

## Latam Economic Update

- **Brazil:** Capacity utilization recovering; headline August IPCA inflation expected to rise, but remain materially below the BCB's target
- **Colombia:** August consumer confidence reading reveals an improving assessment of the country's future
- **Peru:** August vehicle sales mark another point in recovery

### BRAZIL: CAPACITY UTILIZATION RECOVERING; HEADLINE AUGUST IPCA INFLATION EXPECTED TO RISE, BUT REMAIN MATERIALLY BELOW THE BCB'S TARGET

Brazil's June CNI capacity utilization rate rose to 72% from 70.2% in May, a second month of increase from the nadir of the lockdown in April, when the rate hit a low of 66.9% (chart 1). The June reading marks another data point in the turnaround of the Brazilian economy, but leaves the country with some significant road ahead of it to get back to the 77–78% capacity utilization rates we saw prior to the lockdown.

Brazil's IPCA inflation for August is slated for release today at 08:00 ET and the consensus expects base effects to drive a rise in the headline number from 2.3% y/y to 2.4% (chart 2) even as seasonally-adjusted sequential inflation is expected to fall from 0.36% m/m to 0.24% m/m. Since the COVID-19 epidemic hit in March–April, the components where inflation has been consistently accelerating include food and beverages, domestic appliances, and communications—which makes sense in a lockdown. In contrast, items such as transportation and housing saw price drops at the start of the pandemic, but have seen price rebounds since June when the economy hit bottom alongside the peak in physical distancing. With the Brazilian economy recovering at a surprising speed, we think inflation will tend to rise mildly in the coming quarters, but given remaining slack, it should stay below target at least 'til year-end.

—Eduardo Suárez

### COLOMBIA: AUGUST CONSUMER CONFIDENCE REVEALS A BETTER ASSESSMENT OF THE COUNTRY'S FUTURE

August's Consumer Confidence Index (CCI), released on Tuesday, September 8, stood at -25.4 ppts, up by 7.3 ppts from July levels (-32.7 ppts, chart 3), the strongest move in recent months. Although the August reading remained fairly deep in pessimistic territory (i.e., below zero), it represented a significant improvement owing to better consumer assessments of the country's future.

In August, the Current Conditions Index mildly strengthened to -59.0 ppts versus the previous -59.9 ppts level in July. Additionally, the Expectations Index improved to -2.9 ppts (versus the July reading of -14.6 ppts). Both moves contributed to the overall improvement in the confidence index, suggesting that

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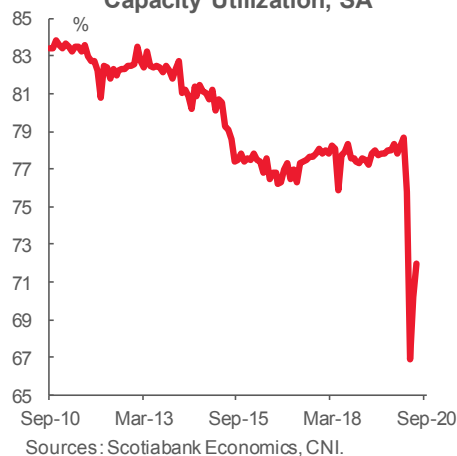
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#### Chart 1

**Brazil: CNI Manufacturing Industry Capacity Utilization, SA**



the announced re-opening measures were received positively by consumers. It is worth noting that assessments of the future improved the most for the country's expected economic situation. That said, the spread between the Expectations and Current Conditions Indices remained positive in August, which implies room for additional recovery in the months ahead.

**At the regional level, consumer confidence improved in August in four out of five cities surveyed; however, in one of the main cities—Medellin— confidence deteriorated again, which we associate with regional lockdown measures in the area.** In Bogota, sentiment improved, probably owing to the announcement of new re-opening strategies. It is worth noting that most relevant confidence improvements occur in cities where re-opening progress is most advanced. Additionally, Bogota showed a substantial increase in consumers' willingness to buy houses, which may be related to subsidies for low-income and middle-income homes.

