

## Latam Daily: Mexico Credit Crunch, Improving Labour Markets in Chile and Colombia

- **Argentina:** Wage growth picked up again in July
- **Chile:** Strong fiscal impulse in 2021; labour market showed green shoots in August
- **Colombia:** Unemployment rate improved significantly in August, came down to 16.8%
- **Mexico:** Credit contracted in August for the first time since 2010; primary surplus through August increased

### ARGENTINA: WAGE GROWTH PICKED UP AGAIN IN JULY

Argentina wage growth picked up for a second straight month in July, accelerating from 0.6% m/m in June to 1.8% m/m (chart 1), in data out Wednesday, September 30. Registered private and public wages grew by 1.3% m/m and 1.1% m/m, respectively, but unregistered private wages came up by 4.2% m/m, a big increase from 1.5% m/m in June. In year-on-year terms, both private and public registered wage growth slowed owing to base effects from last year's inflationary spurt, but private unregistered growth was strong enough to show even a year-on-year speed-up from 33.8% y/y in June to 34.8% y/y in July.

**Private unregistered wages are the best indicators of inflationary pressures in the labour market.** They point to a quick rebound in CPI inflation in 2021, as we have projected in successive *Latam Weeklys* (our latest, September 20 edition, is [here](#))

—Brett House

### CHILE: STRONG FISCAL IMPULSE IN 2021; LABOUR MARKET SHOWED GREEN SHOOTS IN AUGUST

#### I. Strong fiscal impulse in 2021

On Tuesday, September 29, Pres. Piñera announced on the Budget Law bill for 2021. The bill includes a 9.5% y/y increase in government spending with respect to the adjusted 2020 Budget Law, which would imply an effective fiscal deficit of -4.3% of GDP and a structural fiscal deficit of -4.7% of GDP (versus -9.5% and -3.5% in 2020, respectively). The Ministries that would experience the highest spending growth are expected to be Public Works (up 33.4% y/y), Labour (rising 24.6% y/y), and Housing & Urban Affairs (up 18.1% y/y). Recall also that that 2020's budget included resources from a Transitory Emergency Fund, which amounted to USD 5.2 bn.

The budget for next year is consistent with a medium-term public spending trajectory that assumes a path of convergence which would close the structural deficit by 2024 and would stabilize sovereign debt at 45% of GDP. From our side, we think this would be difficult to achieve since it would require the

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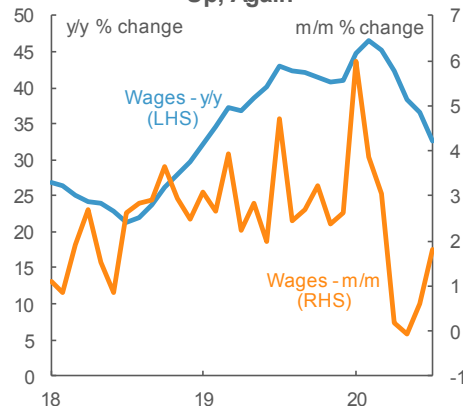
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Chart 1

#### Argentina: July Wage Growth Picks Up, Again



Sources: Scotiabank Economics, INDEC.

future expansion of government spending from 2022 to 2024 to be extremely small—a hard mark to reach given that a new government will be elected in 2021 and social demands are set to grow in the meantime.

In this context, we continue to see pronounced risks of a 1-notch sovereign credit risk downgrade unless a better fiscal consolidation plan is delivered during the next quarters and/or we have significant positive economic and political surprises.

## II. Labour market: green shoots are confirmed, although there is still a long way to go

In data out Wednesday, September 30, the national unemployment rate fell to 12.9% in the moving quarter ended in August, down from 13.1% in the previous moving quarter to July and positively surprising the market, which expected around 13.6%. This print was explained by a somewhat greater improvement in employment than that registered in the active labour force, both of which reduced their rate of annual contraction to -19.4% y/y and -14.5% y/y, respectively. Along these lines, the occupancy rate increased slightly to 45.7%, reversing the downward trend shown from March to July. Despite this improvement, we expect the unemployment rate to remain high for several quarters, as the re-opening of the economy should push up the active labour force up faster than job growth.

We anticipated this: job creation surprised positively again in August, with a monthly creation of 119k jobs, the first positive figure since January 2020, which consolidated the recovery process underway since June (chart 2). Despite this, in year-on-year terms, Chile is still down about 1.7 mn jobs and restoring these positions will be a daunting task for the coming years. Marking a step in this direction, absent employee numbers showed a decrease of about 93k people in the August, a testament to the reintegration of workers to their jobs after firms invoked the Employment Protection Plan.

Job creation in August came principally from the commercial (i.e., retail) sector, mainly in the self-employed category. At the same time, gains in private salaried employment came from the service and manufacturing sectors.

