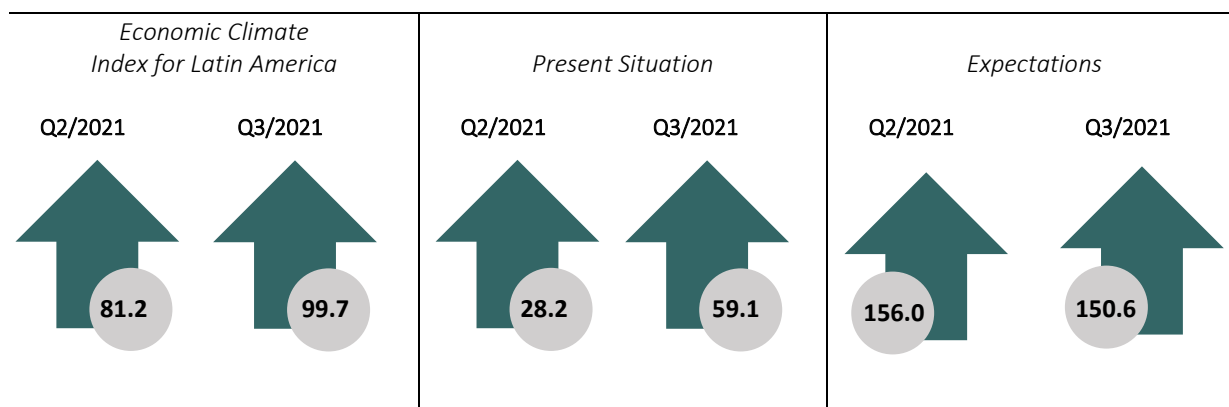


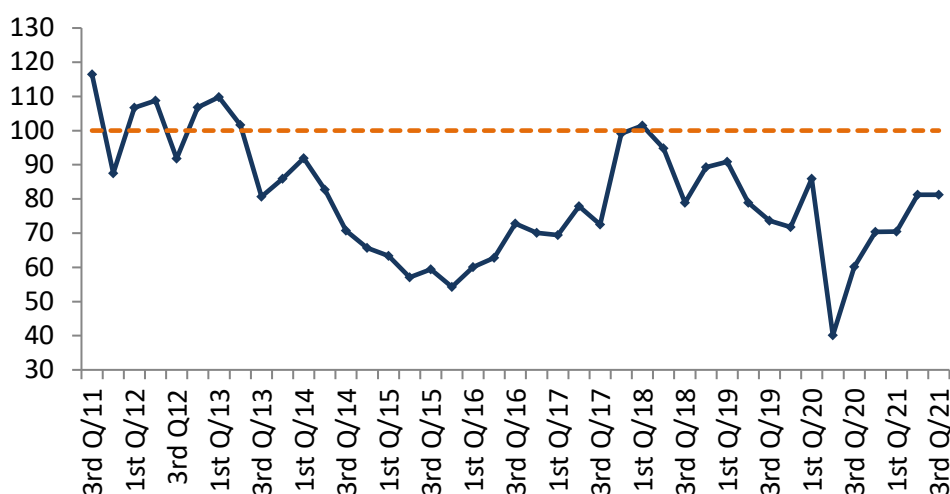
Latin American Economic Climate improves and closes in on the favorable zone

In addition to the development in the economic climate in the region, the Latin America Economic Survey brings three special polls this quarter on factors that have been influencing the region's perspectives. The first refers to the supply of inputs and raw materials, in which Brazil stands out as the country that has been most affected by the problem. The second is related to the time needed to normalize supply. In almost all countries, specialists believe that the issue will be resolved by the 1st half of 2022. The third poll refers to how long commodity prices will remain high. In this case the dominant perception is that there will be only one more year of high prices.



Between the 2nd and 3rd quarters of 2021, the Economic Climate Index (ECI) for Latin America by the Getulio Vargas Foundation (FGV) increased for the fifth successive quarter, reaching 99.7 points, the best result since the 1st quarter of 2018 (101.5 pts), and is closing in on the neutrality level of 100 points.

