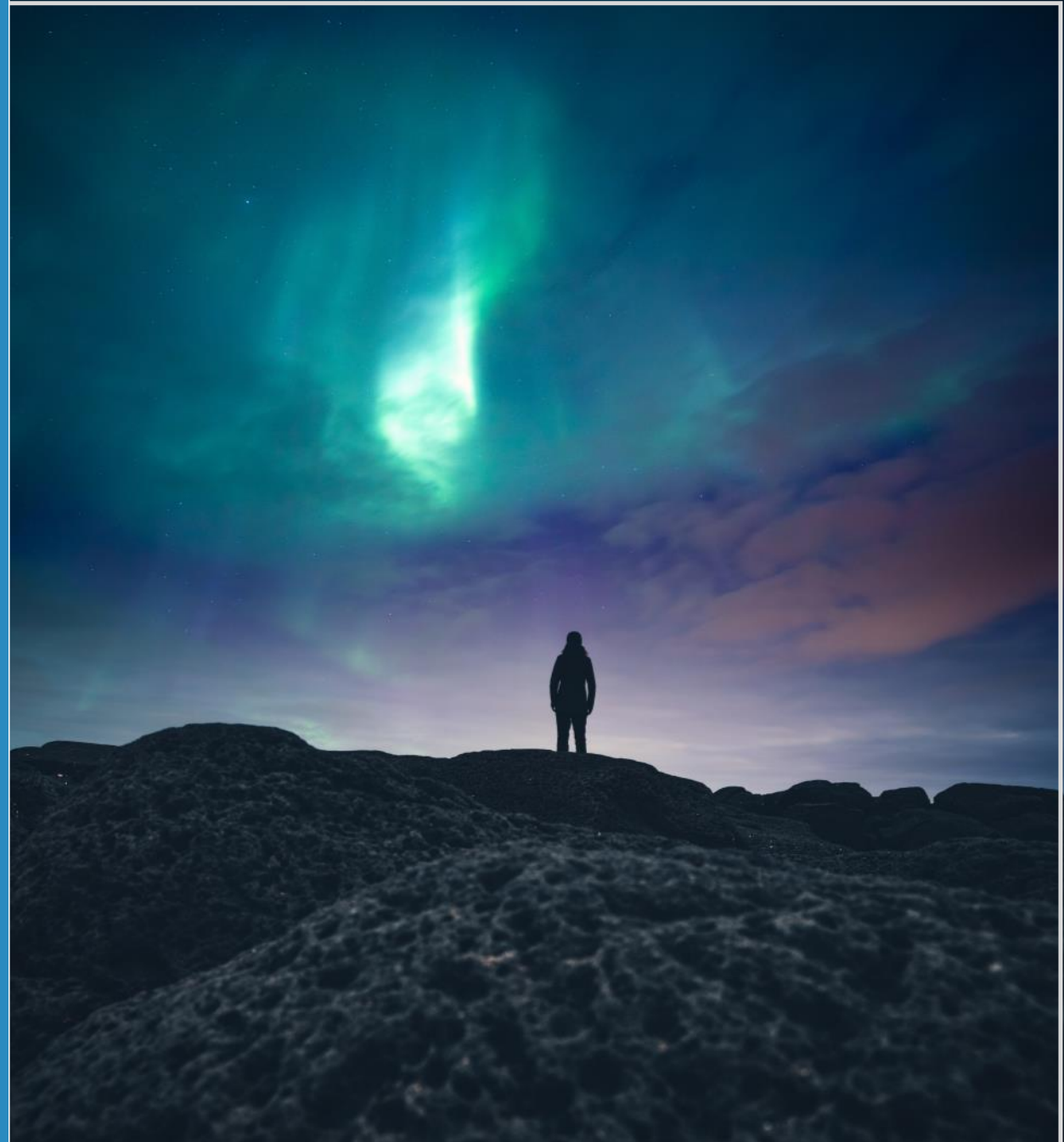
July 2022

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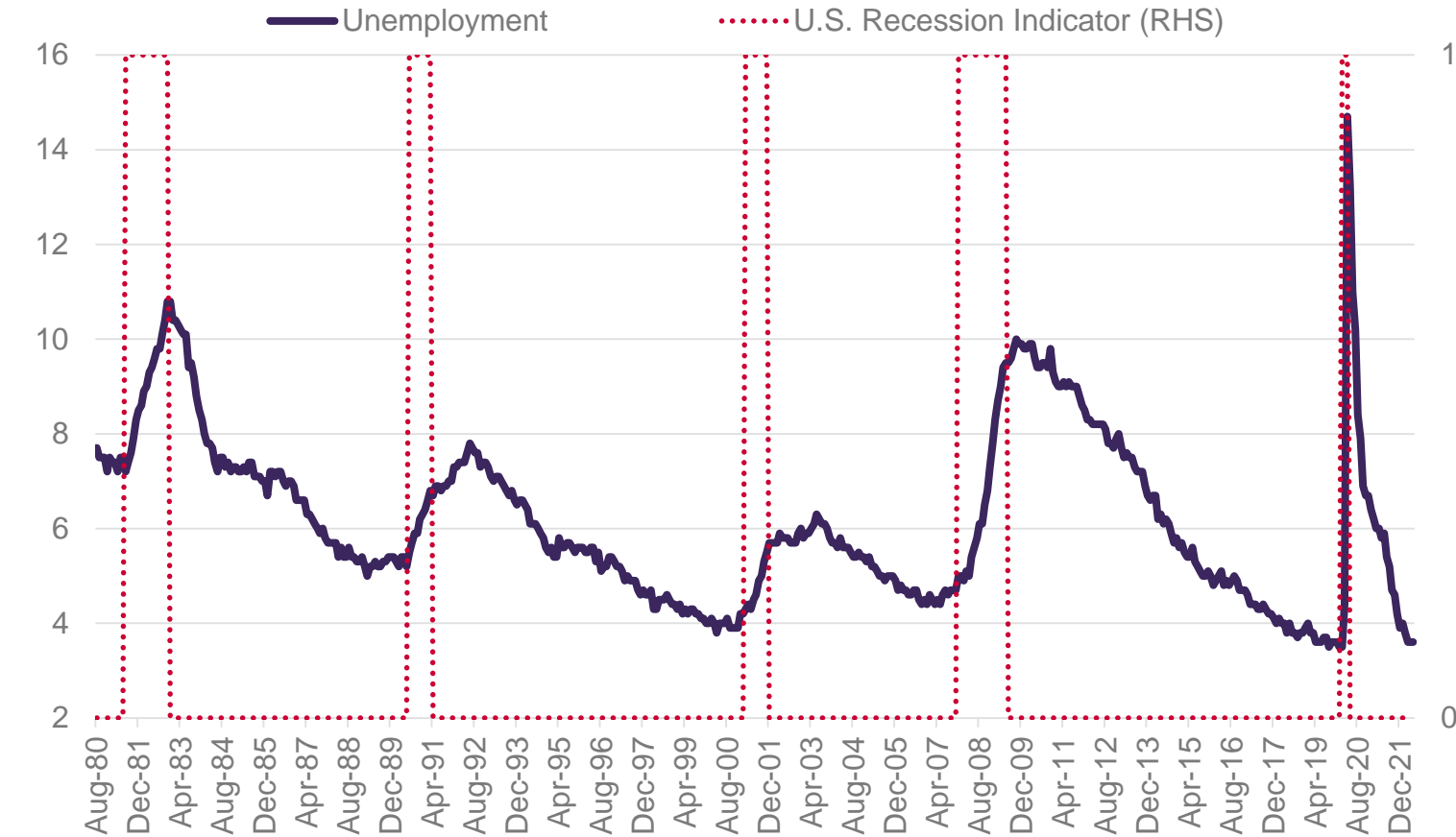
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Recession Risks In The US Are Rising

