

Latam Economic Update

- **Argentina:** Vehicle production and sales activity collapse
- **Colombia:** April's consumer confidence at a record low
- **Mexico:** Inflation eases to 2.15% y/y, its lowest level in more than four years
- **Peru:** BCRP holds at 0.25%, aims to prevent fire-sale of assets by pension funds; the shift towards unlocking the economy continues

ARGENTINA: VEHICLE PRODUCTION AND SALES ACTIVITY COLLAPSE

Vehicle production shut down in April under the country's lockdown, with sales and exports also collapsing in data released May 6 (chart 1). Sales fell by -60% m/m and -73.6% in y/y terms, while exports were down -82.9% m/m and -88.4% y/y, compromised by both lockdowns and trade frictions. The shuttering of auto production in April implies that March's -16.8% y/y drop in industrial activity is set to accelerate substantially in its next print.

—Brett House

COLOMBIA: APRIL'S CONSUMER CONFIDENCE AT A RECORD LOW

April's consumer confidence index (CCI), published on May 7, deteriorated to its lowest level since the start of the survey in November 2001 owing to a significant erosion in respondents' assessment of the current situation (chart 2). Fedesarrollo's [diffusion index](#) now stands at -41.3 in a range where 100 would indicate that every respondent feels positively, -100 would mean that every respondent is negative, and zero denotes a perfectly balanced sample. The CCI dropped by 17.5 pts from March to April owing mainly to the decline in the CCI's constituent Economic Conditions Index (ECI), which fell by 33.2 pts to -73, an all-time low. The other constituent, the Consumer Expectations Index (CEI), fell by a smaller 7 pts to -20.1 pts. Although the CEI went deeper into negative territory, its shallower fall points to some relative faith in the future.

Consumer confidence fell in the five cities surveyed and across all socioeconomic levels. Consumers' willingness to buy houses, durable goods, and vehicles deteriorated significantly in April (chart 3), indicating a challenging scenario for private demand, which could weigh on a future economic recovery. Durable goods demand could be hurt for longer since we expect a higher USDCOP than pre-COVID-19 levels over the medium term.

Although the country is in an early phase of the gradual reopening of production activities, demand could limit the speed of recovery since the labour market has already been affected and further deterioration is expected. For now, we think a U-shaped recovery is still possible, and April's consumer confidence is in line with a 10% y/y decline in private consumption in Q2-2020.

—Sergio Olarte & Jackeline Piraján

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

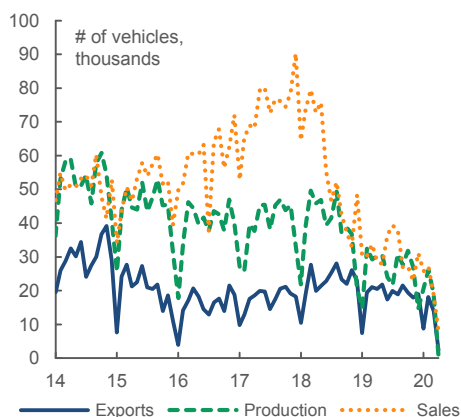
TODAY'S CONTRIBUTORS:

Jackeline Piraján
57.1.745.6300 (Colombia)
Scotiabank Colombia
jackeline.pirajan@co.scotiabank.com

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

Chart 1

Argentina: Vehicular Lockdown



Sources: Scotiabank Economics, Bloomberg.

