

## Latam Economic Update

- **Argentina:** Auto sector begins tough climb back from lockdown; debt talks converging
- **Brazil:** Mildly “positive surprises” from April IP and May PMIs
- **Chile:** May is set to be the second consecutive month with null monthly inflation
- **Mexico:** Car sales saw the largest annual drop for the month of May since 1998
- **Peru:** Government officials appear increasingly focused on unlocking, rather than on COVID-19 containment

### ARGENTINA: AUTO SECTOR BEGINS TOUGH CLIMB BACK FROM LOCKDOWN; DEBT TALKS CONVERGING

The auto sector began its tough climb back from a total shutdown of production in April as re-opening began in the latter third of May (chart 1).

- **Production** rose from zero in April to 4,802 vehicles in May, about a fifth of output in February, the last month that was unaffected by shutdowns. May’s production was down -84.1% y/y from a year ago. Year to date, the first five months of 2020 saw production fall -48.4% y/y from the same period in 2019.
- **Exports** inched up from 2,386 units in April to 3,227 vehicles in May, still down -85.2% y/y from 2019. Exports are likely to lag production as the Brazilian market continues to see surging COVID-19 numbers.
- **Domestic sales** bounced from 7,512 vehicles in April to 20,033 units in May. This was above March sales of 18,922 vehicles, which fell in the midst of the lockdown’s beginning, but May was still well off the 27,1919 vehicles sold in February. May’s sales are down -28.3% y/y from 2019.

Reports from Buenos Aires and New York on June 3 implied that the government and bondholders are converging on terms for a possible treatment of about USD 65 bn of external bonds that are now in default. Media indicated that the authorities are now seeking USD 26 bn in cash-flow relief between now and 2023, with bondholders offering USD 24 bn.

—Brett House

### BRAZIL: MILDLY “POSITIVE SURPRISES” FROM APRIL IP AND MAY PMIs

Even though Brazil’s industrial production for April, published on Wednesday June 3, came in stronger than expected, it still gave us the weakest monthly growth numbers on record (-27.2% y/y vs consensus -36.1% y/y, chart 2). As was likely to happen, and as we anticipated, investment-linked components of the economy performed the weakest: capital

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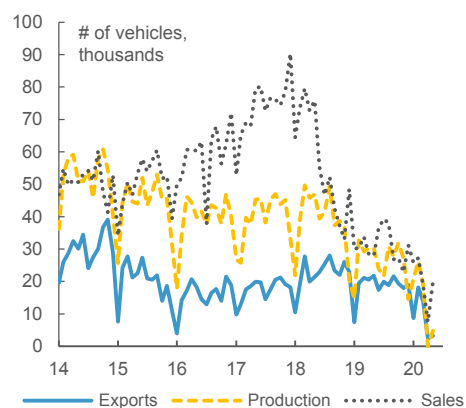
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#### Chart 1

**Argentina: May Re-Opening Didn't Lift Auto Numbers**



Sources: Scotiabank Economics, Bloomberg.

goods were down by -52.5% y/y and durable goods declined by -39% y/y. Meanwhile, declines in intermediate goods of -17.2% y/y, consumer goods by -39.2% y/y, and semi-durables of -25.2% were somewhat “less dismal”.

Another “positive surprise” came on the May PMI front, where the **Markit manufacturing PMI**, published on June 1, came in at **38.3** (versus **36.0** in April) and the **services PMI**, released June 3, printed at **27.6** (**27.4** in April). Together, the two readings implied that things didn’t get worse in May relative to the previous month—even if the contraction we are seeing is the largest in Brazil’s history in year-on-year terms.

It appears that most indicators bottomed during April–May with the exception of consumption-related prints, which we expect to continue worsening into June with the ongoing deepening of the COVID-19 pandemic in the country. Brazil now has the second largest number of confirmed cases in the world after the US.

—Eduardo Suárez

### CHILE: MAY IS SET TO BE THE SECOND CONSECUTIVE MONTH WITH NULL MONTHLY INFLATION

On Friday, June 5, at 8:00am in Santiago and EDT, the INE will publish the inflation data for May. We estimate inflation at 0% m/m for May, which would be 2.9% y/y, in line with the central bank’s Economic Expectations Survey, and slightly below the Financial Operators Survey (0.1% m/m) and forward prices (0.15% m/m). The increases in prices for food, leasing, and the readjustment in cigarette prices, would be offset by declines in fuel. Thus, we project a core CPI print of 0.1% m/m (2.1% y/y), with goods increasing 0.2% m/m (2.2% y/y) and services 0.0% m/m (2.0% y/y).

