July 7, 2021

Latam Daily: Mexico April Data on Investment & Private Consumption; Peru Tax Revenues

- **Mexico: April data release on gross fixed investment and private consumption**
- **Peru: Tax revenues post strong growth in June; fiscal deficit forecast unchanged**

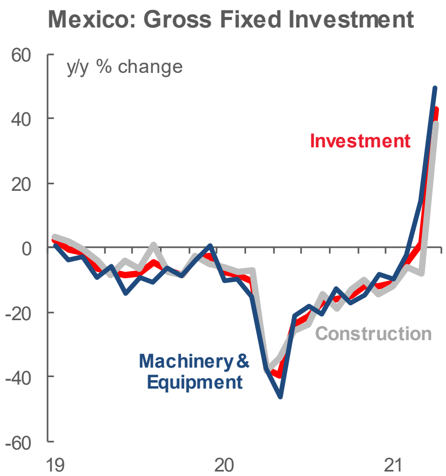
MEXICO: APRIL DATA RELEASE ON GROSS FIXED INVESTMENT AND PRIVATE CONSUMPTION

I. Gross Fixed Investment Slows Recovery in April; Investors' Mood Uncertain Over Short Term

Gross fixed investment slowed its pace of recovery in April following three consecutive monthly expansions between January and March. Monthly figures showed a 0.9% m/m contraction in gross fixed investment after expanding at 1.8% m/m in the prior month according to data released by statistical agency, INEGI. The downturn was mainly caused by the construction component which dropped 1.3% m/m, while total machinery and equipment decreased by 0.8% m/m compared to the previous month. This figure by itself does not imply a change in the trend of economic recovery, however, we will have to keep an eye on investment in the coming months to gauge whether investors are staying cautious or rather seizing opportunities to invest in the face of a strong economic recovery.

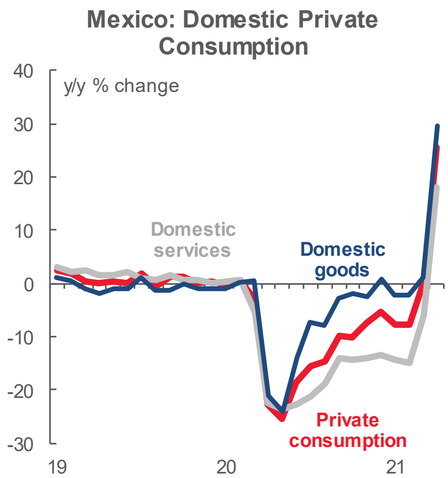
The annual comparison, meanwhile, is distinctly distorted by base effects. According to INEGI, investment grew more than expected, soaring from 1.3% y/y to 43.1% y/y (chart 1), vs. an anticipated 42% and following consecutive annual contractions from February 2019 to March this year. Thus, in the first four months of this year, investment reported a 3.5% y/y increase compared to the same period the previous year.

Chart 1



Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

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II. April Data Shows Private Consumption Remains as the Main Domestic Driver for Recovery

Private consumption, which contributes approximately 65% to GDP, continued to expand for the fourth consecutive month, according to data released by INEGI. Private consumption in April grew 1.2% m/m after expanding 2.1% m/m in the previous month. By components, consumption of domestic goods and services increased 2.3% m/m, while that of imported goods declined 2.9% m/m.

Looking ahead, we maintain our expectation of a steady recovery in consumption as the share of vaccinated population grows. A decrease in COVID-19 contagions will allow for a broader reactivation of economic activities, notably those oriented to services (where we highlight tourism), in addition to the boost that may come from a strong inflow of remittances to this sector.

Again, due to distortions caused by base effects, the annual comparison posted a strong increase from 0.4% y/y to 25.5% y/y (chart 2). On a cumulative y/y basis, consumption presented a positive variation (+1.1% y/y) for the first time since December 2019.

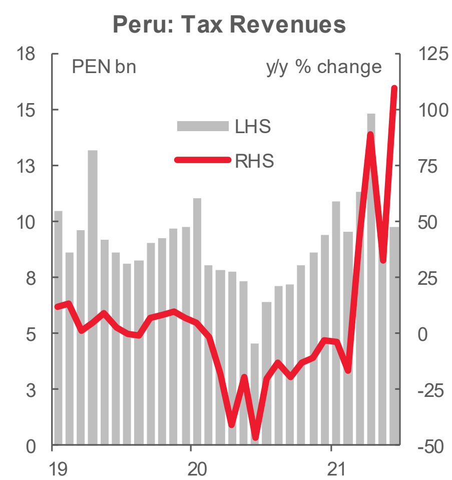
—Paulina Villanueva

PERU: TAX REVENUES POST STRONG GROWTH IN JUNE; FISCAL DEFICIT FORECAST UNCHANGED

On Friday July 2, Peru's tax administration authority (SUNAT), released tax revenue figures for June. The impressive 109.9% y/y growth in June must be tempered by last year's figures for the same month, which had reported the lowest monthly revenue inflow in recent memory due to the lockdown and tax benefits (see chart 3). Pandemic base effects aside, revenues have indeed posted consistent growth: tax revenue in the year-to-May was 42.8% higher than in 2020; 11.6% higher than in the same period for 2019; and 18.6% greater than in 2018.

There are multiple reasons behind this outstanding performance of tax revenue, including: i) rising income tax from mining companies linked to metal prices; ii) the strong rebound in domestic demand; iii) the digitalization of sales; iv) taxes coming from growing imports. In addition, the SUNAT reports that about 3% of tax revenue in June came from an extraordinary inflow linked to special compliance measures. Based on tax revenue alone, our forecast of a 5.4% fiscal deficit in 2021 would appear high. However, since fiscal policy may change significantly with the new government to be inaugurated on July 28, it seems wise to wait until we have more clarity on changes in fiscal policy before revising our forecast.

Chart 3



Source: Scotiabank Economics, Sunat.

—Guillermo Arbe