Latam Economic Update

- **Argentina: May's EMAE economic activity indicator expected to show some lift**
- **Colombia: May saw a further fall in imports, but economic activity rose from April's bottom**

ARGENTINA: MAY'S EMAE ECONOMIC ACTIVITY INDICATOR EXPECTED TO SHOW SOME LIFT

May's EMAE monthly economic activity indicator comes out on Wednesday, July 22 and we expect it to show some lift from April's extensive shutdowns. May industrial production and construction activity, which together account for about a quarter of GDP, already imply that April was the bottom for total output in Argentina. We anticipate a 13.7% m/m gain in total economic activity in May, which would still leave economic activity down -22.9% y/y for the month and the economy cruising toward a roughly -8% y/y contraction in 2020.

—Brett House

COLOMBIA: MAY SAW A FURTHER FALL IN IMPORTS, BUT ECONOMIC ACTIVITY ROSE FROM APRIL'S BOTTOM

I. May's imports fell by -39.9% y/y, the third monthly contraction in a row, to the lowest level since February of 2010

May's import data, released on Friday, July 17, came in at USD 2.88 bn, the lowest monthly figure since February 2010, which represented a contraction of -39.9% y/y. Manufacturing-related imports fell by -42% y/y and accounted for most of the y/y decline. YTD up to April, imports had already contracted by -18.3% y/y, which reflected a high statistical base in 2019 for the annual comparison in capital goods imports and weaker domestic demand in 2020 due to the pandemic.

From the perspective of imports by use, there were declines in all three major sectors (chart 1). May capital imports declined -48.7% y/y due to contractions in the transportation-related sub-sector (-67.2% y/y) and construction sub-sector (-54.97% y/y). Consumption-goods imports fell by -45% y/y, the worst contraction since 1991, owing mainly to a significant decline in durable goods imports (-71.42% y/y). Non-durable goods imports contracted by -22.4% y/y. Raw materials imports contracted by -30.9% y/y, principally due to a contraction in fuel oil imports (-69.29 % y/y).

May's import data pointed to a generalized weakening in domestic demand that should prevent further deterioration in Colombia's external accounts. The trade deficit came in at USD 475.1 mn in May (chart 2), smaller than April's figure, but which took the YTD deficit to USD 4.02 bn, a 10% widening. May's results showed that the external balance is reacting to automatic stabilizers since imports shrunk more than in the previous month, which mirrored the decline in domestic demand. All of this should help maintain the current account deficit at around 4.1% of GDP in 2020.

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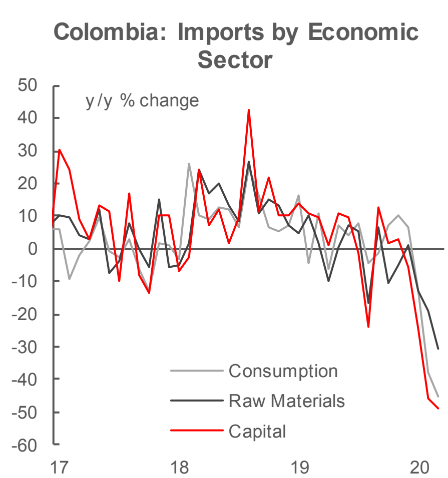
Chart 1



Sources: Scotiabank Economics, DANE.

II. Economic activity contracted by -16.65% y/y in May as services-related sectors weighed on the recovery

On Friday, July 17, DANE also released the May Economic Activity Indicator (ISE, the main GDP proxy), which showed a contraction of -16.65% y/y, a slight improvement from April's result (-20.5% y/y) on the back of industrial-related activities (chart 3). It is worth noting that Colombia started the re-opening process in May, with the re-start mainly of industrial activities (i.e., manufacturing and construction). However, social distancing measures still in place that month continued to take a toll on economic activity. The services sector remained the worst-performing part of the economy and will continue weighing on the economic recovery.

Primary activities such as agriculture and mining fell -13% y/y, deteriorating a bit further from the previous month (-12.4% y/y) on the back of lower demand for meat and an extension of the decline in mining production. Industrial-related activities contracted -29.6% y/y, an improvement from April's fall (-50% y/y) since the economy's re-opening process was led by manufacturing and construction, which are labour-intensive (chart 4). Service-related activities fell -13.3% y/y in May, a similar contraction compared with the previous report (-14.2% y/y).

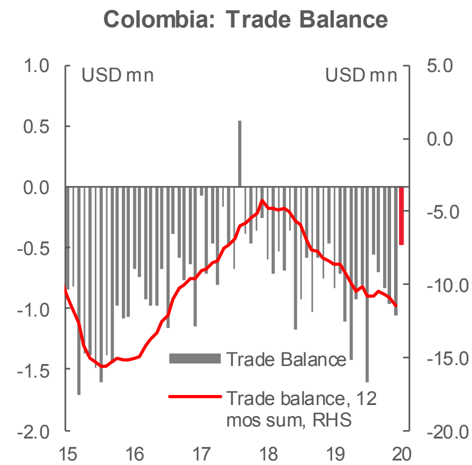
April and May's economic activity results point to a more negative scenario than our existing Q2-2020 GDP forecast. Services activities, agriculture, and mining have fallen more than our initial estimates, which could lead to future revisions in our GDP forecast. Having said that, on the labour market side, the government's re-opening strategy was to start with labour-intensive activities with an aim to contain damage in the jobs market, which is reflected in our current forecasts. Therefore, we are leaving our labour-market forecasts unchanged.

All in all, Q2-2020's decline in economic activity will likely be worse than our initial expectations, despite May's improvement in the industrial sector. Services are set to continue weighing on growth in June. Additionally, uncertainty regarding new lockdowns in Colombia's main cities is a new adverse risk in the medium term that could add to structural losses.

In this context, we still expect a gradual approach from the central bank in further adjustments to the monetary policy rate. We continue to project a -25 bps cut at the BanRep's July 31 policy meeting.

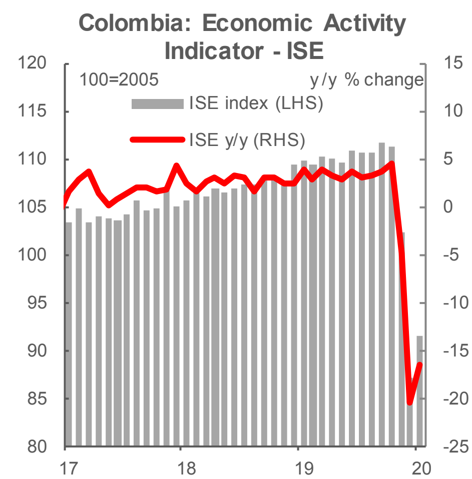
—Sergio Olarte & Jackeline Piraján

Chart 2



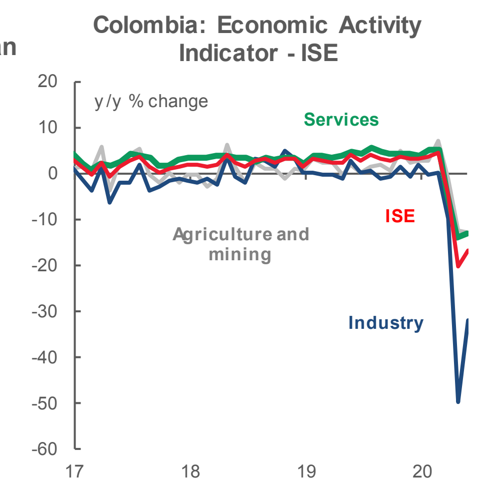
Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

Chart 4



Sources: Scotiabank Economics, DANE.