

## Latam Daily: Macro Outlooks Firm Up Amid Transitory Retreats

- **Chile:** April Monthly GDP implies 2021 growth shall be “no less” than 7.5% y/y; labour market retreated in April
- **Colombia:** Current account deficit widened again in Q1-2021, FDI and government asset liquidations main sources of financing
- **Mexico:** Banxico May *Survey of Expectations* saw inflation remaining above target
- **Peru:** Lima inflation rose mildly in May; strong April growth indicators

### CHILE: APRIL MONTHLY GDP IMPLIES 2021 GROWTH SHALL BE “NO LESS” THAN 7.5% Y/Y; LABOUR MARKET RETREATED IN APRIL

#### I. April IMACEC expansion of 14.1% y/y implies that the economy shall expand “no less” than 7.5% y/y in 2021

The monthly GDP proxy for April exceeded all expectations with an expansion of 14.1% y/y (-1.4% m/m sa)—up from 6.4% y/y in March and well above the 10.4% y/y Bloomberg consensus. The economy has been able to adapt quickly to quarantine measures and, through trade and manufacturing sectors, take advantage of the strong injections of liquidity that families and companies have received (chart 1). Additionally, we have seen strong execution of public spending (26.1% of the year’s program had been effected by end-March), particularly in public investment with 6% y/y growth in real capital expenditure in Q1-2021 that likely continued strongly in April.

All economic sectors contributed to year-over-year growth in April, with large annual expansions in services and trade activities. In addition to the economy’s increasing resilience to public-health measures, there were also obviously strong base effects emanating from the comparison with April 2020, which marked the leading edge of the pandemic lockdowns. Both April 2020 and 2021 had the same number of business days, so this didn’t play a hand in year-on-year growth.

Regarding the monthly dynamism of the economy, there is still a great deal of heterogeneity between sectors, but some areas of the economy have adapted to the recent lockdowns better than others. The non-mining sector’s output fell by only -2% m/m sa in April (chart 2), with services leading the pullback; in contrast, industry and commerce saw only very limited declines, while the mining sector got back above pre-pandemic levels (chart 3).

The seasonal correction factor once again surprised us to the upside and generated a very positive effect on monthly growth, mainly through services (chart 4). Indeed, if the factor had had a value somewhat more similar to that seen in April 2020, April 2021’s economic activity would have been up by only about 10% y/y. In any case, the economy is showing a markedly better performance than anticipated; it will be hard for those with 2021 GDP growth projections below 7% y/y to maintain them: the January–April period has already