Graph 1: Economic Climate Index for Latin America



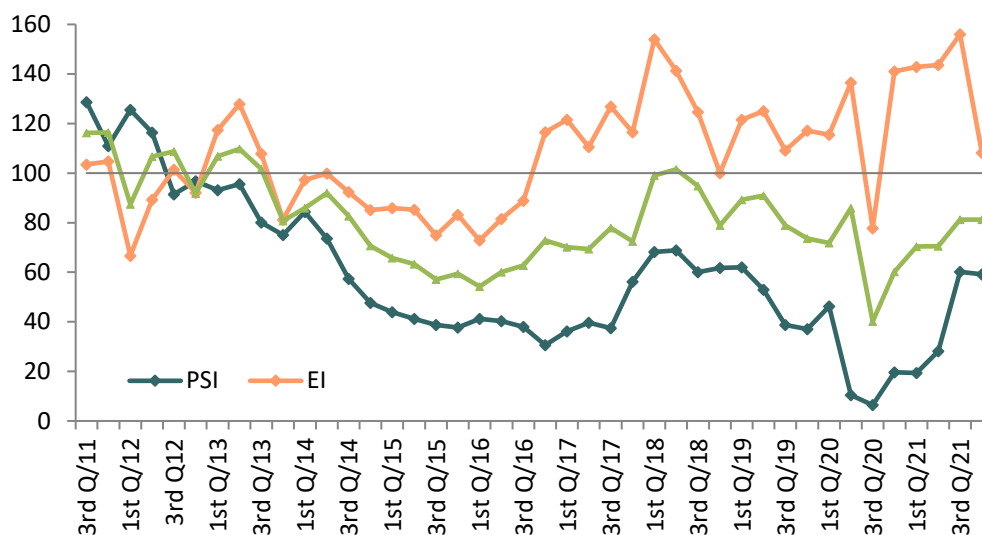
Source: FGV IBRE

The ECI is the geometric mean between the Present Situation Index (PSI) and the Expectations Index (EI). The PSI increased by 30.9 points, climbing from 28.2 to 59.1 points, although still remaining at a historically low

level. The EI decreased 5.4 points to 150.6 points, remaining at an optimistic level. The specialists are optimistic about the economic perspectives of the region in the second semester 2021 but maintain the unfavorable perception regarding the present situation that have marked the last nine years.

It can be supposed that the small retreat in the EI is associated with uncertainties over the effects of new strains of Covid. At the same time, the improvement in the PSI, although insufficient for the region to enter the favorable zone, can be explained by the more positive international scenario and the advance of immunization of the population in the region, albeit irregular.

Graph 2: Present Situation Index (PSI), Expectations (EI), and Economic Climate Index (ECI) for Latin America



Source: FGV IBRE

Economic climate: Results by country

Table 1 summarizes the Economic Climate results for the largest economies in the region monitored by FGV IBRE.

Table 1: Economic climate index and its components in selected countries

Country	ECI		PSI		EI	
	Variation in number of points between Q2 and Q3 2021	Index in Q3	Variation in number of points between Q2 and Q3 2021	Index in Q3	Variation in number of points between Q2 and Q3 2021	Index in Q3
Brazil	34.3	116.5	51.6	69.2	-5.5	176.9
Ecuador	26.2	77.9	20.0	20.0	33.6	163.6
Paraguay	25.1	125.1	12.2	90.0	41.7	166.7
Peru	21.1	102.0	43.6	80.0	-13.3	126.7
Uruguay	18.9	79.2	11.1	11.1	31.8	188.9
Mexico	11.1	92.4	57.1	23.8	31.8	188.9
Argentina	10.5	60.3	8.3	25.0	13.3	105.6
Chile	9.7	104.1	45.8	87.5	-44.5	122.2
Colombia	9.1	101.1	13.8	47.1	-1.5	175.0
Bolivia	3.3	73.2	5.6	50.0	0.0	100.0

Source: FGV IBRE

In Table 1, the countries are ranked by the variation in number of points for the Economic Climate between the 2nd and 3rd quarters of 2021. All the countries recorded an improvement in the ECI, with Brazil leading the list with the largest variation (34.3 points). This improvement was driven by the increase of 51.6 points in the PSI, given that the EI decreased by 5.5 points. The highest ECI is that of Paraguay, followed by Brazil, Chile, Peru, and Colombia (Graph 3), all in the favorable zone of the index. The other countries have indicators below 100 and the lowest is that of Argentina, with 60.3 points.