Cyclical Lows Usually Mark Trend Changes & Recessions

US – Unemployment Rate, %



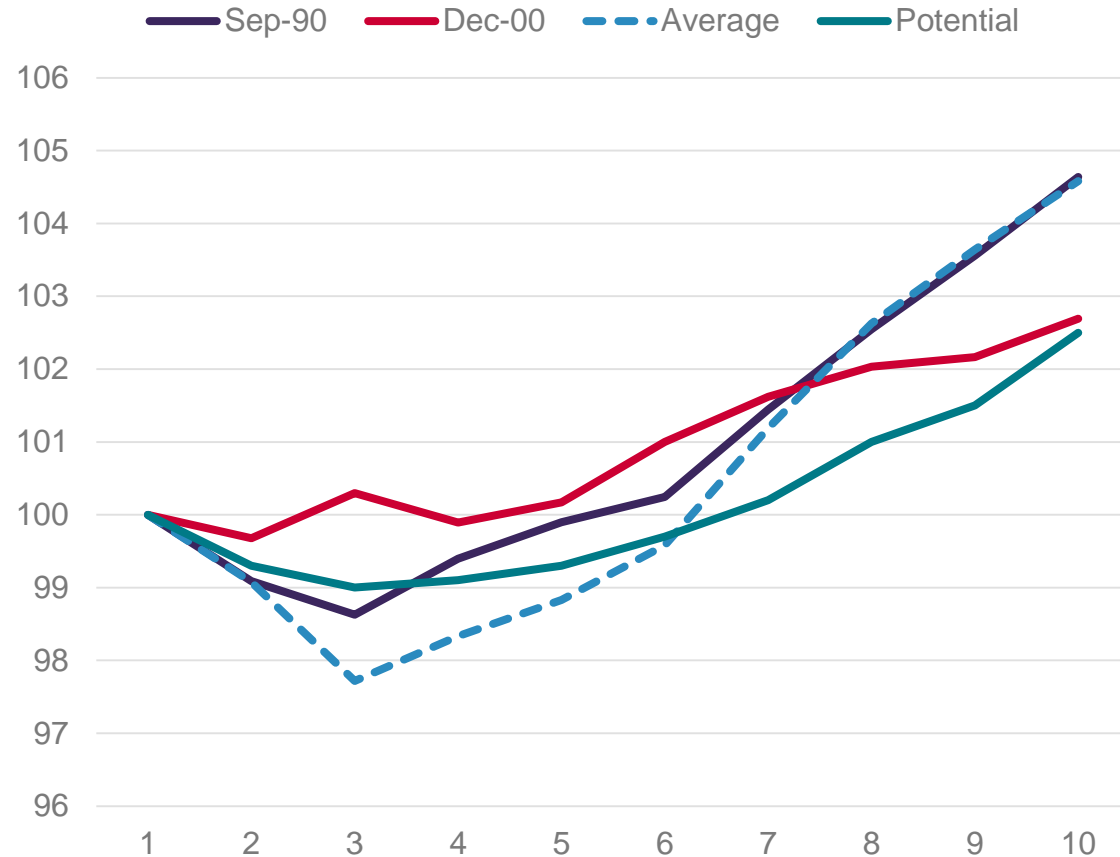
Source:

- While we at Fitch Solutions expect positive full-year growth for the US in 2022 and 2023, we believe that the risks of a recession are rising.
- We see a 30-40% probability that the US economy falls into recession over the next 6-18 months, with any recession likely hitting in 2023, rather than this year.
- Elevated inflation will keep the US Federal Reserve in a hawkish stance, with tighter financial conditions eating into household purchasing power and corporate earnings.
- Additionally, the yield curve has now inverted, while leading indicators related to future hiring in the labour market have started to soften.

