Latam Daily: BCB Hold Expected; Peru Late-2020 Data Mostly Heartening

- **Central banks & macro data: BCB hold, few macro releases**
- **Peru: Data on November GDP and employment, and 2020 fiscal deficit, were mostly heartening**

CENTRAL BANKS & MACRO DATA: BCB HOLD, FEW MACRO RELEASES

I. Central banks: Brazil's BCB expected to hold

Brazil's BCB is the only central bank in Latam scheduled to take fresh monetary-policy decisions this week.

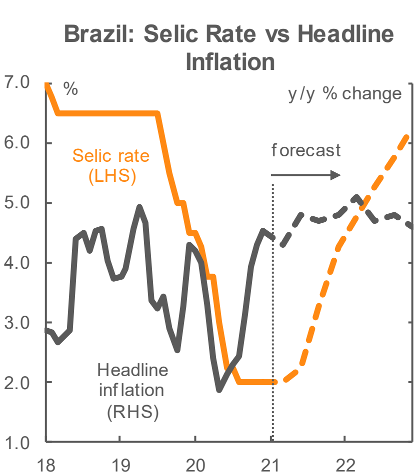
The BCB's monetary-policy committee (Copom) meets on Wednesday, January 20 and our Brazil economist expects the Selic rate to be held again at its record-low 2.00% for a fifth straight meeting, in line with market consensus. Note that the BCB announced on January 15 that Copom rate-decision announcements have permanently moved to no earlier than 18:30 local time in Brasilia following a shift from 18:00 after the December meeting. The timing of the publication of Copom meeting minutes shall remain unchanged at 08:00 on the Tuesday following the meeting, i.e., January 26 in the next instance.

For context on Wednesday's decision, in the statement from the Copom's December 9 meeting was instructive. We observed in our December 10 *Latam Daily* that the committee members acknowledged that inflation expectations have moved up, but that they remain contained over the monetary-policy horizon. At the same time, the Copom viewed the government's fiscal stance as unchanged since its last meeting.

More significantly, the Copom tweaked its forward guidance it introduced at its August 5 meeting with a more hawkish bent, noting that:

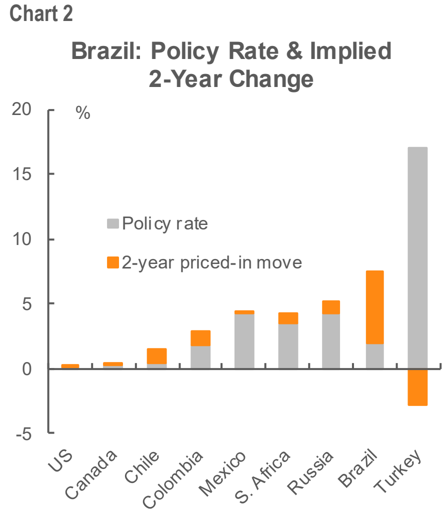
"… over the coming months, the 2021 calendar-year should become less relevant than the 2022 calendar-year, for which projections and expected inflation are

Chart 1



Sources: Scotiabank Economics, BCB, IBGE.

Chart 2



Sources: Scotiabank Economics, Bloomberg.

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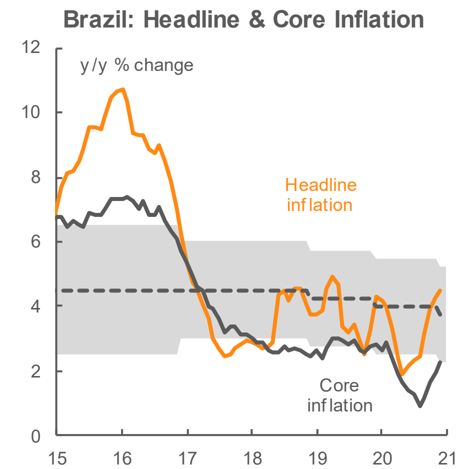
around the target. A scenario of inflation expectations converging to the target suggests that the conditions for maintaining the forward guidance may soon no longer apply, which does not mechanically imply interest rate increases, since economic conditions still prescribe an extraordinarily strong monetary stimulus".

Chart 3



Sources: Scotiabank Economics, IBGE.

This new language points toward less constrained, data-dependent moves over the next few meetings, particularly since inflation expectations are now converging on 2022's target of 3.50% y/y.