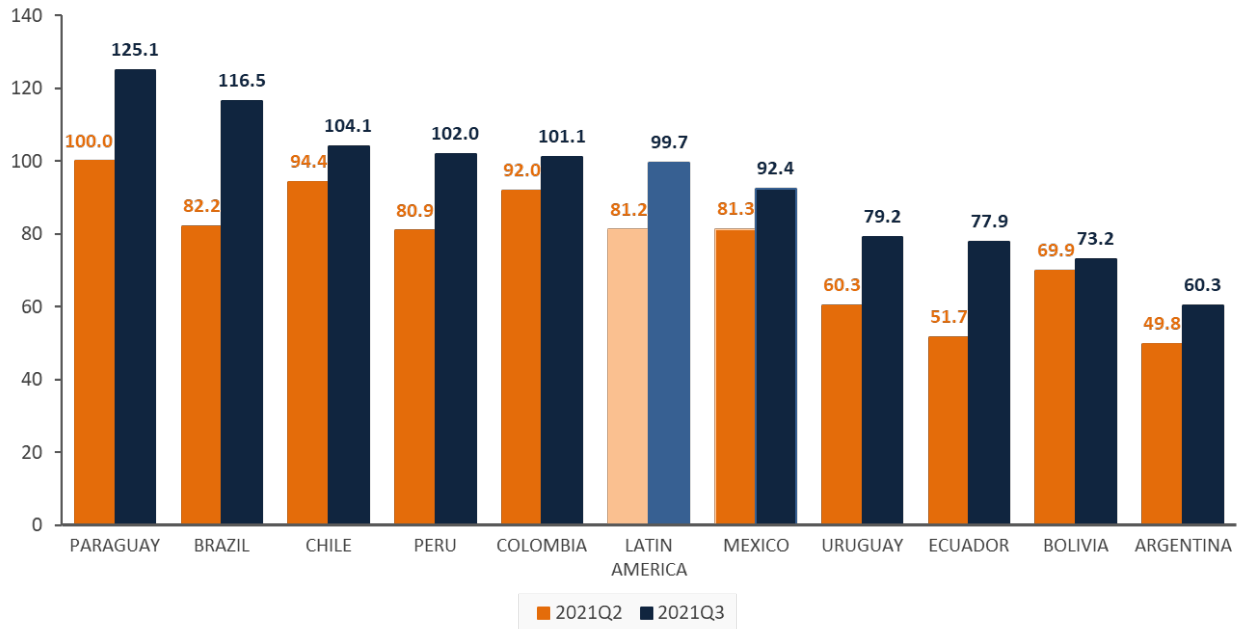
Despite being in the unfavorable zone of the ECI, Ecuador recorded the second highest positive variation in the ECI, driven by the 20.0-point increase in the PSI and the 33.6-point improvement in the EI, possibly influenced by the election of a new president in the country.

Despite the improvement in the perception about the present situation, all countries remain in the adverse zone. Brazil, with 51.6 points, placed first on the list of the largest positive variations in the PSI, followed by Chile and Peru with variations above 40 points. The highest PSI is that of Paraguay (90.0 points) and the lowest is that of Uruguay, with 11.1 points (Graph 4).

In relation to expectations, positive variations were observed in Paraguay (41.7 points), followed by Ecuador, Uruguay, Mexico, and Argentina. Bolivia remained with the same index. In the remaining countries, there was a decrease in the EI, with the largest fall being recorded in Chile, which is the country that had the largest divergence between the results of the PSI and the EI, with an advance of 45.8 points in the present situation and a worsening of 44.5 points in expectations.