Any Recession Would Be Softer Than Average, But A Slow Recovery

Historic Recessions Have Varied In Intensity

Real GDP Rebased To Quarter Before Start of Recession = 100



Source: Bloomberg, Fitch Solutions

Historical Recessions See 2.3% Drop In GDP

Several GDP Metrics During Recessionary Periods

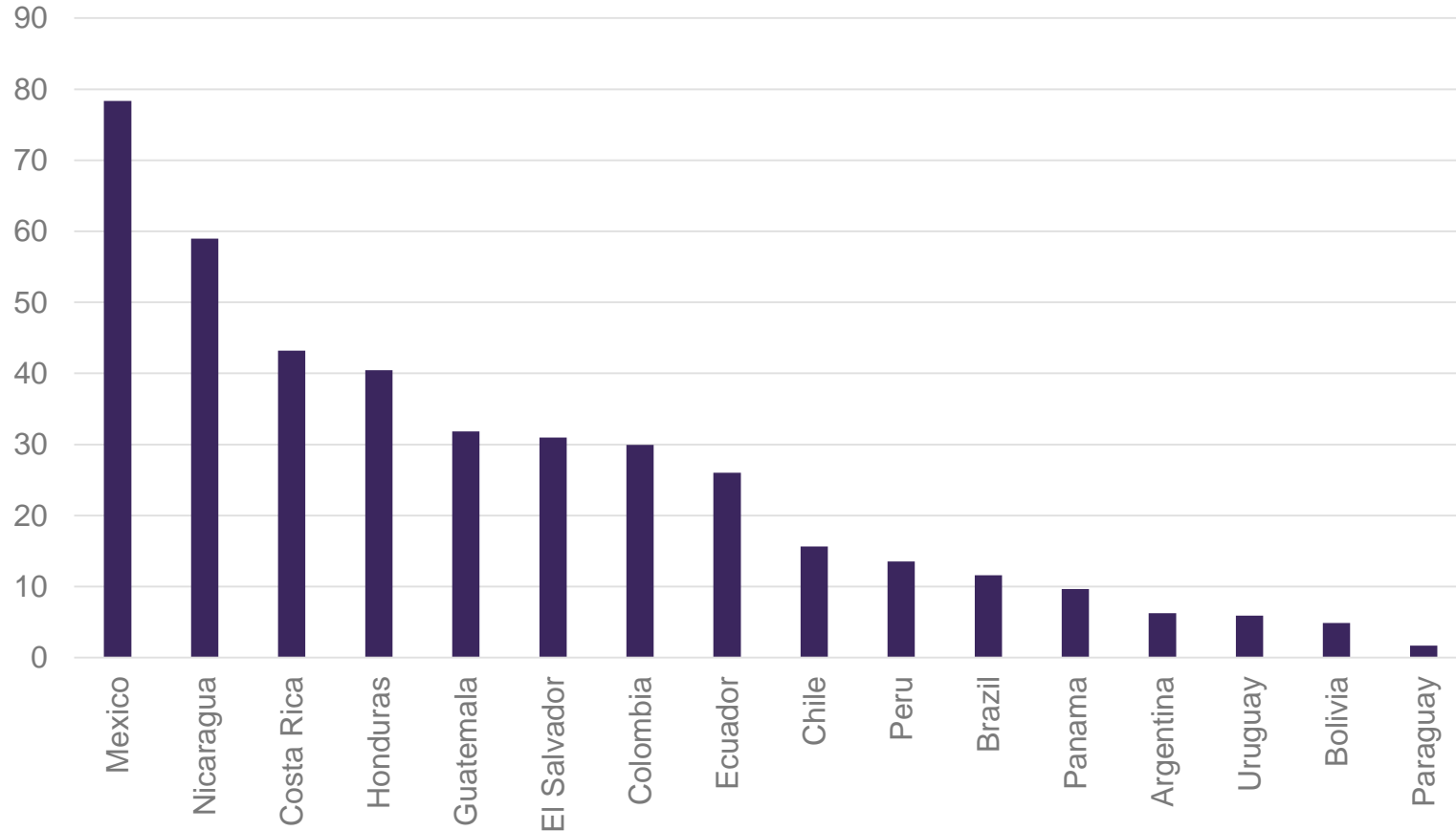
High In GDP	Low In GDP	N. of Quarters To Reach Bottom	% Decline In GDP
Q473	Q175	5	-3.1
Q180	Q380	2	-2.2
Q381	Q382	2	-2.6
Q390	Q191	2	-1.4
Q201	Q301	1	-0.4
Q208	Q209	4	-4.0
Q419	Q220	1	-10.0
Average		2.4	-3.4
Average (ex Covid)		2.7	-2.3

* Dates may not align 100% with start and end of recession period. Source: Fitch Solutions