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### Chart 1

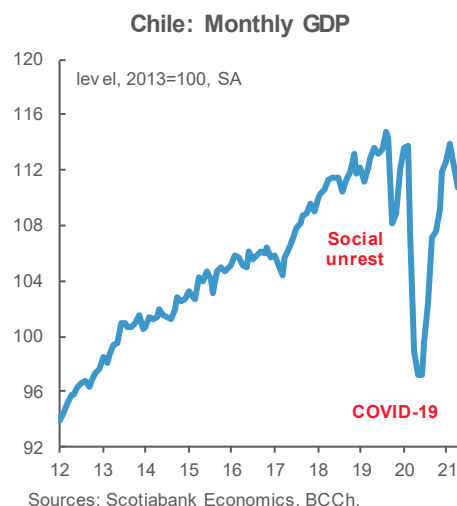


Chart 2

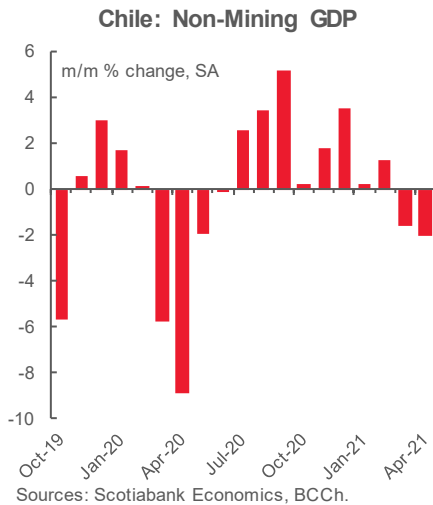


Chart 3

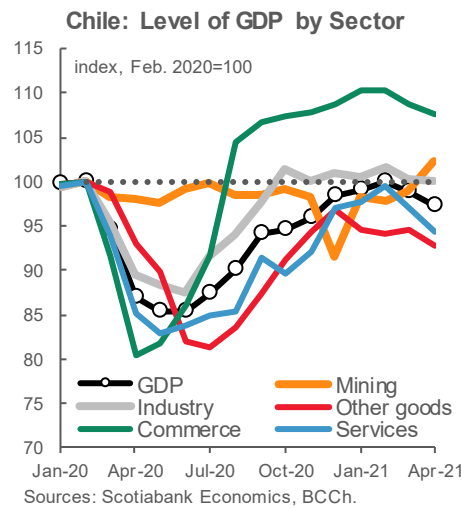
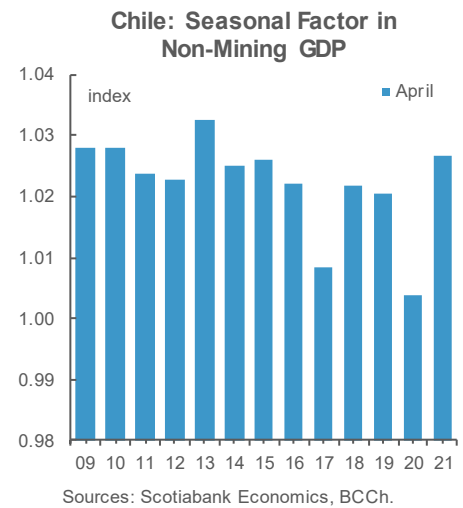


Chart 4



seen an expansion of 3.5% y/y. We expect further upward revisions in the median GDP growth projection for 2021 in the BCCh's monthly *Survey of Economic Expectations*.

**The April IMACEC print supports our still-higher-than-consensus forecast of 7.5% y/y real GDP growth in 2021.** If anything, April delivered a positive surprise on the margin, so we are placing a further upward bias on our 2021 GDP growth projection.

**For the central bank, short-term data should support an upward revision in its projection of GDP growth for 2021 from the 6–7% y/y range to 7–8% y/y.** The recent increase in new COVID-19 infections implies the need for some caution as it could lead to new containment measures. However, the economic activity figures for the beginning of the year, together with the additional stimulus that is coming, are together enough to generate an expansion stronger than the 6–7% y/y projection range laid out in the March *Monetary Policy Report*. Regarding monetary policy, we continue to expect that the first hike, as part of a slow normalization process, will occur in October, with subsequent increases to a terminal rate of 1.75% in December 2022.

## II. Workforce continued to retreat in rolling quarter to end-April

According to data released from INE on Monday, May 31, the unemployment rate stood at 10.2% in the moving quarter that ended in April (chart 5), 0.2 percentage points (pts) below the March level of 10.4% and better than expected by the market (10.6%). The unemployment rate came down despite lower job creation numbers owing to weaker labour-market participation following the re-imposition of quarantines in much of the country. These figures imply that the economy and the labour market are becoming adapted to operating under public-health restrictions, thanks in part to an improved social protection system compared with what existed at the beginning of the pandemic.

**Despite these figures and the downward trend in the unemployment rate reported by the INE, the labour market situation continues to be very fragile and heterogeneous.** Once the pandemic is over, we will likely see a surge in the number of people looking for work, which will put pressure on the unemployment rate as job creation is likely to remain soft and the re-absorption of the workforce will be gradual. According to the INE, the potential unemployment rate, which includes workers who