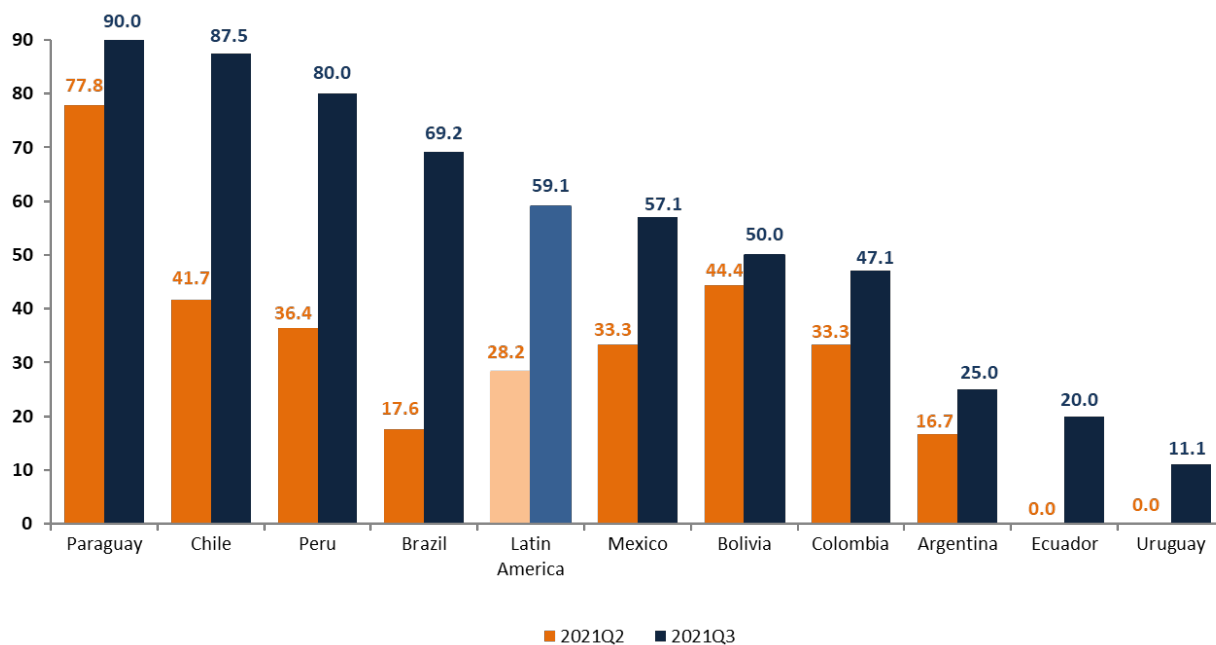
All the countries are in the favorable zone for expectations, except Bolivia, which is at the limit (Graph 5). The highest EI is that of Uruguay (188.9 points) followed by Brazil (176.9 points).

