

Latam Economic Update

- **Argentina:** Economic activity lifted in May as lockdown restrictions eased
- **Mexico:** Pension reforms announced; May retail sales and wholesale numbers continued to print strong declines

ARGENTINA: ECONOMIC ACTIVITY LIFTED IN MAY AS LOCKDOWN RESTRICTIONS EASED

Argentina's May index of economic activity (EMAE) rebounded in month-on-month terms as April's tight quarantine measures were eased, but the monthly GDP proxy remained down by nearly a fifth from a year ago. May's economic activity declined by -20.6% y/y (chart 1), which represented a moderate lift from April's lows (-26.3% y/y). Thirteen of 14 sectors saw annual declines, with fishing the only exception. Hospitality (-74.3% y/y) and construction (-62.2% y/y) saw the most significant contractions. In month-over-month terms, economic activity grew by 10.0% (sa) from April, a bit softer than the 13.7% m/m gain we anticipated and the 12% m/m growth expected in the market consensus, but still a turning point.

June is likely to see a further rise in activity based on data available so far on the month, but we continue to expect Q2-2020 GDP to record a roughly -15% y/y decline, with 2020 as a whole set to see a contraction of about -8% y/y.

—Brett House

MEXICO: PENSION REFORMS ANNOUNCED; MAY RETAIL SALES AND WHOLESALE NUMBERS CONTINUED TO PRINT STRONG DECLINES

I. Government will send pension reform initiative to Congress to improve workers' benefits

The Mexican government announced on Wednesday, July 22, that it intends to send to Congress a reform initiative that has been jointly developed by workers, employers, and government to modify the pension system.

According to the government, the initiative would help to increase, on average, the pension of workers affiliated to the Mexican Social Security Institute (IMSS) by 42%. The Business Coordinating Council (CCE) indicated that this initiative follows the new social approach of companies and was developed collaboratively with Mexico's Ministry of Finance in order to feature reasonable eligibility criteria, produce adequate savings for retirees, and ensure retirement incomes that exceed the poverty line.

The proposal includes three main actions:

- An increase in the total pension contribution from 6.5% to 15.0% of workers' wages, to be phased in over eight years, by increasing employers' contributions from 5.15% to 13.875%, while holding workers

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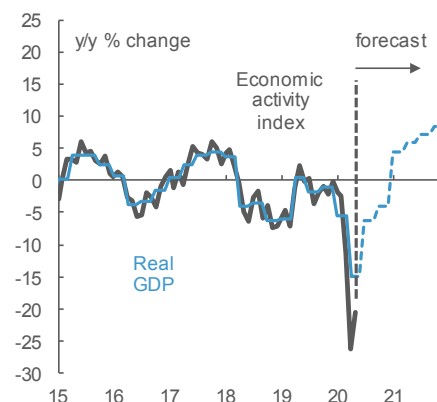
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Chart 1

Argentina: May Activity Lifted



Sources: Scotiabank Economics, INDEC.

contributions steady at 1.125%. Additionally, the government contribution, currently at 0.225%, will be increased for monthly incomes up to 4x the monthly value of the Unit of Measurement (UMA), around USD 440 for 2020, which should foster formal employment;

- **A reduction in the weeks required to gain access to a minimum guaranteed pension from 1,250 to 750 weeks.** This should more than double the share of workers eligible for the benefit. The minimum retirement age remains at 60; and
- **An increase in the average value of the minimum guaranteed pension,** from MXN 3,289 (USD 147) to MXN 4,345 MXN (USD 194), which should facilitate growth in the average replacement ratio to 40%.

Other components of the initiative include the possibility of combining life annuity schemes and programmed withdrawals, as well as the right to make withdrawals from voluntary savings without required waiting periods (currently 6 months).

If approved, the proposal could have a favourable impact on formal employment and produce an income effect for retirees, who generally have a relatively high propensity to consume; hence, the reforms could have a positive effect on consumption over time.

The initiative doesn't include a specific reference to any changes in the pension funds' investment regime, but Minister Herrera noted that the eventual bill could introduce greater flexibility for the Afores. It is unclear, however, whether such changes could direct funds to specific projects, as some analysts have previously stated.

II. Strong declines in May retail and wholesale activity

Sales activity in May, released on Wednesday, July 22, didn't show any lift from April despite some re-opening late in the month (chart 2). Retail sales fell -23.7% y/y (versus 2.8% y/y in May 2019), similar to the -23.8% y/y in April 2020, but worse than the market consensus of -18.5% y/y. Meanwhile, wholesale activity deepened its decline, from -20.5% y/y in April to -25.9% y/y in May (versus -3.9% y/y in May 2019), its worst drop since current records began in 2009.

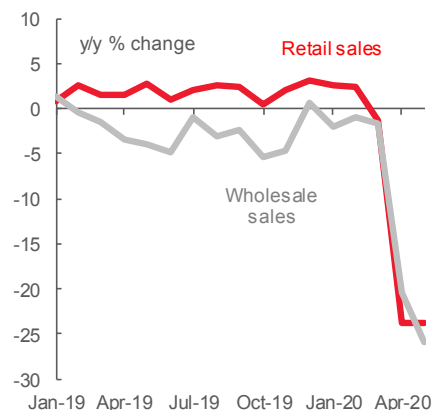
- **On average, accumulated retail sales and wholesale activity for the period January to May contracted -9.0% y/y and -10.4% y/y, respectively,** which was also the most pronounced for a similar period in the history of both indicators since 2009.
- **In their seasonally-adjusted monthly figures,** retail sales rebounded modestly, from an unprecedented decrease of -22.5% m/m in April to a slight advance of 0.8% m/m in May, while wholesale activity moderated its drop from a record decrease of -18.2% m/m in April to a decline of -5.1% m/m in May; on a seasonally adjusted annual basis, both sales figures continued to report strong decreases in May of -23.4% y/y and -23.8% y/y, respectively.

- **Retail trade in health care articles and online sales were the only notable exceptions to the May declines.**

Looking ahead, the National Association of Supermarkets and Department Stores (ANTAD) comparable-store sales figures showed a decline of -20.6% y/y in June, which implies that domestic sales weakness is set to persist to the end of Q2-2020. Hence, we maintain our negative outlook for private domestic consumption this year, with risks tilted further to the downside.

Chart 2

Mexico: Domestic Sales



Sources: Scotiabank Economics, INEGI.

—Daniel Mendoza

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