Chart 5

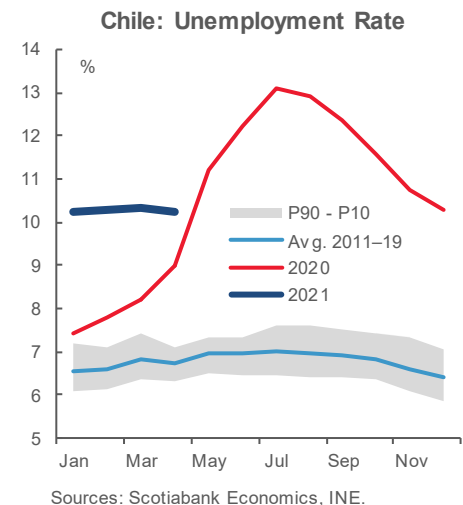
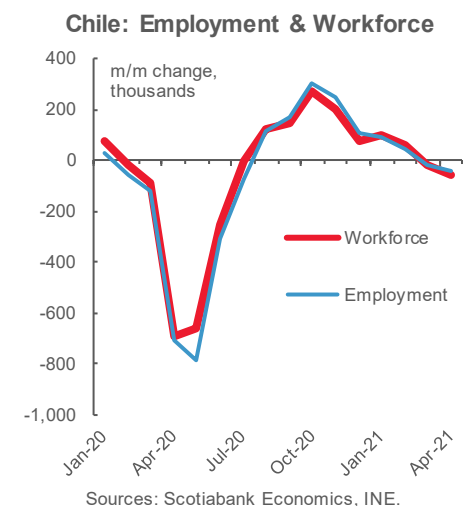


Chart 6



could be active, stood at 21.2% at end-April, only slightly below previous records owing to a substantial withdrawal of potential female workers from the active labour market.

During the moving quarter ended in April, about 44k jobs were lost (chart 6), which still leaves us with a gap of close to 959k missing positions compared to pre-pandemic levels from February 2020 (chart 7). At the sectoral level, there is a great degree of heterogeneity, with sectors such as manufacturing, construction and commerce showing better adaptation to the recent phase of quarantines in the country (chart 8). In April, the creation of nearly 35k salaried jobs in the manufacturing sector stands out, together with the sustained upturn shown by construction since the end of 2020.

—Jorge Selaive, Carlos Muñoz, & Waldo Riveras

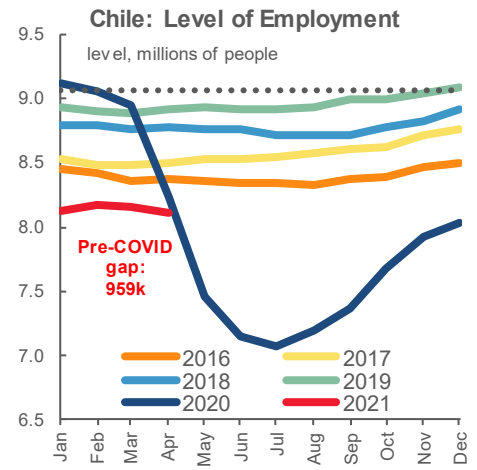
**COLOMBIA: CURRENT ACCOUNT DEFICIT WIDENED AGAIN IN Q1-2021, FDI AND GOVERNMENT ASSET LIQUIDATIONS MAIN SOURCES OF FINANCING**

On Tuesday, June 1, BanRep released Q1-2021's current account data. The deficit widened from USD 3.1 bn in Q4-2020 to USD 3.63 bn, equivalent to -4.8% of GDP (chart 9). A relatively stable trade deficit and increased net outflows in the income account explained the higher overall current account deficit as domestic economic activity recovered. On the financing side, net FDI (net USD 1.87 bn on inflows of USD 2.7 bn, chart 10) and net other items (USD 1.88 bn, mainly government liquidation of assets abroad and inflows related to the IMF FCL) were the main sources of external funding in Q1, while in the capital account, net outflows amounted to USD -741 mn.