Graph 3: Economic Climate Index of selected countries



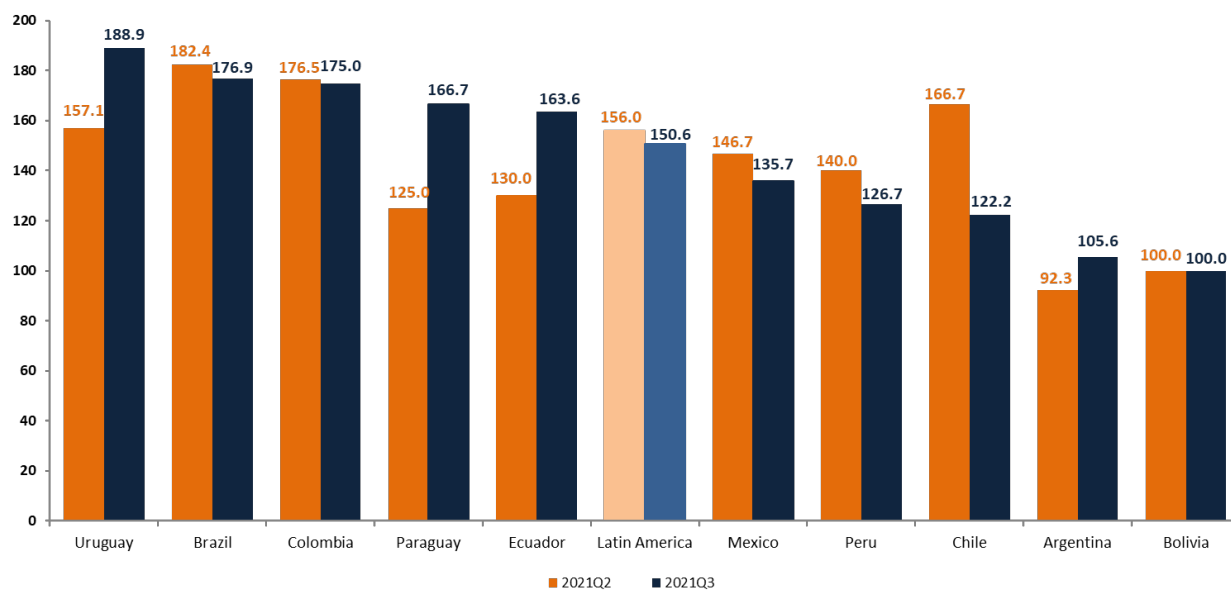
Source: FGV IBRE

Graph 4: Present Situation Index of selected countries



Source: FGV IBRE

Graph 5: Expectations Index of selected countries



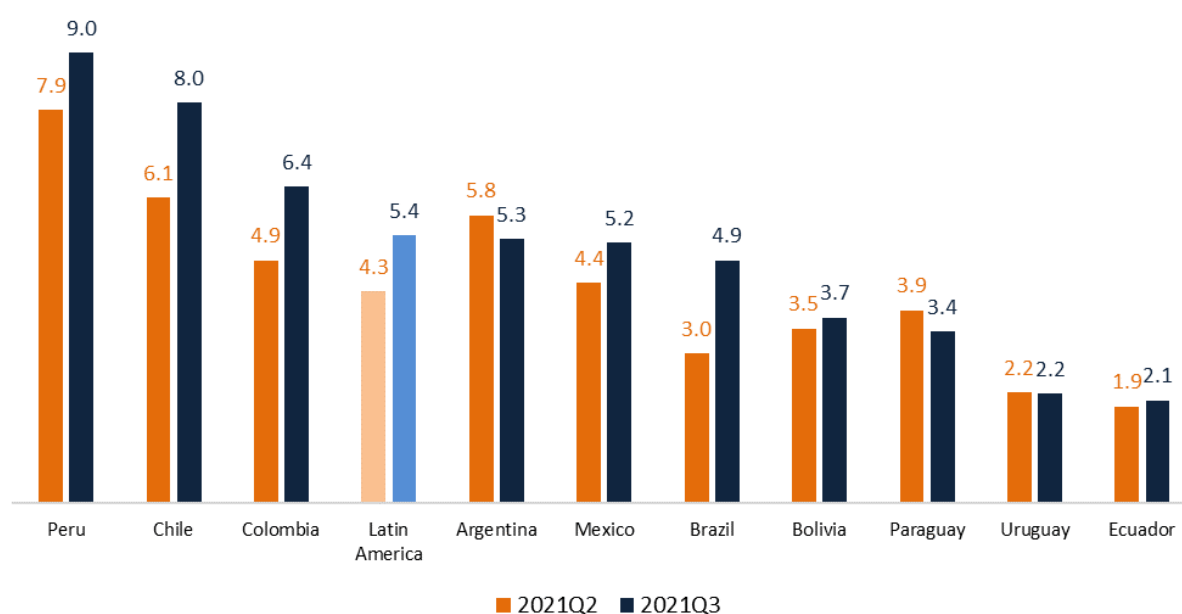
Source: FGV IBRE

Forecasts for growth in GDP for 2021

Graph 6 compares the forecasts of GDP growth for 2021 in the 2nd and 3rd quarter by the consulted specialists. Between the two periods the GDP growth forecast decreased only for Paraguay and Argentina, and it remained constant in Uruguay. The result is consistent with the improvement in the ECI in all countries.

However, the forecast for 2021 and the EI refer to what is expected in the next six months. In this case, the worsening in expectations in Peru, Chile, Brazil, Colombia, and Mexico demands attention, given that their growth in GDP has been revised upwards. Chile stands out for its 44.5-point decrease in the EI. However, an increase in the price of copper positively affects the country and contributes to increasing the GDP, where the participation of exports is around 30%. Other factors, therefore, must be driving the retreat in the EI, such as uncertainties regarding the results of the new Constitution.