US Recession Would Drag Down Growth In Latin America In 2023

Mexico And Central America Most Reliant On US Demand

Latin America – Goods Exports To The US, % Of Total, 2019-2021



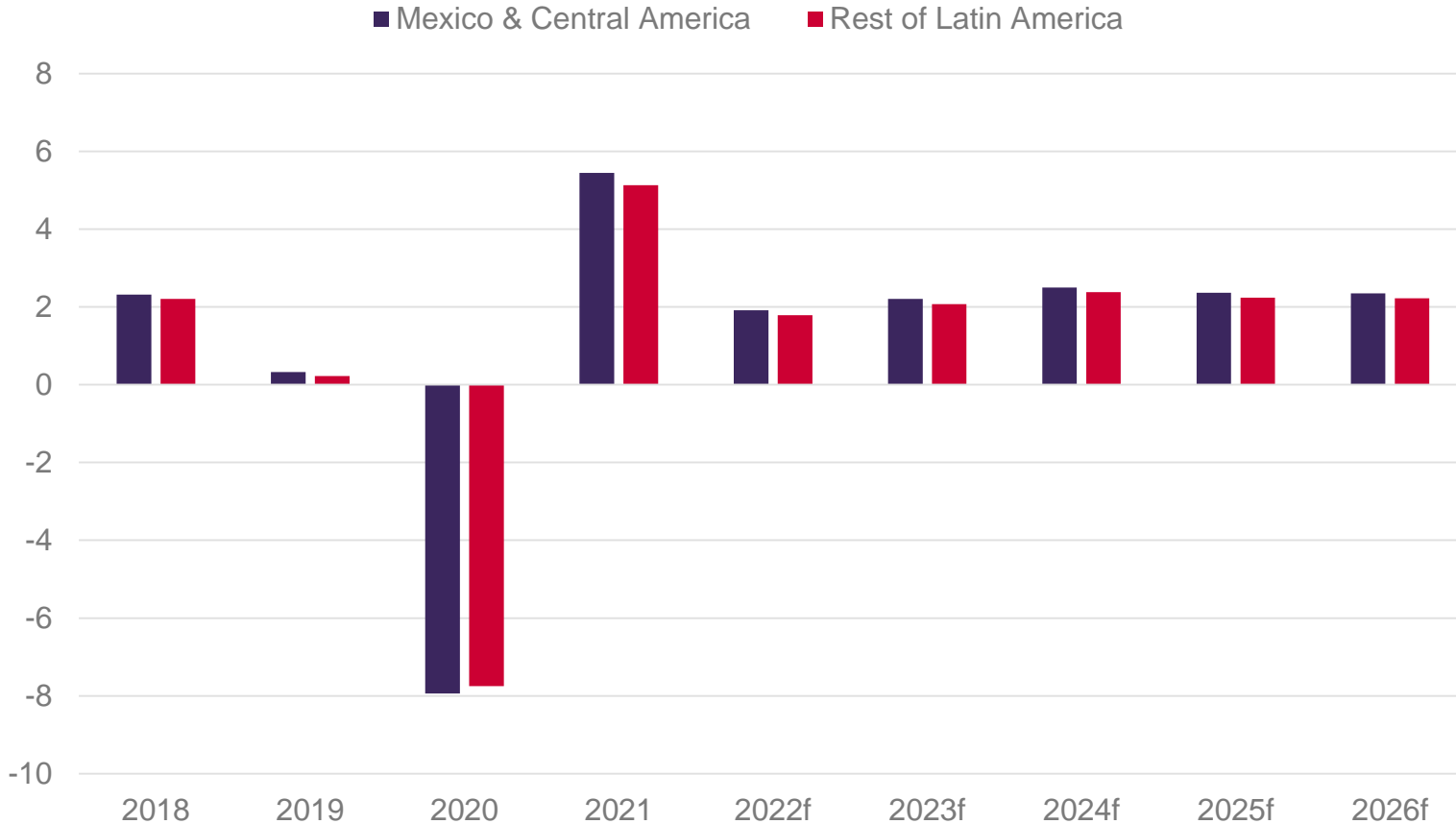
Source: Trade Map, Fitch Solutions

- We expect any US recession would likely be somewhat mild given strong household balance sheets, a relatively strong banking sector and decelerating inflation.
- Nevertheless, we believe it would be a blow to Latin America's real GDP outlook, via the trade and remittance channels.
- We flag Mexico and Central America as the markets most exposed to a US slowdown, as they are the most interconnected with the US economy.
- In addition, a US recession would have knock-on effects for overall global demand and market sentiment, impacting every economy in Latin America.

Mexico, Central America The Most Exposed

Central America, Mexico Would Lose Slight Edge In US Recession

Latin America - Weighted Real GDP Growth, % y-o-y, By Sub-Region



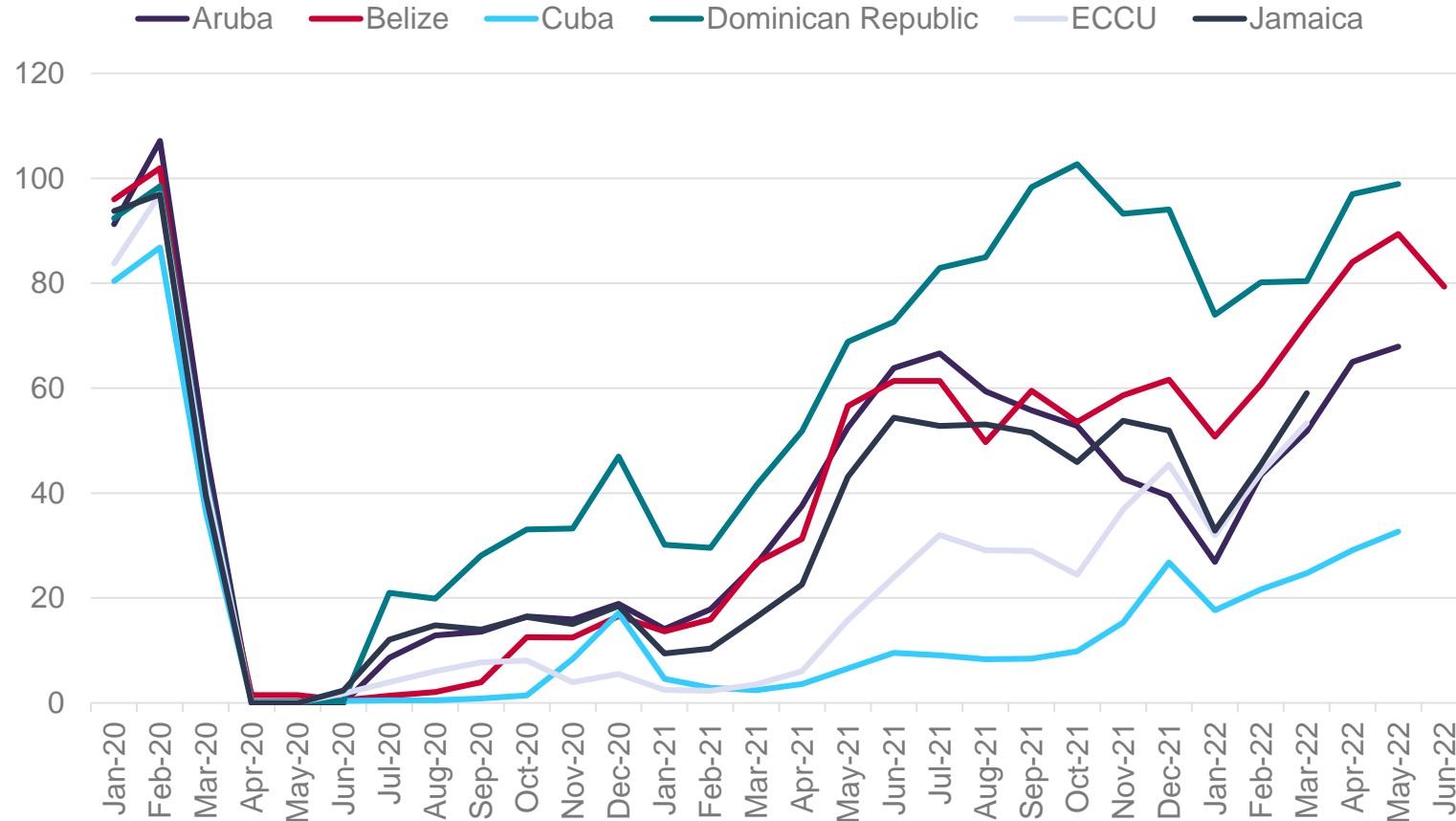
f = Fitch Solutions forecast. Source: Fitch Solutions

- All markets in Mexico and Central America, with the exception of Panama, send at least 30% of their goods exports to the US, implying that weaker US demand would be a heavy blow to their growth outlooks.
- Additionally, the US provides remittances to the region typically equal to more than 10.0% of GDP, helping to underpin private demand in these markets. These inflows would likely be reduced in the event of a US recession.
- A recession in the US therefore poses a significant risk to our view that Central America and Mexico will grow slightly faster than the rest of Latin America in 2023.