In fact, as we noted in our December 18 *Latam Daily*, the minutes of the meeting further signalled that the BCB's forward guidance is likely to be unwound entirely during Q1-2021, possibly as soon as this week's Copom meeting; similarly, the December *Inflation Report*'s projections were broadly consistent with the path of rate hikes that we forecast to begin in Q2-2021 (chart 1) and which the market has priced (chart 2).

Since the BCB's December communications, the resurgence in the COVID-19 pandemic, both in Brazil and globally, has been the major change in the country's macro indicators, but inflation also began to pick up at end-2020 to 4.52% y/y (chart 3), driven by both goods and services (see our January 13 *Latam Daily*). Though the end of COVID-19-related consumer stimulus this month could dampen both demand and inflation a bit in the near term, the prevalence of indexation in Brazil behooves the BCB to get ahead of it by adopting a more hawkish stance.

II. Macro data: Few scheduled releases in a quiet week

- **Argentina.** No major scheduled data releases this week.
- **Brazil.** November's GDP proxy was published at 07:00 EST on Monday, January 18, and moderated from 0.86% m/m in October to 0.59% m/m, a touch better than the consensus expectation of 0.50% m/m. It is set to be followed by December fiscal and balance of payments data at some unspecified date from Tuesday, January 19, onward.
- **Chile.** No major scheduled data releases this week.
- **Colombia.** November retail sales and manufacturing production, due on Monday, January 18, should show positive sequential monthly gains that would reflect some consolidation in the "new normal" re-opening scheme. November trade data follow on Wednesday, January 20, and imports are likely to be up as domestic demand firmed into late-2020.
- **Mexico.** December's unemployment rate is set to deteriorate slightly from 4.4% the previous month to 4.6%, owing to increased participation, in labour-market data out Thursday, January 21. We expect level effects to soften bi-weekly inflation from 3.2% y/y in the latter half of December to 3.0% y/y in the first half of January, with consensus expecting 3.1% y/y. Still, the data out on Friday, January 22, could surprise given the volatility in recent prints.
- **Peru.** No major scheduled data releases this week.

—Brett House

PERU: DATA ON NOVEMBER GDP AND EMPLOYMENT, AND 2020 FISCAL DEFICIT, WERE MOSTLY HEARTENING

A lot of information was released on January 14 and 15. The National Statistics Institute reported that monthly GDP fell -2.8% y/y in November, an improvement from October's -3.8% y/y. This was in line with our expectations of a -3% y/y decline (and a beat on the consensus -3.5% y/y) and was the mildest contraction since the March lockdown.

The improvement in annual GDP growth in November was led by relatively few robust sectors (table 1). Construction growth continues to boom at 17.3% y/y, while financial services, up 22.4% y/y, benefitted from Reactiva resources. These two sectors were followed by telecom (6.8% y/y) and government services (4.3% y/y). Agriculture and fishing growth rates were much more moderate, whereas all other sectors declined in year-on-year terms. The advance in November GDP is seen much more clearly in month-on-month comparisons. GDP was up a rather modest 0.9% m/m, but nearly all sectors were up in sequential terms. Agriculture and fishing were the exceptions.

November's GDP results ratify our expectations of a -3% y/y contraction in Q4 2020, which would give us a full-year decline of -11.5% y/y. The BCRP appears to be in agreement. During its monthly policy press conference, a spokesperson for the central bank stated that GDP growth in December would be somewhere between -1% m/m and -2% m/m. The BCRP pointed to initial data and estimates for December, including the following: cement consumption up 15.6% y/y; government investment up 19.2% y/y (chart 4); capital goods imports up 9.0% y/y, the first positive showing since January; and domestic sales tax up 0.2% y/y, the first positive performance since January. Note that total sales tax revenue was up an even more impressive 5.1% y/y in real terms (chart 5) and 7.0% in nominal terms.

The National Statistics Institute also released information on employment in Lima. During Q4-2021, employment in Lima was off only -13% in y/y terms, the softest annual contraction since the lockdown. As a result, the unemployment rate ended 2020 at 13.8%, broadly in line with our forecast of 14%. This was a significant improvement from 15.1% for the 3-month period ending in November. Unemployment reached a peak of 16.5% in Q3. However, the data also ratified that new jobs are lower in quality, or at least in wages, than lost jobs, as the average salary fell -12% y/y in Lima. Unemployment and underemployment continue to be the main concern we have for the economy.