Graph 6: GDP growth forecasts for 2021



Source: FGV IBRE

Supply of inputs/raw materials

Special topics included in the 3rd quarter Survey address a theme that has been the subject of intense debate: the effect of the pandemic on the production and distribution of inputs and raw materials.

The results show that around 25% of the specialists consider that the destocking of inputs and/or raw materials is a serious issue. Brazil is the country with the highest percentage in this aspect (46.2%), followed by Colombia,

with 29.4%. It should be emphasized that the larger and more diversified and internationalized the industrial production, the greater the chance of there being supply shortages. In this case, Mexico should benefit from the proximity and intra-firm and intra-sectorial relationships with the United States.

In the region, the effect of supply shortages on the economy was considered moderate or light by 57% of the specialists. This response option reached percentages of over 40% in all countries, except for Paraguay and Uruguay.

Table 2:

Country	Has the productive sector of your country been facing problems in the supply of inputs and/or raw materials?			
	Yes, serious problems	Yes, moderate/light problems	We are not facing problems of this nature	Don't know
Argentina	22.2	44.4	27.8	5.6
Bolivia	12.5	62.5	12.5	12.5
Brazil	46.2	46.2	7.7	0.0
Chile	0.0	77.8	22.2	0.0
Colombia	29.4	47.1	23.5	0.0
Ecuador	10.0	60.0	20.0	10.0
Mexico	14.3	78.6	0.0	7.1
Paraguay	0.0	10.0	70.0	20.0
Peru	6.3	43.8	43.8	6.3
Uruguay	0.0	11.1	88.9	0.0
Latin America	24.9	57.0	14.5	3.5

Source: FGV IBRE

The Survey also asked the specialists how long they expect it to take for the situation to normalize (Table 3). On average, 22.9% of the respondents expect the situation to normalize in the 1st half of 2022 and 32,9% in the 4th quarter of 2021. The most optimistic countries in terms of normalization in the 3rd quarter of 2021 are Chile and Uruguay.

In the countries with the highest rates of GDP growth (Peru, Colombia, Mexico, and Brazil), there is the highest incidence related to responses of normalization in the 4th quarter of 2021. The case of Chile, mentioned above, supposes normalization in the current quarter.

In summary, by the 1st quarter of 2022, the supply shortage situation will have been solved in all of the countries. What demands attention, however, is the percentage of “Don’t know” responses in Argentina and Peru.

Table3:

Country	When do you think this situation will improve?					
	The 3rd quarter of 2021	The 4th quarter of 2021	The 1st half of 2022	The 2nd half of 2022	Only from 2023 onwards	I don't know
Argentina	0.0	6.7	20.0	6.7	26.7	40.0
Bolivia	0.0	25.0	62.5	0.0	0.0	12.5
Brazil	7.7	38.5	23.1	15.4	0.0	15.4
Chile	44.4	11.1	33.3	11.1	0.0	0.0
Colombia	25.0	37.5	18.8	6.3	0.0	12.5
Ecuador	0.0	11.1	44.4	33.3	11.1	0.0
Mexico	14.3	42.9	21.4	21.4	0.0	0.0
Paraguay	22.2	11.1	33.3	0.0	22.2	11.1
Peru	7.1	35.7	7.1	7.1	0.0	42.9
Uruguay	50.0	0.0	0.0	16.7	0.0	33.3
Latin America	13.0	32.9	22.9	14.3	3.3	13.6

Source: FGV IBRE

Special poll on external trade

The increase in the price of *commodities* is an important factor for the improvement of income in exporting countries in the region. There are comparisons with the bonanza period for the region associated with the boom in commodities prices in the first decade of the 21st century, which lasted until 2011.

The Survey asked the specialists how long this cycle of increasing prices could last. As shown in Table 4, The expectation of one more year of high prices predominates (58.5%) and, in second place, with a percentage of 23%, is until the end of 2021. Therefore, it would not be a “super cycle of high commodities prices” as occurred previously. In Brazil, 76.9% of the specialists believe that it will last one more year and percentages above 50% were also registered in Colombia and Mexico.