**Looking at the key lines of the current account:**

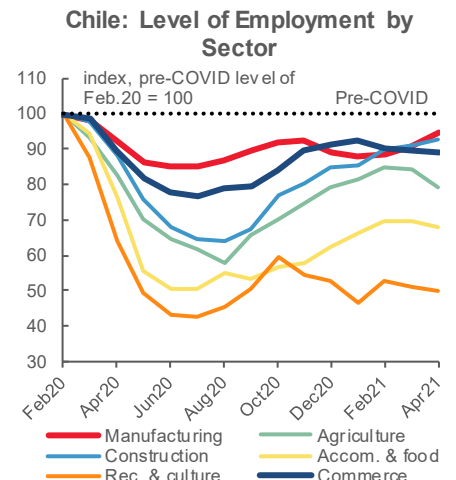
- The overall trade deficit narrowed by USD 12 mn from the previous quarter to USD -3.94 bn from USD -3.95 bn in Q4-2020, mainly owing to a smaller deficit in the trade of services (down USD 42 mn), while the goods deficit widened by USD 30 mn. The total combined goods and services trade deficit in Q1 was the widest it has been since September 2019. Exports are about -18% below pre-pandemic levels, while the lag in imports is around -14%;
- Goods exports expanded by 5.8% quarterly, although in annual terms they fell by -0.7% y/y to USD 9.22 bn; mining product exports weighed on the overall export dynamic, mainly owing to lower volumes;
- Goods imports increased by 4.7% q/q and 4.4% y/y, consistent with the recovery in domestic demand. According to DANE, imports rose in Q1-2021 due to greater capital goods and raw materials purchases, while consumption goods imports remained soft;
- In the services balance, traditional services exports, such as tourist package deals, were down by -59% y/y in Q1, while modern services exports, such as call centres, increased by 2.5% y/y;
- Income account outflows increased from the previous quarter as better export dynamics boosted profits across Colombia's main economic sectors, especially in oil and mining (USD 280.5 mn in outflows), financial services (USD 99.4 mn), and transport and communications (USD 75.3 mn); and

Chart 7



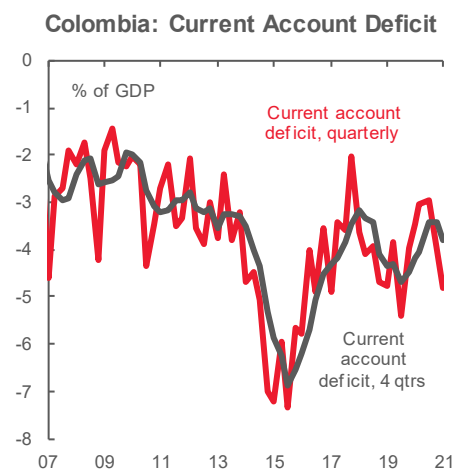
Sources: Scotiabank Economics, NBS (INE).

Chart 8



Sources: Scotiabank Economics, NBS (INE).

Chart 9



Sources: Scotiabank Economics, BanRep.

- Remittances also increased (up USD 36 mn versus Q4-2020), likely stemming from fiscal stimulus efforts in developed economies. Remittances from the US increased by 14% y/y and from Spain by 30% y/y, while remittances from Latam countries contracted -6% y/y.

**On the financing side, in Q1-2021, FDI and public-sector liquidations of external assets were the main sources of financing.**

- FDI inflows stood at USD 2.7 bn, increasing 18.5% q/q, although still 21.4% below levels from one year ago. FDI inflows were concentrated in the oil and mining sector (34%), transport and communication (22%), and financial services (19%). Q1's FDI inflows were the best we've seen since the pandemic started and were 2.6 times the FDI inflows observed in Q3-2020.
- In Q1-2021, Colombia had net portfolio outflows of USD 896 mn (1.2% of GDP), mainly due to sales in the fixed income market (USD 697 mn) and the equity market (USD 269 mn) by offshore accounts; these moves were partially offset by issuances of long-term debt by the public sector (USD 281 mn).
- Additionally, the reduction of government deposits in international accounts and IMF FCL-related transfers into COP constituted a significant source of financing for the current account deficit that amounted to inflows of USD 3.54 bn.
- In Q1, international reserves mildly increased by USD 190 mn, mainly due to interest payments since the central bank doesn't actively engage in FX markets.

**The balance of payments in Q1-2021 reflected both the ongoing recovery in domestic economic activity and increased profits stemming from these gains.** Financing for the current account deficit remained sustainable, with half coming from FDI and half from government.

