September 29, 2020

Latam Daily: BanRep Minutes Signal Hold; Spotlight on Jobs in Chile and Mexico

- **Argentina: Rebound lost more steam in July**
- **Chile: Government announces USD 2 bn employment plan to recover and generate up to one million jobs**
- **Colombia: A very factual set of BanRep minutes**
- **Mexico: Employment and trade balance reflect moderate recovery**

ARGENTINA: REBOUND LOST MORE STEAM IN JULY

Argentina's recovery continued to lose steam in July as growth in the monthly EMAE GDP proxy slowed in data released late in the day on Monday, September 28 (chart 1). Sequential monthly growth came down from 7.4% m/m in June (revised from 7.5% m/m) to 1.1% m/m, which put the economy further behind in year-on-year terms: Argentina's annual contraction widened from -12.3% y/y in June (revised from -11.7% y/y) to -13.2% y/y. Eleven of 13 sectors continued to see annual contractions in July, with hospitality (-65.4% y/y) and services (-60.3% y/y) still down the most from 2019. Utilities (4.4% y/y) and financial services (2.9% y/y) continued to be the only sectors that saw gains from July 2019.

We have forecast a -10% y/y contraction for 2020 as a whole, but this outlook relies on further and faster progress on re-opening the economy than Argentina is currently managing, with COVID-19 case numbers rising and control measures extended into mid-October. At present, the economy is tending toward an annual contraction even deeper than the -10.6% y/y that consensus is anticipating.

—Brett House

CHILE: GOVERNMENT ANNOUNCES USD 2 BN EMPLOYMENT PLAN TO RECOVER AND GENERATE UP TO ONE MILLION JOBS

On Sunday, September 27, Pres. Piñera announced an employment plan that will benefit new hires and the re-instatement of suspended workers, in a context where the Metropolitan Santiago Region now has 97% of its population free from quarantine measures and able to go back to work. The initiative is focused on generating more job opportunities, especially for women, young people, and workers with disabilities. The Piñera Administration estimates that the plan will require USD 2 bn in funds.

The plan features two state aid tools:

- **The first is called the "Return Subsidy";** it consists of a benefit for up to six months equivalent to CLP 160,000 (~ USD 205) per month for each worker re-instated by a company that has invoked the Employment Protection Law, i.e., a company that has suspended the employment relationship with its staff due

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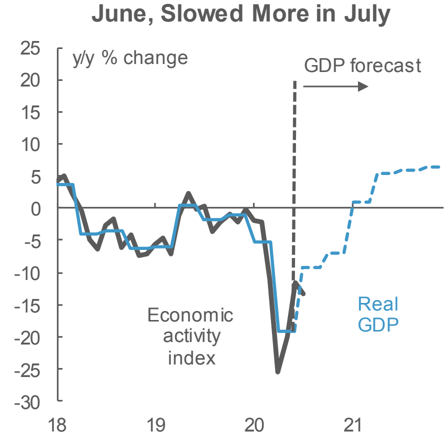
Chart 1

Argentina: Rebound Lost Steam in June, Slowed More in July



Sources: Scotiabank Economics, INDEC.

to the pandemic. Companies applying for the "Return Subsidy" must have experienced a drop in their sales or gross income of at least 20% in the period between April and July 2020 compared to the same period in 2019. Furthermore, workers must be over 18 years of age and have a gross monthly income that does not exceed three minimum monthly payments (CLP 961,500, ~USD 1,230); and

- **The second tool is called the "Hiring Subsidy";** it is a government subsidy equivalent to 50% of gross monthly remuneration, with a cap of CLP 250,000 (~ USD 320) per month for each worker added to payrolls compared to July 2020. However, if the new worker is a woman, a person between 18 and 24 years of age, or has any type of disability, the subsidy increases to 60% of gross monthly remuneration, with a cap of CLP 270,000 (~ USD 350).

—Carlos Muñoz

COLOMBIA: A VERY FACTUAL SET OF BANREP MINUTES

On September 28, BanRep published the minutes of its Friday, September 25, monetary policy meeting where it cut its headline policy rate by -25 bps from 2.00% to 1.75% in a split decision (4-3). The minutes were factual: they largely described what the most recent data for inflation and growth have shown. The text stressed that CPI inflation came in at 1.88% y/y in August, below BanRep's target range (2.0%–4.0%), while inflation expectations keep showing an increase next year to 2.5%–3.0%.