Chart 2

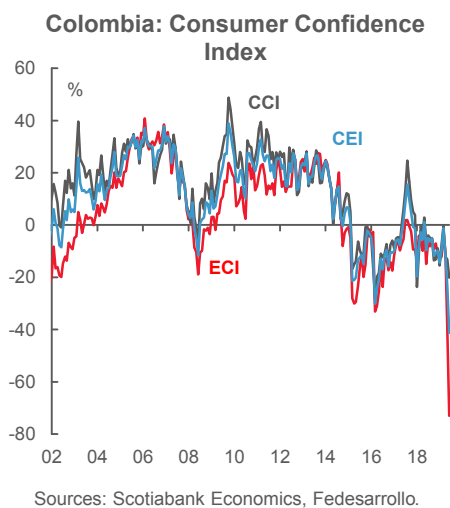
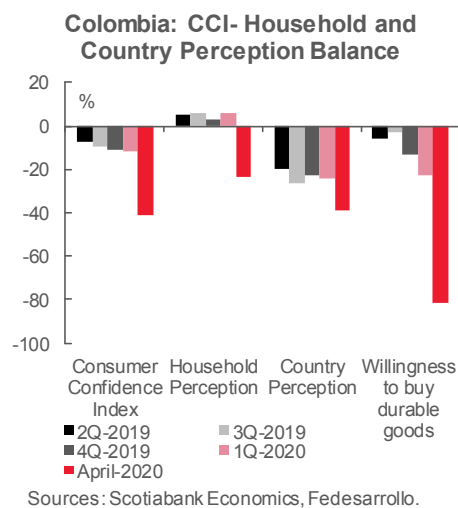


Chart 3



MEXICO: INFLATION EASES TO 2.15% YY, ITS LOWEST LEVEL IN MORE THAN FOUR YEARS

In April, headline inflation came in at **-1.01% m/m**, according to figures published May 7 by INEGI, in line with market expectations and the lowest monthly rate since records have been kept (1982). This result was mainly—but not exclusively—driven by a decline in the non-core component, with a sharp decrease in energy prices, due to extremely low oil prices and seasonal subsidies to electricity rates in some cities. In annual terms, inflation decelerated from 3.25% y/y to 2.15% y/y between March and April (versus 4.41% a year earlier). Its core component slowed down from 3.60% y/y, to 3.50% y/y (versus 3.87% a year earlier), and non-core inflation fell from 2.19% y/y to -1.96% y/y (versus 6.08% one year ago).

These results reinforce our view that, given the sharp decrease in energy prices and greater slack in the economy, there is still room for another 50 bps cut in the reference interest rate in next week's monetary policy meeting of Banco de México.

—Alejandro Stewens

PERU: BCRP HOLDS AT 0.25%, AIMS TO PREVENT FIRE-SALE OF ASSETS BY PENSION FUNDS; THE SHIFT TOWARDS UNLOCKING THE ECONOMY CONTINUES

As nearly everyone expected, the BCRP held its policy rate at its record-low 0.25% and announced following its May 7 meeting that it will buy USD directly from private pension funds in order to supply the funds with PEN liquidity for withdrawals under the new "25% law" that gives individuals emergency access to their retirement savings. The BCRP announced that it is also studying the possibility of providing a lending facility to pension funds. The BCRP's aim is to allow private pension funds (i.e., the AFPs) to avoid having to sell assets as they face withdrawals of, perhaps, 10% to 15% of their funds under administration. Congress recently passed a law allowing for the withdrawal of up to PEN 12,900 per account from private pension funds.

As part of possible re-openings, the government issued on May 7 health codes for mining and power, fishing, textile, e-commerce companies. Once companies show compliance with the new health protocols, they will be able to re-open operations.

The Minister of Transportation also publicly stated that 50 projects, worth USD 5 bn, would restart in May. Foremost among these is the expansion of the Lima airport.

The presiding member of the government's COVID-19 task force, Pilar Mazzetti, admitted on Thursday that Peru's state of emergency and accompanying drastic measures have not yielded the containment results that were expected. Mazzetti's

admission adds to the impression that the government is exhausted by the COVID-19 crisis and will not try to maintain the full force of the state of emergency after May 10, despite a contagion trend that does not appear to have peaked.

Sales taxes fell by -34.4%, y/y, in April numbers released May 7. This was actually not that bad a number, and reflects the fact that sales and consumption were less impacted by the state of emergency than we were expecting. We projected something more in line with the decline in credit and debit card transactions, which fell -75%, y/y, and -50%, y/y, respectively, in April. Most card users also have access to digital payments, which is quickly replacing other forms of payment.

—Guillermo Arbe

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.