Table 4:

Country	At the moment, there is an upward trend in agricultural and industrial commodities. How long do you believe the price of commodities will remain high?				
	Until the end of 2021	Until 12 months from now	Until three years from now	For more than three years	I don't know
Argentina	11.1	44.4	5.6	0.0	38.9
Bolivia	50.0	50.0	0.0	0.0	0.0
Brazil	15.4	76.9	7.7	0.0	0.0
Chile	44.4	11.1	33.3	0.0	11.1
Colombia	23.5	64.7	5.9	0.0	5.9
Ecuador	27.3	36.4	9.1	18.2	9.1
Mexico	28.6	57.1	0.0	0.0	14.3
Paraguay	20.0	30.0	30.0	10.0	10.0
Peru	25.0	37.5	25.0	6.3	6.3
Uruguay	37.5	37.5	12.5	0.0	12.5
Latin America	23.0	58.5	7.7	0.8	10.1

Source: FGV IBRE

APPENDICES

Appendix 1 – Mean ECI of selected countries for the last four quarters

<i>Country</i>	<i>Q2/21</i>	<i>Q3/21</i>
Paraguay	91.4	108.1
Chile	80.9	90.9
Brazil	72.4	84.6
Colombia	74.4	83.5
Peru	68.6	78.6
Mexico	59.0	73.4
Uruguay	69.0	72.5
Bolivia	55.5	63.8
Argentina	61.6	58.6
Ecuador	37.2	55.2
Latin America	70.6	80.5

Source: FGV IBRE

Appendix 2 – Historical series of the indicators of selected countries

PRESENT SITUATION INDEX

<i>PSI</i>	<i>Q3/19</i>	<i>Q4/19</i>	<i>Q1/20</i>	<i>Q2/20</i>	<i>Q3/20</i>	<i>Q4/20</i>	<i>Q1/21</i>	<i>Q2/21</i>	<i>Q3/21</i>	<i>10-year mean</i>
Latin America	38.7	37.0	46.2	10.4	6.4	19.6	19.4	28.2	59.1	58.5
Argentina	15.4	0.0	11.1	22.2	9.1	8.3	9.1	16.7	25.0	50.4
Bolivia	112.5	100.0	71.4	25.0	14.3	0.0	33.3	44.4	50.0	106.2
Brazil	25.0	25.0	47.8	9.1	0.0	13.3	25.0	17.6	69.2	41.1
Chile	90.0	90.0	20.0	0.0	0.0	10.0	33.3	41.7	87.5	82.7
Colombia	83.3	66.7	123.1	13.3	6.7	0.0	5.6	33.3	47.1	98.2
Ecuador	0.0	0.0	0.0	0.0	0.0	0.0	10.0	0.0	20.0	62.8
Mexico	40.0	40.0	30.8	9.1	0.0	0.0	20.0	33.3	57.1	65.9
Paraguay	71.4	60.0	100.0	20.0	0.0	14.3	77.8	77.8	90.0	111.8
Peru	53.8	64.3	57.1	7.7	0.0	7.7	6.7	36.4	80.0	96.4
Uruguay	37.5	37.5	66.7	0.0	11.1	10.0	12.5	0.0	11.1	96.0

Source: FGV IBRE

EXPECTATIONS INDEX

<i>EI</i>	<i>Q3/19</i>	<i>Q4/19</i>	<i>Q1/20</i>	<i>Q2/20</i>	<i>Q3/20</i>	<i>Q4/20</i>	<i>Q1/21</i>	<i>Q2/21</i>	<i>Q3/21</i>	<i>10-year mean</i>
Latin America	117.2	115.5	136.5	77.7	141.1	142.8	143.6	156.0	150.6	109.4
Argentina	176.9	109.1	122.2	44.4	172.7	133.3	150.0	92.3	105.6	109.8
Bolivia	75.0	50.0	83.3	37.5	71.4	150.0	77.8	100.0	100.0	78.4
Brazil	150.0	145.0	165.2	77.3	182.4	146.7	137.5	182.4	176.9	126.6
Chile	140.0	100.0	130.0	136.4	170.0	160.0	187.5	166.7	122.2	110.4
Colombia	133.3	116.7	84.6	106.7	153.3	194.1	172.2	176.5	175.0	115.8
Ecuador	50.0	125.0	100.0	0.0	12.5	114.3	90.0	130.0	163.6	75.2
Mexico	50.0	80.0	125.0	72.7	81.8	125.0	140.0	146.7	135.7	94.6
Paraguay	157.1	160.0	160.0	40.0	150.0	200.0	177.8	125.0	166.7	125.6
Peru	138.5	100.0	150.0	84.6	162.5	169.2	142.9	140.0	126.7	131.0
Uruguay	100.0	137.5	133.3	125.0	145.5	190.0	162.5	157.1	188.9	102.7