On economic activity, the minutes reiterated that the staff's projections for 2020 GDP growth anticipate a range between -6% y/y and -10% y/y (we forecast -7.5% y/y) and the labour market is still very weak. Additionally, according to the minutes, the Board's thinking is coloured by still-high uncertainty related to global economic activity and a possible second wave of COVID-19 that could force countries to close their economies again.

Finally, the only new piece of information was that the three Board members who voted for a hold at 2.00% were concerned that a too-low monetary policy rate could do more harm than good in the short run. We think the BanRep dissidents were focused on financial stability and the possibility that lower interest rates could trigger a financial crisis. We see the split decision as a clear signal that BanRep is ready to end its easing cycle and enter into a "wait and see" mode.

We maintain our call that the monetary policy rate will remain on hold at 1.75% for the rest of the year and into the first half of 2021.

—Sergio Olarte & Jackeline Piraján

MEXICO: EMPLOYMENT AND TRADE BALANCE REFLECT MODERATE RECOVERY

On Monday, September 28, INEGI released Mexico's August unemployment figures, which showed some moderate improvements as economic activity continued to normalize gradually. Among the highlights:

- The **unemployment rate** dropped a bit again, from 5.4% to 5.2% as a proportion of the economically active population (i.e., PEA in Spanish), between July and August. The average unemployment rate for January–August was 4.4%, the highest for this eight-month period in six years;

- The **participation rate** rose again, from 54.9% m/m to 55.1% m/m, while the underemployment rate fell from 18.4 m/m% to 17.0% m/m;

- Likewise, the **number of employed people who work 35 to 48 hours a week** increased by 1.9 mn people and those absent from work decreased by 1.1 mn people; and

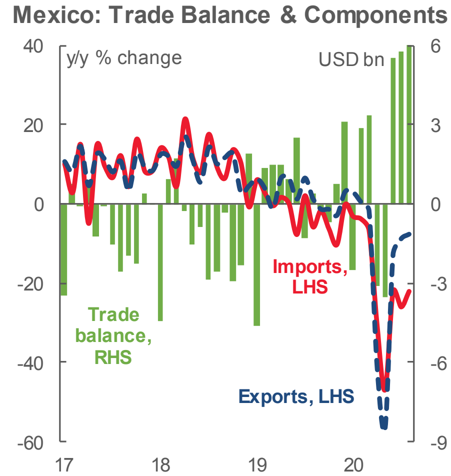
- Meanwhile, the **rate of labour informality** continued to rise, from 54.9% m/m to 55.1% m/m.

In addition, on Monday, we received Mexico's August trade balance data, which surprised with a record surplus for a third consecutive month (chart 2). In August, the surplus hit USD 6,116 mn, the highest since this set of statistics began in 1993, which exceeded the market consensus of a surplus of USD 5,029 mn and was well above the USD 402 mn registered in August 2019.

Mexico's record monthly trade surpluses continued to be driven in August by a combination of weak imports and some improvements in exports.

- **Imports** in August were still down -22.2% y/y (versus -26.1% y/y in July). Capital goods imports, which have seen 17 consecutive monthly declines, are still sending warning signals about the prospects for gross fixed investment. In contrast, imports of intermediate goods, consumer goods, and oil imports attenuated their contractions.
- **Exports** pared their declines to -7.7% y/y (versus -8.9% y/y in July). Export performance was marked by a less pronounced decline in its oil component. Nevertheless, manufacturing exports deepened their annual contractions, highlighting the behaviour of automotive exports.
- Consequently, the annual contraction in **total foreign trade** (i.e., exports + imports) moderated from -17.6% y/y in July to -14.9% y/y in August.

Chart 2



Sources: Scotiabank Economics, INEGI.

In conclusion, there is still a strong divergence between the recovery in external demand and the persistent weakness of domestic demand that is driving Mexico's monthly trade surpluses.

—Paulina Villanueva