Latam Daily: Castillo Maintains Lead in Peru; Mexico Releases Monthly Investment Data

- **Peru: Castillo maintains narrow lead, with only 3% of votes left to be counted**
- **Mexico: Investment surge dominated by base effects; private consumption printed a modest recovery in March**

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PERU: CASTILLO MAINTAINS NARROW LEAD, WITH ONLY 3% OF VOTES LEFT TO BE COUNTED

Pedro Castillo has an 85,000-vote lead (50.25% to 49.75%) over Keiko Fujimori, with 96.8% of ballots processed at the time of writing. Much of the 3.2% of ballots yet to be counted are from overseas voters, where Fujimori has a nearly 2 to 1 lead, but it is not evident that this would be enough to reverse the gap with Castillo.

Some analysts point to the possibility that contested ballots sent to the Elections Authority are yet to be counted and that they could be validated in favour of Fujimori. These amount to as many as 280,000 votes, potentially enough to turn the election around. However, there is no precedent for this. In the 2016 elections, when the gap was even narrower between Pedro Pablo Kuczynski and Keiko Fujimori, votes submitted for validation did not have a bearing on the final result.

On Monday, Keiko Fujimori held a press conference alleging irregularities and signs of fraud. She is reportedly seeking a legal course of action. Regional observer, the Inter-American Union of Electoral Organizations, released a statement commending the elections for being carried out orderly and successfully.

—Guillermo Arbe

MEXICO: INVESTMENT SURGE DOMINATED BY BASE EFFECTS; PRIVATE CONSUMPTION PRINTED A MODEST RECOVERY IN MARCH

I. Investment surge dominated by base effects

A rebound in Mexico's monthly fixed investment and consumption reflects the country's post-pandemic recovery as the economy reopens and vaccination efforts progress. The statistical agency's monthly data release is well in line with expectations of a sustained, albeit slow, improvement in investment.

Per data released by Mexico's INEGI on June 7, gross fixed investment rose 14.4% in March from 4.6% y/y in February in real terms.

The surge in gross fixed investment was driven by base effects and the notable recovery of investment in machinery and equipment (from 2.3% y/y to 14.8% y/y) that offset a continued contraction in construction spending, from -6.9% y/y to -7.8% y/y (chart 1).

Chart 1

Sources: Scotiabank Economics, INEGI.

On a monthly basis, investment slightly cooled from 2.4% m/m to 2.3% m/m (non-seasonally adjusted); construction contracted from 2.8% m/m to -0.3% m/m; and machinery and equipment grew from 1.8% m/m to 3.0% m/m, likely relating to the overall rebound in manufactures.

These results came in line with our outlook for this year, in which we foresee a better performance of investment and capital spending over the coming months, yet still weak given the latest capital imports and business confidence figures.

II. Private Consumption printed a modest recovery in March

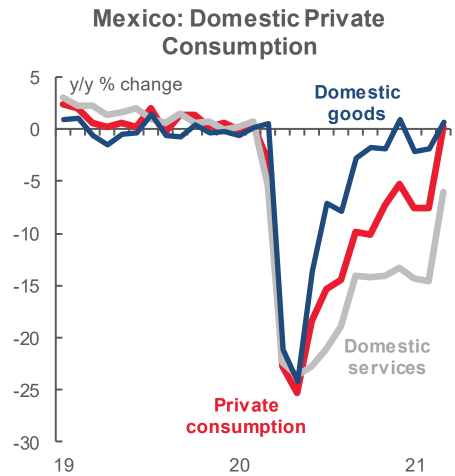
Private consumption also posted a slow recovery in INEGI's release, from -7.8% y/y in February to 0.4% y/y in March (chart 2), the first y/y increase since the pandemic, again benefitting from base effects. On NSA monthly basis, consumption rose from -0.4% m/m to 2.8% m/m. Imported goods came in strongly at 7.5% m/m from the previous -1.8% m/m. Domestic goods stood at -0.2% m/m, with no change from the February number. Services improved from 0.4% m/m to 2.8% m/m.

This annual rebound is based on a strong pace in imported goods, which accelerated from 2.1% y/y to 28.6% y/y. Domestic goods rebounded from -1.8% y/y to 0.6% y/y. However, services still show signs of weakness as it only improved from -14.6% y/y to -6.0% y/y, still in negative territory.

These results were expected, given the rebound in consumer goods imports and overall easing of COVID-19 restrictions. However, we maintain our outlook of a slow recovery in domestic consumption this year, which will gain pace as the vaccination process advance.

—Miguel Saldaña

Chart 2



Sources: Scotiabank Economics, INEGI.