Caribbean Growth Also At Risk

US Recession Would Blunt Tourism Rebound

Caribbean (Selected) - Total Tourist Arrivals, % Of Arrivals In Same Month In 2019



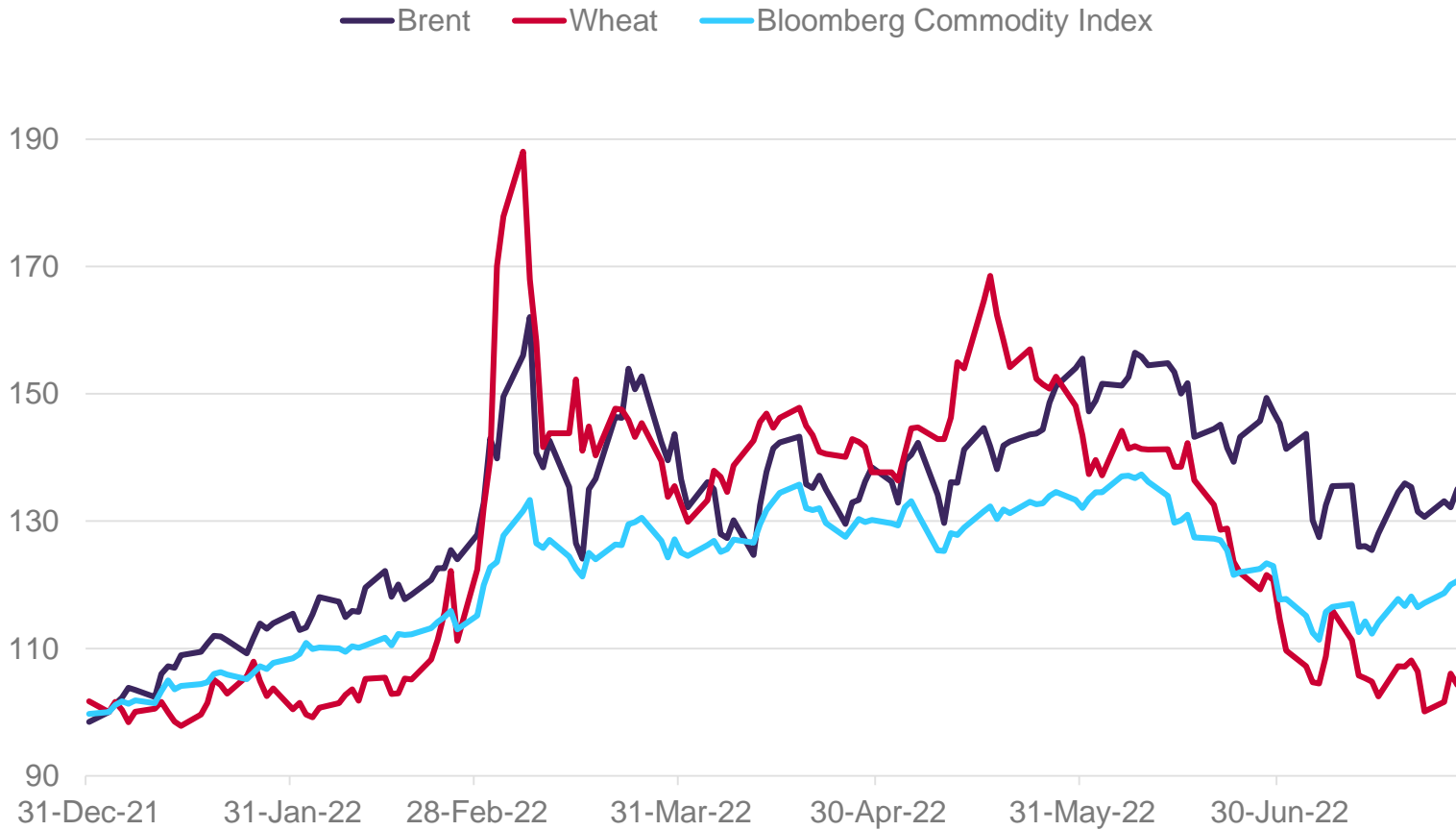
Source: National sources, Fitch Solutions

- The tourism-dependent Caribbean would also see a growth downturn in the event of a US recession.
- The US is one of the largest arrivals source markets for the region, and has helped to fuel the rebound in tourism seen since the pandemic. It also provides remittances to many markets in the region.
- However, a US recession would hit household disposable income and economic confidence, likely reducing outbound travel and transfers.
- Additionally, spillovers from weaker US growth on other markets, such as Canada and Western Europe, would also impact demand for travel to the Caribbean.