**Looking ahead to Q2-2021, the current account deficit should narrow as economic activity has been dented by the recent strikes and protests.** The current account should see financing from greater capital inflows and continued liquidation of external public assets, with a relatively smaller share coming from FDI.

**For 2021 as a whole, we have changed our forecast for the current account deficit from -3.8% of GDP to -4.0% following the receipt of the Q1 numbers and coincident indicators for the first part of Q2.** Colombia's economic recoveries typically feature a widening in the external deficit via capital goods imports. However, these imports are usually financed through greater FDI, which makes them sustainable.

—Sergio Olarte & Jackeline Piraján

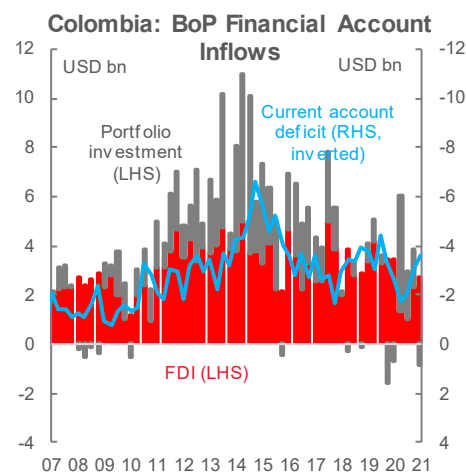
## MEXICO: BANXICO MAY SURVEY OF EXPECTATIONS SAW INFLATION REMAINING ABOVE TARGET

On Tuesday, June 1, Banxico published its May edition of its monthly [survey](#) of economists, where market participants foresaw a marginally stronger recovery for the economy in 2021 as they are now anticipating that real GDP shall expand by 5.16% y/y versus 4.76% y/y in the previous month's survey; Scotiabank Economics [forecasts](#) 4.90% y/y. Similarly, the survey foreshadowed that formal employment could rise by 460k new jobs this year versus 435k anticipated in the April survey.

Mexico's growth performance improved toward the end of the first quarter, and we expect this positive trend to continue as the vaccination roll-out evolves and the process of normalization and the re-opening of productive activities proceeds. In addition, Mexico's main trading partner, the US, continues to recover at a quick pace, with consensus expecting real growth to hit 6.38% y/y this year, a rate not observed in the US since the 1960s. With this in mind, and in line with the trend in Banxico's survey, we are also increasingly seeing upside risks to our own growth forecasts.

Additionally, private sector analysts raised their inflation projections for end-2021 to 5.16% y/y from their previous consensus of 4.56% y/y, well above Banxico's 3% y/y inflation target. So far, members of the Board of Mexico's central bank

Chart 10



Sources: Scotiabank Economics, BanRep.

have maintained their cool, indicating that the current inflation spike does not pose a risk to the target over the forecast horizon; market participants, however, disagree as they are anticipating that inflation will end 2022 near the upper limit of Banxico's target range at 3.70% y/y.

**Banxico's June Quarterly Inflation Report, out today, clarifies the central bank's thinking on what lies ahead for inflation.** At the moment, Scotiabank Economics expects inflation to end 2021 at 4.2% y/y, but we recognize that the economy is recovering at a quickening pace and that this is placing additional stress on prices. As a result, our next forecast revisions are also likely to be upward on inflation. Although we don't see major risks to inflation arising from FX pass-through effects and we anticipate that existing commodity and energy price pressures shall fade into H2-2021, we do increasingly see risks stemming from services and producer prices.

**Finally, despite higher inflation expectations, the majority of analysts surveyed expect Banxico's benchmark policy rate to be kept on hold at 4.00% through the end of Q1-2022, which is consistent with our view.** A large share of respondents do, however, foresee higher policy rates from Q2-2022 onward.

—Paulina Villanueva

**PERU: LIMA INFLATION ROSE MILDLY IN MAY; STRONG APRIL GROWTH INDICATORS**

**I. Lima inflation rose mildly in May, but stays in range around 2.5% y/y**

Lima inflation printed at 0.27% m/m sa for the month of May, up from -0.10% m/m sa in April—and non-materially above the Bloomberg consensus of 0.19% m/m sa, but in line with our own forecast of 0.25% m/m (chart 11).