—Jorge Selaive

## COLOMBIA: UNEMPLOYMENT RATE IMPROVED SIGNIFICANTLY IN AUGUST, CAME DOWN TO 16.8%

On Wednesday, September 30, DANE reported that in August, nationwide unemployment came in at 16.8% (August 2019 was 10.8%), while urban employment (i.e., across 13 cities) came in at 19.6% (August 2019 was 11.4%). The seasonally adjusted series showed that the national unemployment rate improved to 17.1% in August versus 19.8% in July 2020, the best figure so far during the pandemic times (chart 3). Gradual economic re-opening has helped restore jobs; however, informal labour has also increased by more than 1.5 ppts, the main source of changes.

We were expecting the employment data to show some stagnation in August due to the re-assertion of lockdowns in the main cities. However, the annual employment growth numbers surprised us on the positive side, rising from -19.9% y/y in July to -16.2% y/y in August (charts 4 and 5), and now allow us to expect a better result for August's economic activity indicators (i.e., retail sales and manufacturing) than we previously anticipated. Labour-market recovery will continue in September as new activities such as commercial flights, hotels, and restaurants were allowed to re-open.

August data showed that lost jobs owing to the COVID-19 shock and lockdowns amounted to more than five million positions; up to August, about half of these jobs had been restored and losses stood at 2.4 million people. In August, employment creation added 1.3 mn people to the employed population, bringing its total to 19.7 mn people. This means that 89% of the pre-COVID-19 labour force is now employed, up from 75% in April. The sectors that showed stronger recoveries were construction, commerce, hospitality and restaurants, and manufacturing. Leisure activities continue to be the most affected sectors with 650k job losses. We do not expect this sector to show a strong recovery any time soon.

Chart 2

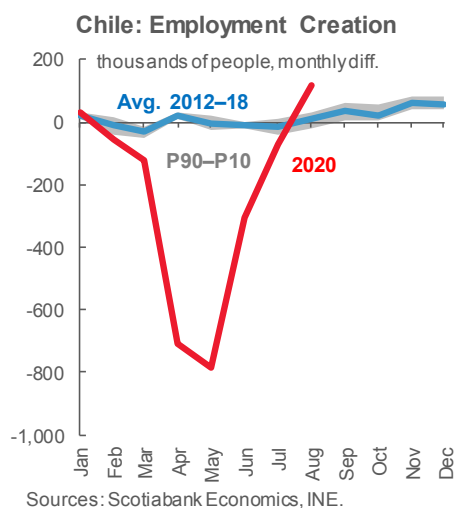


Chart 3

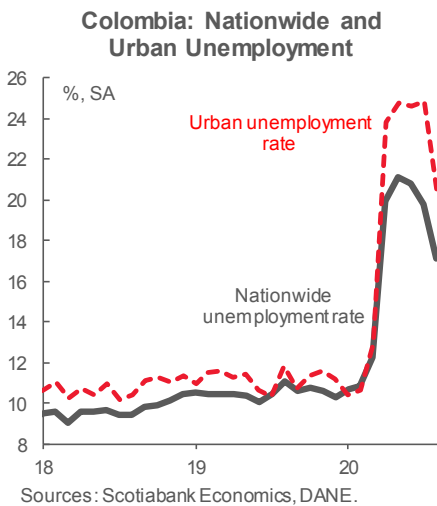


Chart 4

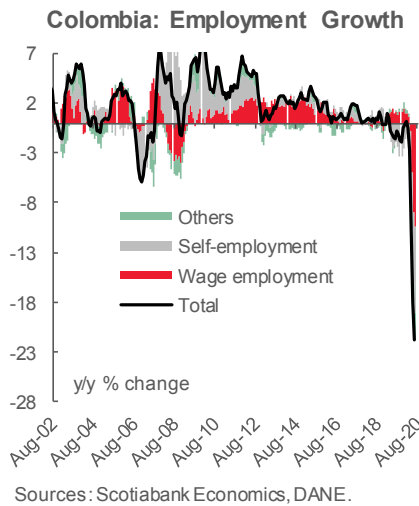
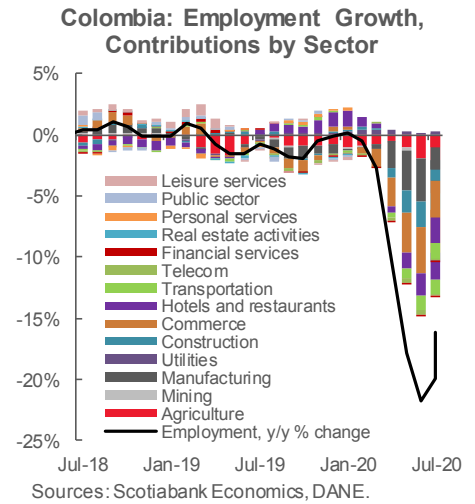


Chart 5



Despite the significant improvement in August's data, the labour market remains the biggest concern for policymakers. It constitutes the main risk for the economic recovery, especially since informal employment drove August's gains, which could undermine future productivity. Therefore, we stick with our baseline forecast of a gradual recovery in economic activity in 2021. We continue to expect the unemployment rate to hit 17.8% by Q4-2020, as shown in our recent forecasts [here](#), although after August's labour data, our bias would be toward a lower number.