Weaker Global Growth Would Bring Down Commodity Prices, Inflation

Recession Fears Already Bringing Down Commodity Prices

Global - Prices Of Select Commodities, January 1 2022 = 100



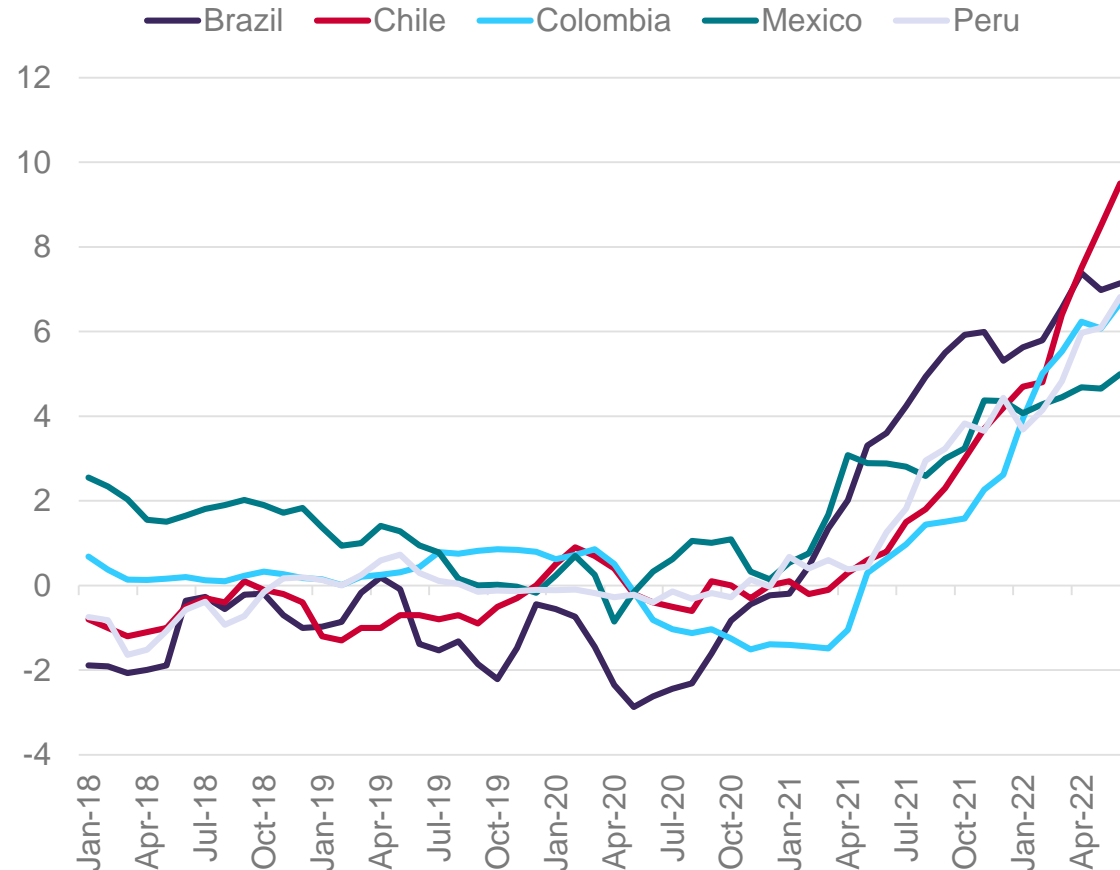
Source: Bloomberg, Fitch Solutions

- We expect that a US recession would help to slow inflation in Latin America, as it would reduce global demand and bring down commodity prices that are driving price growth in the region.
- This could in turn allow regional central banks to end or reverse their rate hiking cycles sooner than we currently forecast, particularly if the US Fed also ends its hiking cycle.
- However, if a US slowdown is not accompanied by a deceleration in inflation, this would pose a significant policy challenge for central banks and result in a deeper contraction in output.

Inflationary Impact Could Adjust Central Bank Hiking Cycles

If Lower Commodity Prices Help Slow Inflation...

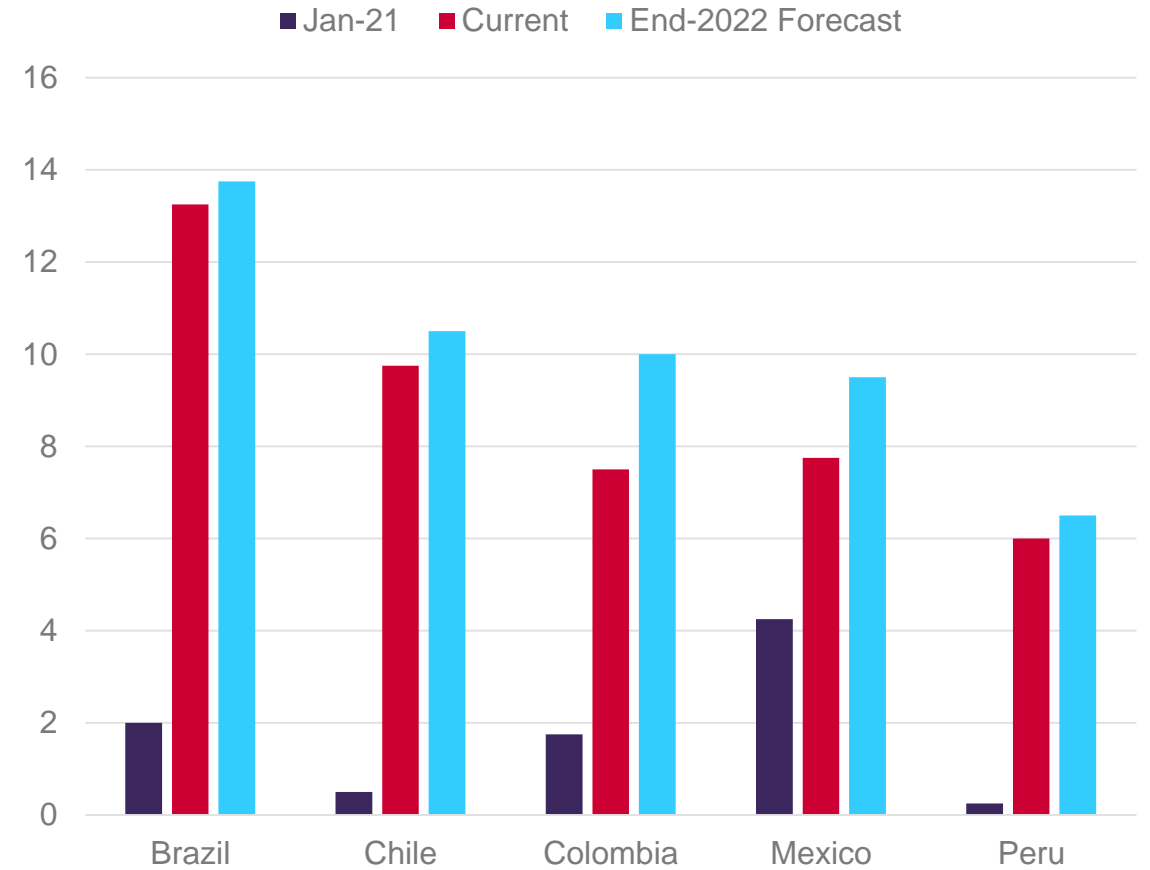
Latin America – Consumer Price Inflation, Deviation From Target, PP