Headline inflation rose from 2.38% y/y in April to 2.45% y/y in May, and remained above the 2% y/y mid-point of the BCRP's target range, as well as above the BCRP's year-end projection of 2.1% y/y. Core inflation rose slightly, from 1.72% y/y in April to 1.76% y/y in May, but remains comfortably below the 2% y/y target for headline inflation (chart 12). This appears to justify the BCRP's argument that a good part of the recent rise in inflation is coming from temporary supply factors. However, given the sustained increase in global soft commodity and fuel prices, we're not quite sure how temporary the pressures on headline inflation might be.

**We maintain our forecast of 2.6% y/y inflation for end-2021 (see the May 21 Latam Weekly), although our bias is to the upside—and the extent of this bent depends on how persistent pressures on the PEN remain, which, in turn, hinges largely on the June 6 election results.** The PEN has depreciated by 6.0% against the USD since the first round of voting on April 11 and 6.8% YTD. Pass-through effects have so far been mild, but if the PEN continues to weaken, this would tend to exacerbate the impact of higher international soft commodities prices on domestic inflation over the coming months: Peru relies on imports of wheat, maize, soybeans and oil.

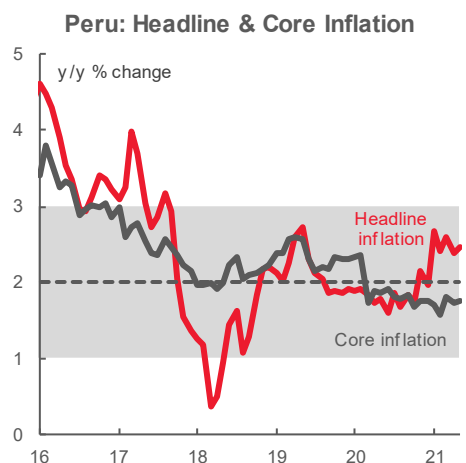
**We would not be surprised to see inflation reaching the 3% y/y ceiling of the BCRP's target range at some point, but this ought to be transitory owing to ongoing output gaps.** Slack in domestic demand is likely to persist well into 2022, which appears to be the BCRP's focus in its monetary policy decisions. As a result, we continue to expect no change in the BCRP reference rate until mid-2022 or so.

—Mario Guerrero

**II. Growth indicators for April came in strong**

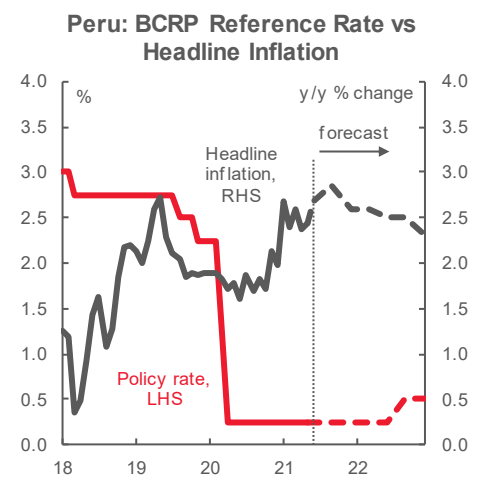
The National Statistics Institute, INEI, released on Tuesday, June 1, a number of **growth indicators for April (table 1)**. Overall, the data were strong, but year-on-year growth rates should not be taken at face value since their base of comparison

Chart 11



Sources: Scotiabank Economics, BCRP, INEI.

Chart 12



Sources: Scotiabank Economics, BCRP, INEI.

refers to the April–June nadir of 2020’s COVID-19 related lockdowns. Based largely on these data, growth in aggregate real economic activity could well have been in the vicinity of 40% y/y in April. Oil & gas was the outlier, in part because output declined much less than in other sectors in 2020 as energy was considered essential.

—Guillermo Arbe

	April 2021
Mining	76.4
Oil & gas	-8.1
Fishing	132.1
Electricity	35.6
Public investment	149.2
Imports	69.7
Sales tax revenue	74.9

Sources: Scotiabank Economics, INEI.



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