Latam Daily: Mexico Inflation Slowed in Early-May; Peru Q1 GDP Above 2019

- **Mexico: Inflation slowed in early-May, but remained well above Banxico's target**
- **Peru: Domestic demand surpassed pre-COVID-19 levels in Q1-2021**

MEXICO: INFLATION SLOWED IN EARLY-MAY, BUT REMAINED WELL ABOVE BANXICO'S TARGET

According to data released by INEGI on Monday, May 24, consumer inflation in the first fortnight of May moderated from 6.12% y/y in late-April to 5.80% y/y, above the Bloomberg consensus of 5.66% y/y (chart 1). This came after two fortnights with annual inflation above 6.00% y/y, but still left the headline figure well in excess of the 4.00% y/y upper limit of Banxico's target band. Moderating signs came from the non-core component, whose growth attenuated from 12.47% y/y in late-April to 10.83% y/y.

Looking at the details, non-core inflation came down, but core inflation rose slightly. Pressures in energy prices changed little, where inflation remained at 26% y/y. Food (i.e., agricultural) prices moderated from 4.54% y/y in late-April to 3.28% y/y (chart 2). Core inflation increased from 4.13% y/y to 4.22% y/y. Pressures stayed concentrated on goods prices, which came it at 5.60% y/y versus 5.30% y/y in late-April. However, we also saw a step up in some services prices, with services inflation rising from 2.59% y/y in late-April to 2.70% y/y as these sectors re-opened (chart 3).

On a sequential basis, headline inflation edged back to -0.01% 2w/2w (versus an expected -0.16% 2w/2w in the Citi survey). Non-core inflation contracted -1.00% 2w/2w, its sharpest decline in 26 fortnights. Energy and regulated prices dropped (-2.63% 2w/2w versus -0.19% 2w/2w previously), owing to lower electricity prices with the beginning of the seasonal energy tariffs subsidy

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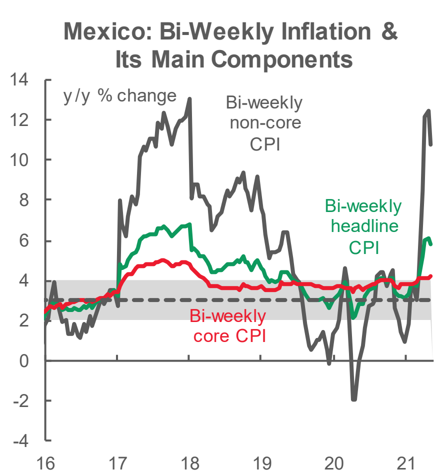
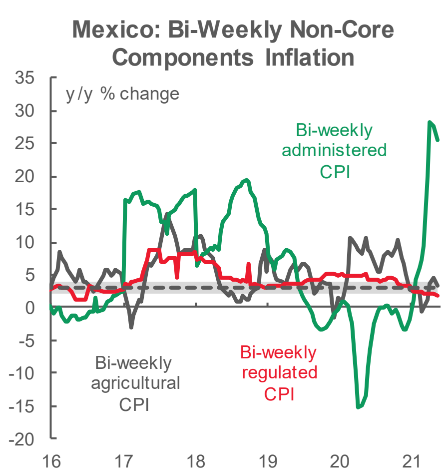
Chart 1



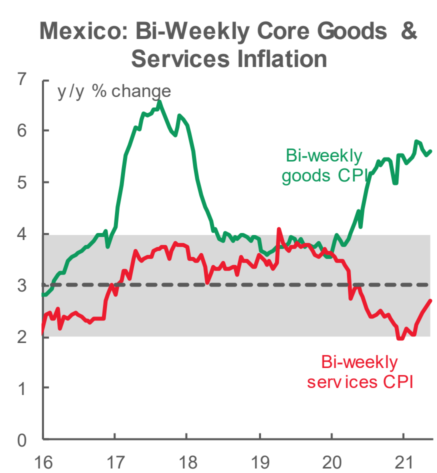
Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

Chart 3



Sources: Scotiabank Economics, INEGI.

program. The core component rose from 0.17% 2w/2w in late-April to 0.33% 2w/2w, above the 0.16% 2w/2w expected by analysts. Pressures came from increases in goods prices (0.42% 2w/2w), which were offset only partially by a slower pace in services prices (0.23% 2w/2w).

Within this context, we maintain our view that Banco de Mexico shall keep its key target rate on hold at 4.00% y/y through the remainder of 2021. We will continue monitoring incoming data to see whether base effects that are temporarily boosting the year-on-year inflation rates are offset by developments in the sequential inflation readings.

—Miguel Saldaña

PERU: DOMESTIC DEMAND SURPASSED PRE-COVID-19 LEVELS IN Q1-2021

I. Q1 official GDP and domestic demand data

The BCRP released on Friday, May 21, the official GDP and domestic demand growth figures for Q1-2021 and the key message from the numbers is that domestic demand growth was clearly stronger than expected. GDP growth for Q1 was 3.8% y/y, which was not a surprise, given that the monthly figures had already been published. What was more of a surprise was that domestic demand rose 5.4% y/y (chart 4) and private investment was up a huge 36.9% y/y (table 1). The comparison level was low, of course, as last-year's lockdown began in mid-March 2020, but it was not *that* low and both growth figures represented much more than a rebound off a low base. In fact, every component of domestic demand in Q1-2021 was higher than pre-COVID-19 levels of Q1-2019 (table 1, again). Domestic demand surpassed Q1-2019 by 3.2%, consumption by 0.4%, and private investment by an astounding 16.8%. Private consumption was notably robust, up 2.2% y/y (chart 5).