Source: National sources, Fitch Solutions

... Latin American Central Banks Could Limit Rate Hikes

Latin America – Benchmark Interest Rates

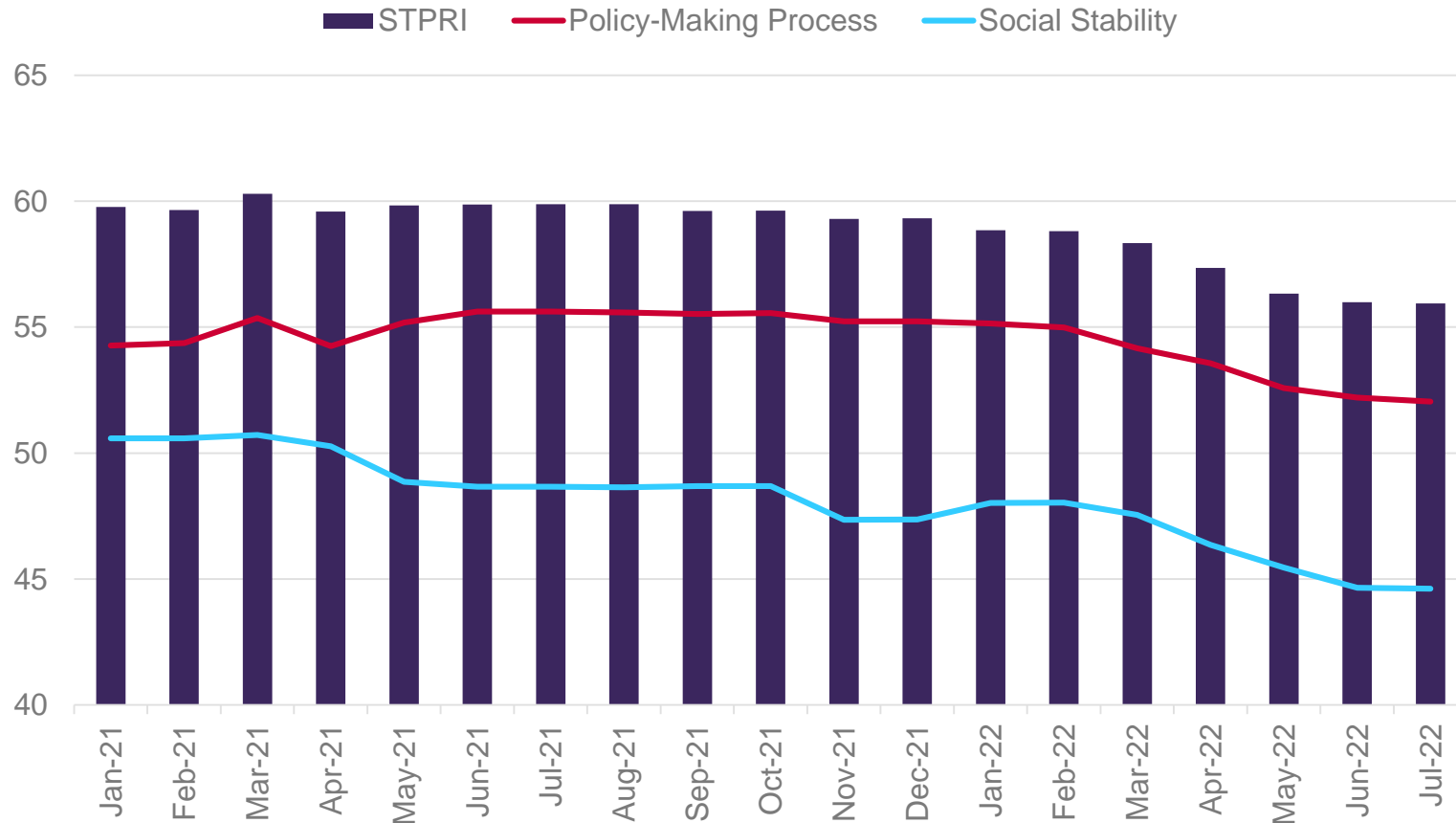


Source: National sources, Fitch Solutions

Recession Would Intensify Political Risk In Latin America

Political Risks Already On The Rise In Latin America

Latin America – Nominal GDP-Weighted Short-Term Political Risk Index, Out Of 100



Note: Higher score means lower risk. Source: Fitch Solutions

- A regional economic slowdown stemming from a recession in the US would result in higher political risk in Latin America, by reducing employment and household income growth in the region.
- It would likely lead to increased calls for government support at the same time as revenues fall, exacerbating the region's struggle to rein in its post-pandemic fiscal deficits.
- Weaker growth would also reduce the popularity of incumbent governments in Brazil and Argentina that face upcoming elections, increasing the risk of a change in policy direction in those markets.

Fitch Solutions vs. Bloomberg Consensus

2022 Real GDP Growth

%

Country	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Argentina	3.20	2.85	2.80
Bolivia	3.84	3.00	3.00
Brazil	0.81	1.35	0.82
Canada	3.61	3.80	3.80
Chile	1.44	2.05	1.90
Colombia	4.64	5.80	4.80
Costa Rica	3.02	3.30	3.70
Ecuador	2.67	2.80	2.80
Guatemala	2.95	3.60	3.60
Mexico	1.49	1.80	1.80
Panama	6.30	7.70	7.10
Peru	2.44	2.80	2.80
United States	2.41	2.40	2.60
Uruguay	3.34	4.50	4.20
Venezuela	10.26	10.75	5.65

Source: Bloomberg, Fitch Solutions

End-2022 Exchange Rate

Currency	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
ARS/USD	145.00	152.00	155.25
BOB/USD	6.91	-	-
BRL/USD	5.25	5.30	5.18
CAD/USD	1.24	1.27	1.26
CLP/USD	910.00	867.50	840.00
COP/USD	4273.00	4000.00	3950.00
CRC/USD	635.90	-	-
-	-	-	-
GTQ/USD	7.75	-	-
MXN/USD	20.75	20.25	20.40
PAB/USD	1.00	-	-
PEN/USD	3.81	3.90	3.82
USD/EUR	1.10	1.06	1.08
UYU/USD	46.21	-	-
-	-	-	-

Source: Bloomberg, Fitch Solutions

Fitch Solutions vs. Bloomberg Consensus

2022 Average Inflation

% y-o-y

Country	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Argentina	75.00	61.70	59.10
Bolivia	3.50	2.35	1.85
Brazil	10.50	9.95	9.20
Canada	5.47	6.40	6.15
Chile	10.90	10.10	9.50
Colombia	8.90	8.80	7.75
Costa Rica	8.00	6.04	4.99
Ecuador	3.10	3.00	2.00
Guatemala	5.80	-	-
Mexico	7.60	7.30	7.10
Panama	3.90	3.65	2.95
Peru	7.70	6.60	6.10
United States	7.30	7.60	7.50
Uruguay	8.80	8.90	8.80
Venezuela	-	233.70	306.60