Source: FGV IBRE

ECONOMIC CLIMATE INDEX

<i>ECI</i>	<i>Q3/19</i>	<i>Q4/19</i>	<i>Q1/20</i>	<i>Q2/20</i>	<i>Q3/20</i>	<i>Q4/20</i>	<i>Q1/21</i>	<i>Q2/21</i>	<i>Q3/21</i>	<i>10-year mean</i>
Latin America	73.6	71.8	85.9	40.1	60.2	70.4	70.5	81.2	99.7	80.8
Argentina	78.8	44.6	57.1	32.8	72.5	59.0	65.2	49.8	60.3	74.6
Bolivia	92.8	73.2	77.3	31.1	40.0	58.1	54.0	69.9	73.2	89.9
Brazil	76.8	75.0	98.0	39.1	68.0	67.2	72.3	82.2	116.5	76.3
Chile	113.5	94.9	66.1	53.8	64.3	69.1	95.8	94.4	104.1	91.1
Colombia	106.8	90.1	102.9	53.0	64.4	71.5	69.5	92.0	101.1	102.9
Ecuador	22.5	50.0	41.4	0.0	6.1	46.4	44.6	51.7	77.9	65.2
Mexico	44.9	58.7	71.6	37.3	34.8	50.0	69.7	81.3	92.4	78.3
Paraguay	109.9	104.0	128.0	29.6	58.1	85.2	122.2	100.0	125.1	116.5
Peru	91.5	81.3	98.2	41.0	62.0	70.3	61.0	80.9	102.0	110.4
Uruguay	65.8	80.7	97.2	50.0	65.2	78.6	71.8	60.3	79.2	95.4

Source: FGV IBRE

METHODOLOGICAL ASPECTS OF THE SURVEY

The Latin America Economic Survey aims to monitor and forecast economic trends, based on quarterly information supplied by specialists in the economy of their respective countries. The survey is simultaneously applied with the same methodology in all the countries in the region, which is a method that enables the construction of an agile and comprehensive picture of the economic situation in countries and economic blocks. In the 1st quarter of 2021, 146 economy specialists were consulted in 15 Latin American countries.

The survey generates information of both a qualitative and a quantitative nature. The Economic Climate Index (ECI), is the synthesis indicator, comprised of two items of a qualitative nature, the Present Situation Index (PSI) and the Expectations Index (EI), which deal, respectively, with the general economic situation in the country at the moment and for the upcoming six months.

Beginning with the edition for the 1st quarter of 2021, the Present Situation (PSI) and Expectations (EI) indexes for each country are expressed as a balance of responses of the respective qualitative items plus 100 (+100), as per the formula presented below:

$$ISA \text{ or } IE = \frac{([option]_+ - [option]_-) * 100}{n} + 100$$

$[option]_+$ = Favorable option;

$[option]_-$ = Unfavorable option; and

n = number of specialists who answered this question

The Economic Climate Index is constructed as the geometric mean of the PSI and the EI, as per the formula described below:

$$ECI = \sqrt{(PSI + 200) * (EI + 200)} - 200.$$

ECI = Economic Climate Index.

As such, the index scale varies from 0 (zero) to 200. One hundred (100) is the point of inflection.

To reach the figures of any cluster of countries, such as the total for Latin America, the indexes are aggregated by GDP corrected for Purchasing Power Parity (GDP, PPP, according to IMF data). The weights are modified annually.

In the 3rd quarter of 2021, 149 economics specialists in 15 countries of Latin America were consulted.