—Sergio Olarte & Jackeline Piraján

**MEXICO: CREDIT CONTRACTED IN AUGUST FOR THE FIRST TIME SINCE 2010; PRIMARY SURPLUS THROUGH AUGUST INCREASED**

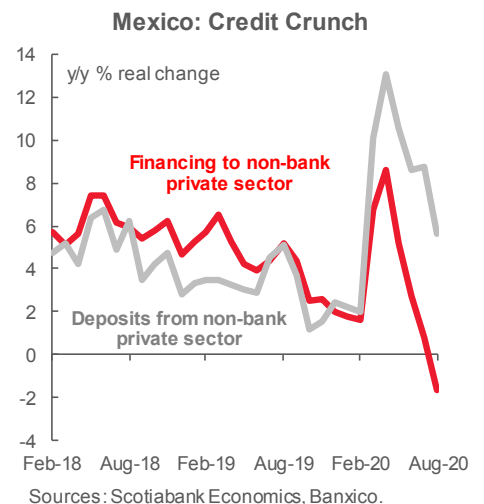
**I. Credit contracted in August in year-on-year terms for the first time since 2010**

In data released by Banxico on Wednesday, September 30, commercial-bank financing to the private sector dropped in real terms in August for the first time in the last 10 years, driven mostly by the deepest contraction in consumer loans since 2010 (chart 6). Mortgage lending slowed for the fourth consecutive month, but credit to the business sector remained unchanged in year-on-year terms. On the other hand, financing to the federal public sector continued to grow.

Real growth in total commercial bank financing to the private sector plunged from 0.8% y/y to -1.7% y/y (compared to 5.2% y/y a year earlier), owing to a decrease in direct financing growth from 0.7% y/y to -1.7% y/y (compared to 5.2% y/y in August 2019).

- Mortgage lending maintained a steadier pace, from 5.7% y/y to 5.1% y/y (versus 7.6% y/y a year earlier).
- Business financing growth remained slow in August, going from 3.8% y/y to 0.0% y/y (versus 5.3% y/y a year earlier).
- Consumption financing declined more steeply, from -9.2% y/y to -10.3% y/y (versus 3.0% y/y a year earlier), the deepest contraction in a decade.
- Financing for the federal public sector continues to increase significantly although at a slower pace this month, growing by 21.2% y/y in real terms in August, in comparison to 26.9% y/y in July.

Chart 6



**Real growth in total commercial bank deposits from the non-bank public sector cooled from 8.8% y/y to 5.6% y/y (versus 5.1% y/y in August 2019).** Demand deposits growth moderated, from 13.4% y/y to 10.4% y/y (compared to 4.4% y/y a year earlier), while real growth in time deposits decreased from 2.0% y/y to -1.3% y/y (vs. 6.1% y/y in August 2019).

**Similarly, real growth in the commercial banks' loan portfolios to the private sector came down from 1.1% y/y to -1.4% y/y (versus 5.7% y/y in 2019), suggesting some risk aversion from either the demand or the supply side owing to the uncertain economic outlook.** Commercial banks' non-performing loans shrunk further in August, from -4.2% y/y in July to -6.5% y/y, which most likely reflected assistance from the credit deferral program launched in March and April by the finance ministry and finance regulators—but this is about to expire.

## II. Primary surplus through August increased

**For the January–August year to date, the public finances report released during the afternoon of Wednesday, September 30, showed a primary surplus of MXN 155.3 bn owing to the government strategy of increasing tax collection and spending funds to raise also non-tax revenue collection.** However, the fiscal balance registered a MXN -275.0 bn deficit (-1.8% of GDP), less than the MXN -375.1 bn budgeted for the period, but much larger than the MXN -118.1 bn deficit observed in the same eight months of 2019. Looking at the details:

- **Total revenues summed up to MXN 3.508 tn in the first eight months of 2020, MXN 169 bn below program and a -2.3% y/y decrease in real terms.** Oil revenues amounted to MXN 348.3 bn in the January–August period, which represented a -38.0% y/y drop. Tax revenues were MXN 2.262 tn, a decrease of -0.5% y/y, owing to a -1.8% y/y fall in value-added tax collections and a 1.1% y/y increase in income tax revenue related to the federal government's strategy to increase tax collection, with a focus on large firms' contributions. For the month of August alone, tax revenues fell by -1.6% y/y as VAT revenues were down -14.2% y/y and income taxes were up by only 0.3% y/y. Non-tax revenues amounted to MXN 237.6 bn, a 83.5% y/y increase in real terms.
- **Net expenditures summed to MXN 3.805 tn, below the MXN 4.053 tn scheduled, which still amounted to a 0.9% y/y increase YTD.** Highlights included a 1.3% y/y increase in current expenditures, which totaled MXN 2.279 tn in the January–August period, and a 14.0% y/y increase in capital expenditures, that summed to MXN 494.6 bn YTD.
- **The finance ministry has remained focused on its strategy of providing a fiscal response to the pandemic without contracting new debt,** however public debt still increased to MXN 12.037 tn, representing 52.1% of GDP.

**In conclusion, despite the increase in revenues, the fiscal stance remains relatively tight. We expect the budget balance to deteriorate further: the capacity to increase tax revenues through more efficient collection is limited, yet expenditures are expected to keep growing.**

—Miguel Saldaña

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