In a new technical [report](#) published on Wednesday, June 3, the INE noted that the May 2020 inflation data (and in future months, if necessary) will reflect an imputation of the prices of air transport services and tourist package products since lockdown measures mean that there is no effective demand or usual seasonality for these services. INE’s imputation method implies that the prices of the previous month are maintained for these products, so their monthly variation is 0%.

Assuming that this imputation is maintained for air transport services and tourist packages in the coming months, we project headline inflation of 0% m/m per month again in June, which would imply 2.8% y/y. Fuel prices would continue to

see declines in June since the MEPCO (i.e., the stabilization mechanism used by the Treasury to smooth fuel prices) is set to keep accumulating losses at least until August. These price drops would be offset by increases in prices for leasing, some food, and online subscription services, such as Netflix and Spotify. Both of these streaming services have already announced June price adjustments following the recent imposition of a 19% tax on them.

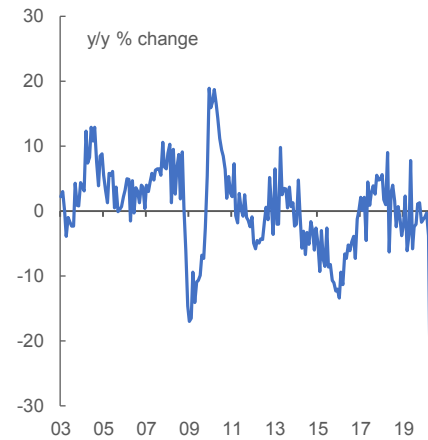
—Carlos Muñoz

### MEXICO: CAR SALES SAW THE LARGEST ANNUAL DROP FOR THE MONTH OF MAY SINCE 1998

May car sales data, released on June 3 by INEGI, showed a sharp decline of -59.0% y/y in May (chart 3). This was a slightly smaller contraction than the -64.5% y/y fall in April, but it was still the largest year-on-year drop in the month of may since 1998. Even though May figures posted a 20.4% m/m gain, driven by online car sales, all brands posting contractions of at least -35% y/y. Cumulative car sales year to date fell -30.0% y/y in May (versus -5.3% y/y in January–May of 2019), the worst performance for the first five months of the year since the Global Financial Crisis in 2009.

Chart 2

#### Brazil: Industrial Production



Sources: Scotiabank Economics, Bloomberg.

Chart 3

#### Mexico: Car Sales Growth in May



Sources: Scotiabank Economics, INEGI.

On Friday June 5, additional information regarding car production and exports in May will be released, where we expect a month-on-month increase similar to the one experienced by car sales, owing to the re-opening of the automobile industry from May 18.

—Alejandro Stewens

### **PERU: GOVERNMENT OFFICIALS APPEAR INCREASINGLY FOCUSED ON UNLOCKING, RATHER THAN ON COVID-19 CONTAINMENT**

**Finance Minister María Alva met with Congress on June 2, where she stated that the details for Phase 2 of economic unlocking will be approved this week.** This means an almost one business week delay from the June 1 Phase 2 launch date. Min. Alva also stated that the government was considering further safety-net resources for low-income households.

**Meanwhile, the Minister of Transportation, Carlos Lozada, stated, also on June 2, that domestic commercial flights would resume in Phase 3 of the unlocking.** Phase 3 is supposed to begin on July 1, although the Minister said that the process would “probably” begin in July, that the unlocking would be gradual, and that it would depend on health conditions in different regions of the country. Minister Lozada was even less precise in referring to the restart of international flights, which he said would begin at the end of Phase 3 or the beginning of Phase 4, and would depend on how other countries are dealing with international flights.

**Vice-Minister Juan Carlos Requejo, at the Ministry of Labour, stated on June 2 that 240,200 formal jobs were lost between March 16, when the lockdown began, and May 24.** This represented approximately 7% of formal jobs. This is, actually, better than we were expecting, although we’d prefer to wait for more official information. The same official stated that total jobs (i.e., both formal and informal) in Lima fell 25% y/y during the February–April period. Looking forward, Requejo stated that the challenge the government faced was to generate at least a quarter of a million jobs in Q2-2020. To do so, the government is studying a scheme that would include maintenance of roads, sidewalks, parks, canals, etc.—things that are short-term, can be organized quickly throughout the country, and are labour-intensive.

—Guillermo Arbe

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