May 8, 2020

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**

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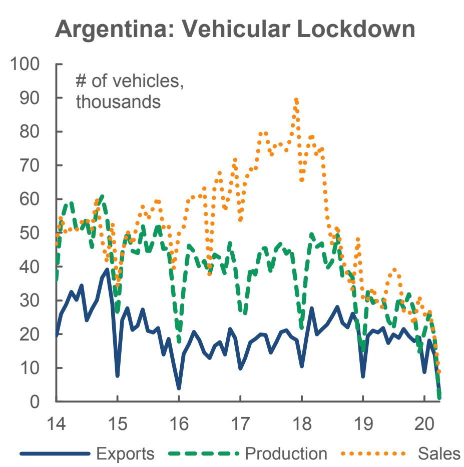
ARGENTINA: VEHICLE PRODUCTION AND SALES ACTIVITY COLLAPSE

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

Chart 1



Sources: Scotiabank Economics, Bloomberg.

COLOMBIA: APRIL'S CONSUMER CONFIDENCE AT A RECORD LOW

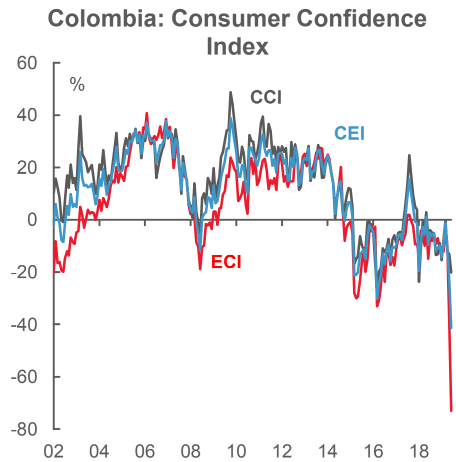
April's consumer confidence index (CCI), published on May 7, deteriorated to its lowest level since the start of the survey in November 2001 owing to a significant erosion in respondents' assessment of the current situation (chart 2). Fedesarrollo's diffusion index now stands at -41.3 in a range where 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 ppts from March to April owing mainly to the decline in the CCI's constituent Economic Conditions Index (ECI), which fell by 33.2 ppts to -73, an all-time low. The other constituent, the Consumer Expectations Index (CEI), fell by a smaller 7 ppts to -20.1 ppts. 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.

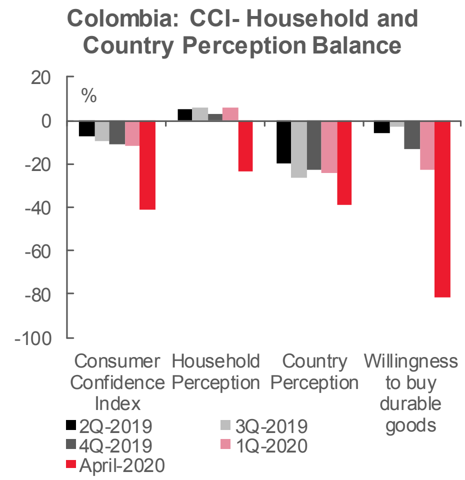
—Sergio Olarte & Jackeline Piraján

Chart 2



Sources: Scotiabank Economics, Fedesarrollo.

Chart 3



Sources: Scotiabank Economics, Fedesarrollo.

MEXICO: INFLATION EASES TO 2.15% Y/Y, 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