Latam Economic Update

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GLOBAL FORECAST UPDATES: TWO STEPS FORWARD, ONE STEP BACK

Scotiabank Economics released updated global economic forecasts on Tuesday, August 4. The outlook confirms that although most major economies have passed the nadir of their pandemic-induced downturns, it will take several quarters to return to pre-COVID-19 levels of economic activity even with strong growth into 2021. Disinflationary pressures are set to remain significant as prices are expected to respond with a lag to the record-setting drops in output in Q2-2020. Policy rates in most industrialized countries are expected to remain at current levels through end-2022, while in Latam further rate cuts are still expected in Brazil, Colombia, and Mexico.

—Brett House

BRAZIL: JUNE INDUSTRIAL PRODUCTION SURPRISES HIGHER, BUT REMAINS MATERIALLY BELOW PRE-PANDEMIC LEVELS; COPOM STILL EXPECTED TO CUT -25 BPS TODAY

Brazil's industrial production growth for June (-9.0% y/y) came in stronger than either consensus (-10.1% y/y) or we (-12.1% y/y) anticipated in data released Tuesday, August 4 by IBGE (chart 1). As we have seen throughout the pandemic, the industrial sector's most resilient items have been intermediate goods (-5.9% y/y) and semi/non-durable goods (-5.6% y/y) as firms focus on keeping production lines running, while capacity-boosting durables (-35.1% y/y) and capital goods (-22.2% y/y) production both continue to struggle with spare capacity and uncertainty. Looking at real output levels (chart 2), the recovery in June helped offset a little less than half the drop we had seen at the nadir of the crisis, leaving industrial production still materially lower than its pre-pandemic levels.

With all this in mind, we continue to see the BCB "tweaking" rates to provide a little more stimulus to activity: we continue to expect the BCB's Copom to make a -25 bps cut in the Selic in its announcement at 17:00 ET today.

—Eduardo Suárez

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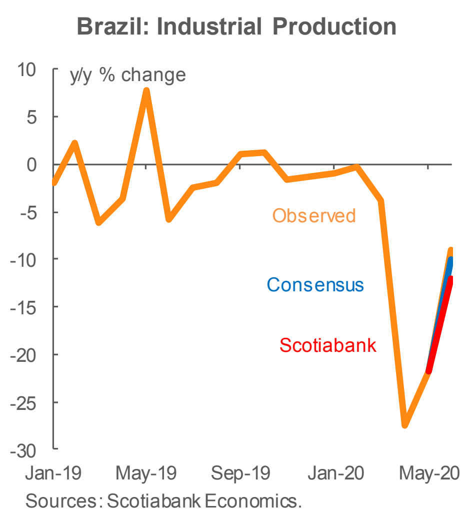
Chart 1

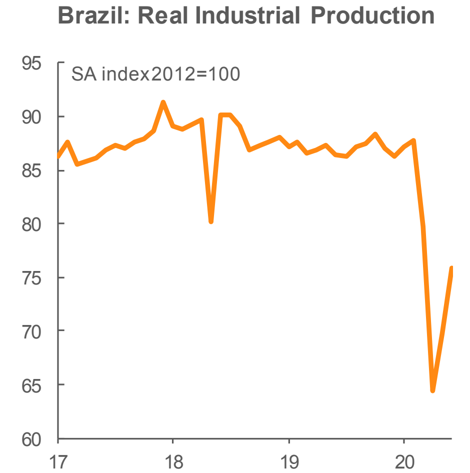


MEXICO: JUNE LEADING INDICATORS DECREASED IN BOTH THE COINCIDENT AND THE ADVANCED DATA

Mexico's June leading indicators showed declines in both the coincident and advanced numbers, according to data published by INEGI on Tuesday, August 4. The coincident indicator for the month of May (the latest data in the series) fell for the 11th consecutive month to 89.8 points, a record low. Similarly, the June advanced indicator fell for the sixth consecutive time to 99.1 points, the lowest figure since September 2009 (chart 3). The measures implemented to face COVID-19 led to a significant drop in productive activity in Q2-2020; despite the gradual re-opening of some economic sectors as of mid-May, economic growth forecasts for this year remain weak.

—Paulina Villanueva

Chart 2

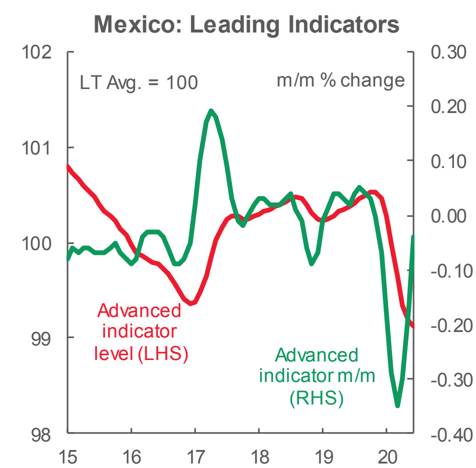


Sources: Scotiabank Economics, IBGE.

PERU: PRESIDENT VIZCARRA ACCEPTS CONGRESS' DECISION TO SINK THE CATERIANO CABINET, BUT THE DEVIL IS IN THE DETAILS

Following the Tuesday, August 4 Congressional vote of no confidence in the Cateriano Cabinet, President Vizcarra held a press conference later on Tuesday, in which he: (1) accepted the decision by Congress; (2) accused Congress of putting personal interests before the interests of the country; and (3) said that the government's proposed university reforms were non-negotiable. The first point apparently was meant to lay to rest rumours that Pres. Vizcarra would seek to use some legal loophole that would allow the Cabinet to stay in place. Points two and three are linked.

Chart 3



Sources: Scotiabank Economics, INEGI.

The government's plan to close universities that do not comply with a minimum quality threshold was one of the major motivations for the vote of no confidence. A number of members of Congress are linked to low-quality universities that are under threat of closure. According to the press, some members of Congress had let government officials know days ago that a vote of confidence would only be awarded if the current Minister of Education Carlos Martín Benavides, a proponent of university reform, were to be let go. Although Pres. Vizcarra has decided to take a route that clearly complies with the law, he has at the same time levied a sharp critique toward Congress. Thus, one can assume that the relationship between Congress and the government will continue to be contentious.

The next step will be for Pres. Vizcarra to appoint a new Head of Cabinet. The new Cabinet can include any, or even all, of the current members, except the Head. It will be interesting to see just how much of the current set of Ministers is re-ratified, especially if the current Minister of Education is maintained.

—Guillermo Arbe