Source: Bloomberg, Fitch Solutions

End-2022 Policy Interest Rate

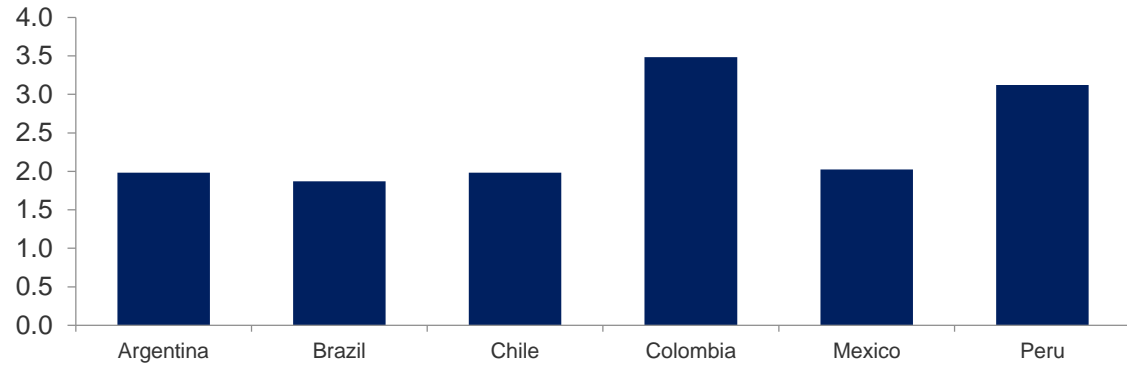
%

Country	Fitch Solutions	Bloomberg Consensus	Consensus Last Month
Argentina	56.00	53.65	51.10
Bolivia	-	-	-
Brazil	13.75	13.65	13.40
Canada	3.50	2.80	2.75
Chile	10.50	9.65	8.95
Colombia	10.00	8.70	8.40
Costa Rica	8.50	-	-
Ecuador	-	-	-
Guatemala	2.50	-	-
Mexico	9.50	9.20	8.70
Panama	-	-	-
Peru	6.50	6.50	5.15
United States	3.25	3.45	2.70
Uruguay	10.25	-	-
Venezuela	-	-	-

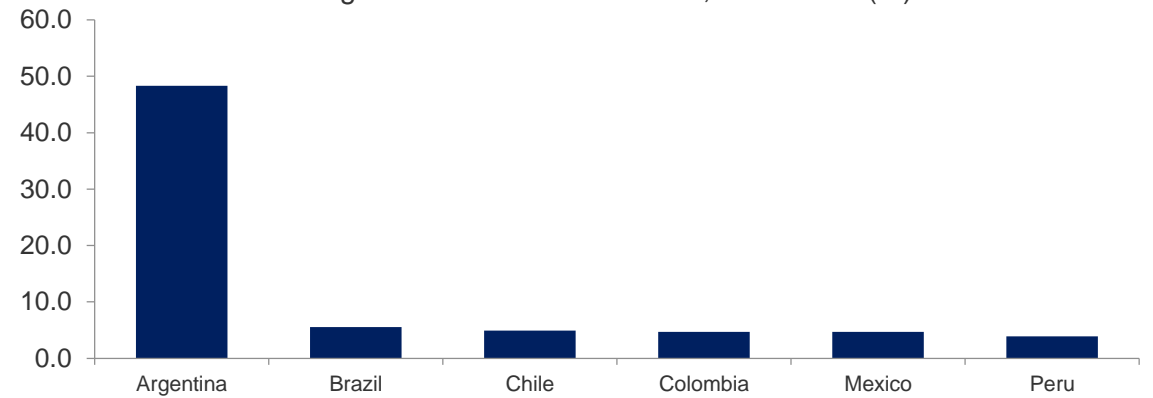
Source: Bloomberg, Fitch Solutions

Data Pack

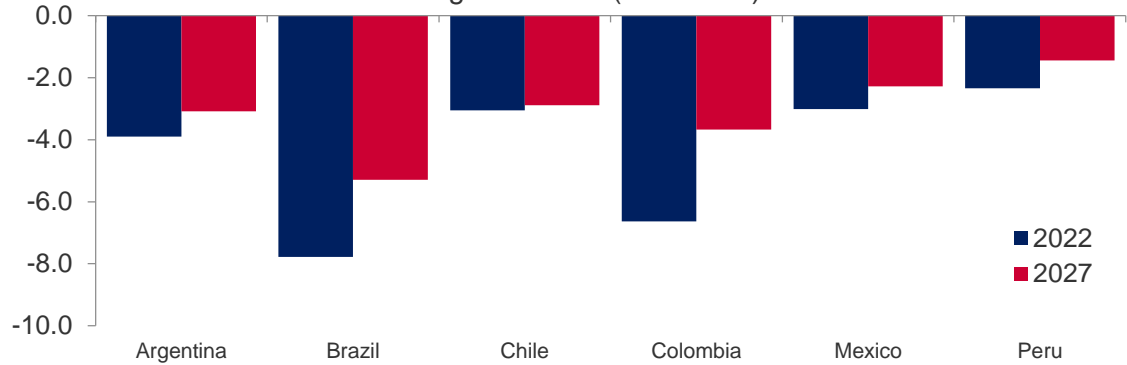
Average Real GDP Growth, 2022-2027 (%)



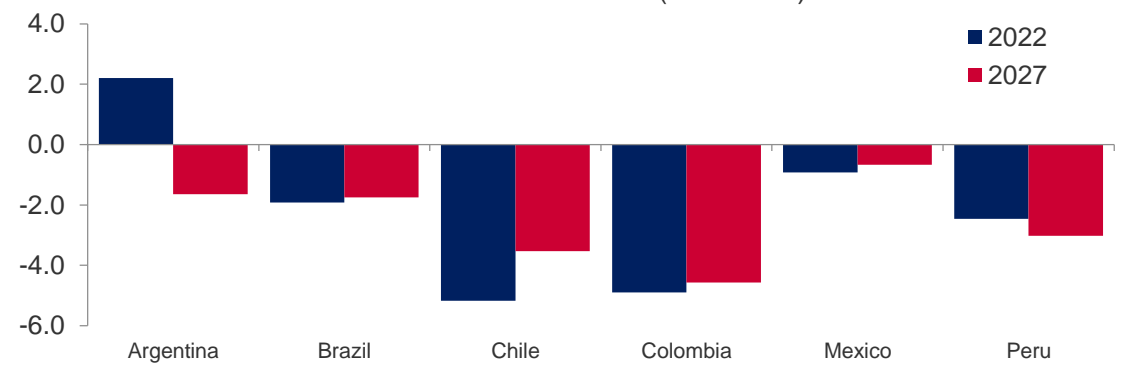
Average Consumer Price Inflation, 2022-2027 (%)



Budget Balance (% of GDP)



Current Account Balance (% of GDP)



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