

Latam Economic Update

- **Argentina: Consumer confidence sinks further in May**
- **Mexico: Banxico's Deputy Governor, Jonathan Heath, suggests easing cycle will continue**

ARGENTINA: CONSUMER CONFIDENCE SINKS FURTHER IN MAY

May's UTDT consumer confidence index, released on the 21st of the month, fell from 39.28% in April to 38.42%. The print puts the index 2.19% lower than the month before and 5.3% lower than in May 2019. In expenditure terms, consumption accounts for about 72% of GDP and sinking consumer confidence points to deeper contractions in economic activity in the first half of 2020 (chart1). The EMAE monthly economic indicator for March implies a -5.4% y/y decline in real GDP in Q1-2020; Q2 is set to be even worse given that the country's strict lockdown began only on March 20. Data and indicators so far in 2020 are now pointing toward a pullback in GDP of about -7.5% y/y for the year as a whole, much more dire than the -5.6% y/y we have forecast.

—Brett House

MEXICO: BANXICO'S DEPUTY GOVERNOR, JONATHAN HEATH, SUGGESTS EASING CYCLE WILL CONTINUE

On Wednesday May 20, Deputy Governor of Banco de México, Jonathan Heath, was interviewed in a podcast organized by Grupo Financiero Banorte. He shed some light on his personal thoughts on the COVID-19 pandemic and its effects on the Mexican economy.

Deputy Governor Heath said that, in his "personal opinion", he sees further cuts to the reference interest rate and that the end of the easing cycle has not been reached. However, the question of how fast and how far the easing cycle will go depends on how incoming new data evolve. He argued that Banxico's Governing Board has agreed on the direction of rate movements, as shown in its latest decisions, which have been unanimous; however, there is still much discussion on the pace of the easing cycle. He mentioned being open to going outside the traditional scheme of the eight scheduled meetings, stressing that decisions will be taken as a function of incoming data. Mr Heath commented that the Banco de México is keeping a close eye on key indicators, such as economic activity; the labour market; the strength and stability of the financial system; stress indicators; financial conditions; and operation of the money markets, to mention a few.

When asked about the proverbial hope for a V-Shaped recovery, Deputy Governor Heath mentioned that the current environment is still subject to a lot of uncertainty, which makes it difficult to predict the profile of the recovery. He stressed that economic activity has been on a downward trend since July 2018 as a result of a lack of incentives for investment by the private sector. This trend intensified sharply in March owing to the arrival of the pandemic.

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Guillermo Arbe
51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiabank.com.mx

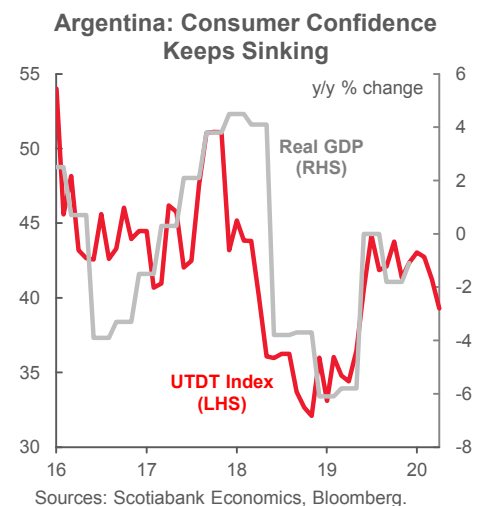
Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

TODAY'S CONTRIBUTORS:

Alejandro Stewens
52.55.5123.2686 (Mexico)
Scotiabank Mexico
astewens@scotiabank.com.mx

Chart 1



We might expect a rebound following the easing of contagion control measures owing to a low base effect. It is not yet clear, however, whether the economic weakness observed prior to the COVID-19 crisis will resume once the pandemic ends since it is still uncertain how the private sector's willingness to invest will evolve.

Banxico's Deputy Governor also stated that this recession is unprecedented and far more complex than the Great Depression of 1929. The aggressive fiscal and monetary responses to the crisis in countries like the US could partially offset the shock and contribute to a faster recovery. Mexico's response to the crisis, however, cannot be compared to that in other developed economies. In addition to not having sufficient resources and financial capacity, the Mexican government appears to think differently from the rest of the world and is not willing to increase its debt to finance fiscal stimulus, which could delay a subsequent recovery.

Deputy Governor Heath stressed that the balance of risks for inflation remains uncertain, as supply and demand shocks make it difficult to predict which risks—whether upside or downside—will dominate the inflation trajectory in the coming quarters. Also, he highlighted that the prices of some goods, such as food, have increased strongly, while other items, such as air fares, have dropped sharply. However, beyond the fact that the decline of some prices could offset the rise of others, the challenge is that the relative importance of different prices is changing. In other words, consumers will probably be more affected by an increase in food prices than by a decrease in air fares, now that very few people are traveling. This change in relative importance is not reflected in the CPI because it is calculated with fixed weights for each item. As a result, headline inflation numbers will likely reflect important distortions in the coming months.

—Alejandro Stewens

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