The fiscal deficit ended 2020 at -8.9% of GDP, according to figures released by the BCRP on January 14. This was wider than our forecast of -8.7% and all is well! The deficit was trending smaller than our forecast until November, when it was -7.6% of GDP. December was, mostly, a good month, in terms both of higher than expected revenue and government spending, both things we wanted to see. December revenue was up 6.5% y/y (table 2)—on the face of it, a very hopeful increase which has outpaced the overall economic recovery. However, fiscal revenue would have declined if not for a one-off PEN 1.5 bn transfer of profits from State institutions. This was much higher than in previous years, so it does not seem to be a source of revenue that would be repeated in future years. More significantly, given its link to the economy, sales tax revenue was up 7.0% y/y in nominal terms. Meanwhile, although income tax fell -4.0% y/y, this is a lesser concern as the impact of higher metal prices on mining income tax will be felt much more strongly in 2021.

Table 1

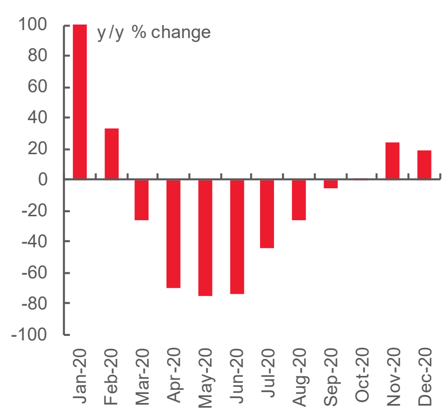
Peru: November GDP Growth

	y/y % change	m/m % change
GDP	**-2.8**	**0.9**
Agriculture	1.3	-1.8
Fishing	0.7	-3.8
Mining	-4.8	0.8
Manufacturing	-3.1	na
Resource processing	-6.9	na
Electricity	-0.3	0.8
Construction	17.3	6.4
Commerce	-2.5	1.3
Transportation	-21.9	2.3
Hospitality	-41.3	4.0
Government services	4.3	na
Telecom	6.8	0.8
Financial services	22.4	1.9

Sources: Scotiabank Economics, INEI.

Chart 4

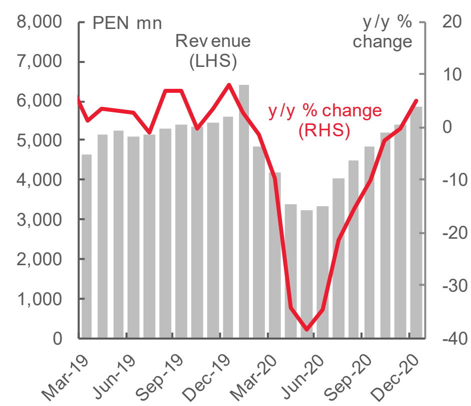
Peru: Public-Sector Investment



Sources: Scotiabank Economics, MEF.

Chart 5

Peru: Sales Tax Revenue



Sources: Scotiabank Economics, Sunat.

Table 2

Peru: Fiscal Balance 2020 (y/y % change)

	Full-year y/y	December y/y
Total fiscal revenue	**-15.8%**	**6.5%**
Tax revenue	-15.8%	-1.4%
Income tax	-13.3%	-4.0%
Sales tax	-12.8%	7.0%
Non-tax revenue	-15.6%	30.3%
Total fiscal spending	**14.6%**	**39.8%**
Current spending	21.6%	47.8%
Investment	-14.1%	21.5%
Primary balance	**-7.3% of GDP**	
Total fiscal balance	**-8.9% of GDP**	

Sources: Scotiabank Economics, BCRP.

The fiscal deficit jumped in December despite higher fiscal revenue due to a huge 39.8% y/y increase in fiscal spending (table 2, again). Current spending led the way, up 47.8% y/y in December while government investment rose a more moderate, but still significant, 21.5% y/y. However, this in part reflects a question of definitions. A large part of the increase in current spending was linked to the Arranca Peru investment program focused on small, labour-intensive, projects. Much, but not all, of Arranca Peru spending is defined as current spending because it involves infrastructure maintenance. Spending on COVID-19 containment and health related costs, and spending on household safety net programs, also contributed to greater current spending in December.

On a full-year 2020 basis, the fiscal numbers were fairly straightforward and in line with trend.

—Guillermo Arbe