**By socio-economic levels, August's indices also presented a positive picture. High-income earners' confidence improved the most, followed by the country's low-income and middle-income populations.** This is compatible with the increased willingness amongst these cohorts to buy houses, due to government efforts to subsidize the residential building construction sector; these measures tend to have a more substantial effect on the high-income population. On the other hand, consumers' inclinations to buy vehicles and durable goods—such as furniture and home appliances—remained at historically low levels (chart 4), which poses a significant challenge for economic gains.

**August's recovery in consumer confidence is good news and implies that re-opening announcements lead to better expectations for future economic activity.** However, since employment losses remain high, consumers' assessments of their household situations and their willingness to buy durable goods remain still weak, which constitute the main adverse risks for a stronger economic rebound.

Chart 2

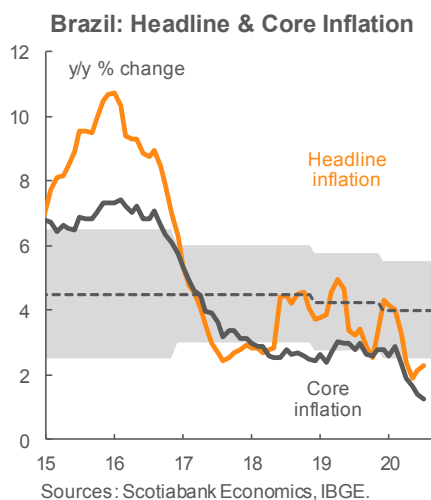


Chart 3

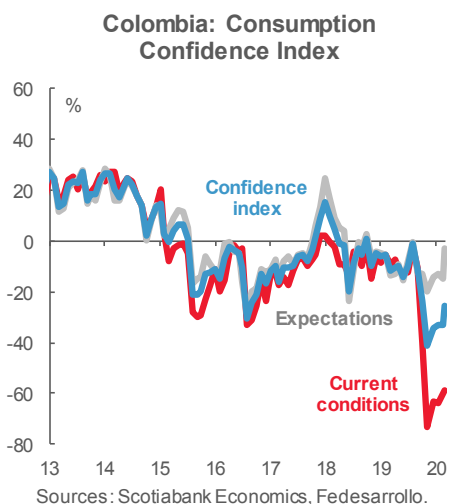
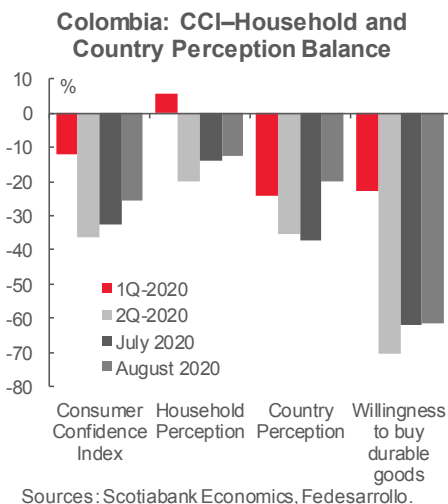


Chart 4



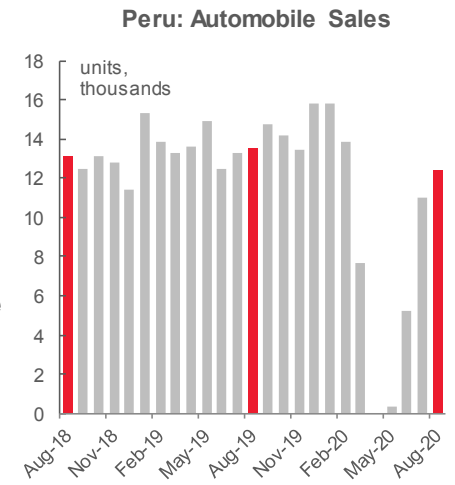
—Sergio Olarte & Jackeline Piraján

**PERU: AUGUST VEHICLE SALES MARK ANOTHER POINT IN RECOVERY**

New vehicle sales surpassed the 12,000-units mark in August (chart 5), according to data released on Tuesday, September 8. This was down -9% y/y, but up by 12% m/m compared with July, according to the local auto-sector group, the Asociación Automotriz del Perú. This was yet another sign of a gradual return to normalization. Part of the improvement was driven, however, by an increase in demand for vehicles to provide home delivery services: households continue avoiding going to outlets for consumer goods and food.

—Guillermo Arbe

Chart 5



Sources: Scotiabank Economics, AAP.

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