Table 1

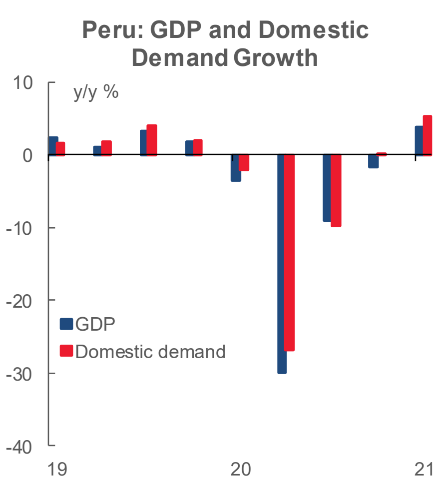
Peru: Q1-2021 Growth—GDP and Demand Components

	2021/2019	**2021/2020**
GDP	0.1	**3.8**
Domestic Demand	3.2	**5.4**
Consumption	0.4	**2.2**
Govt current spending	16.2	**9.1**
Private Investment	16.8	**36.9**
Public Investment	42.7	**24.0**
Exports	na	**-2.7**
Imports	na	**3.3**

Sources: Scotiabank Economics, BCRP.

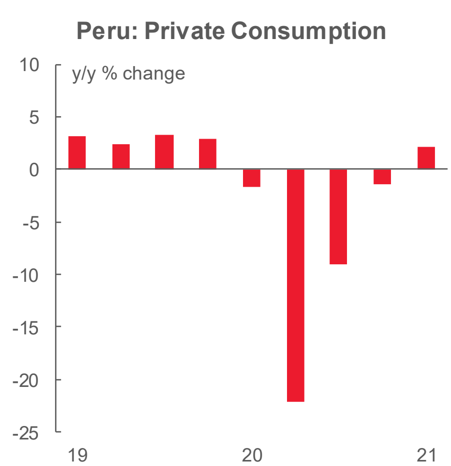
The private investment numbers merit some additional explanation (chart 6). There is a data-construction issue here, as the GDP component is constructed largely based on cement demand and on capital goods imports. This may have introduced a bit of a distortion in the figures. Cement demand, for instance, came from both the private and the public sector, so some of the

Chart 4



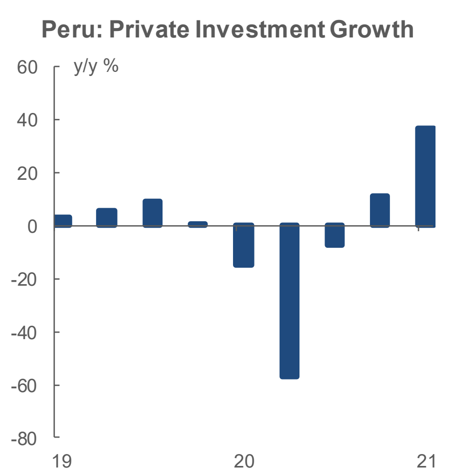
Sources: Scotiabank Economics, BCRP.

Chart 5



Sources: Scotiabank Economics, BCRP.

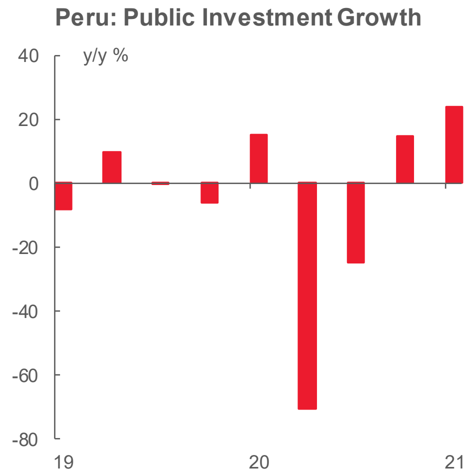
Chart 6



Sources: Scotiabank Economics, BCRP.

private investment growth may reflect rising public sector investment demand for cement (chart 7). At the same time, high capital goods imports may reflect pent-up demand stemming from the 2020 lockdown. However, the increase in domestic demand overall is real, as it is validated by growth at the sectoral level.

Chart 7



Sources: Scotiabank Economics, BCRP.

II. Q1 BoP data put current account deficit at -3.4% of GDP

Balance of payments figures for Q1 2021 were also released on Friday, May 21, and the current account deficit came in at -3.4% of GDP. This deficit is not a concern, really, as it is more an accounting issue than anything else. The USD 1.8 bn current account deficit mainly reflected an accounting "outflow" of profits from offshore mining companies operating in Peru. The accounting "inflow" from the re-investment of profits of the same companies appears in financial accounts to the tune of USD 2.3 bn, which is greater than the current account deficit. The fact is that, in Peru, rising metal prices tend to lead to a greater current account deficit because of the way offshore mining company profits are accounted for, which is then offset in the financial accounts as re-investment.

III. Presidential campaign update

Local polls released in the media over the past few days showed a stall in candidate Keiko Fujimori's surge of recent weeks. Ipsos ballot-based polls had Pedro Castillo leading 45.0% to 40.7% with 14.3% blank votes. This is equivalent to a 5.2 ppts lead in terms of valid votes (i.e., Castillo 52.6% versus 47.4% for Fujimori) and compares with a 2.2 ppts lead (Castillo 51.1% compared with Fujimori 48.9%) a week earlier. Similarly, a Datum ballot-based polls has Pedro Castillo with a 5.4 ppts lead over Keiko Fujimori, based on polling results of 45.5% to 40.1%, respectively, with 14.4% blank. This compares with 44.4% for Castillo and 40.8% for Fujimori a week earlier, a 3.6 ppts lead; these results would be equivalent to a 6.2 ppts lead in valid votes (53.1% to 46.9%). Both polls were ballot-based, which eliminated the presence of undecided intentions, but part of the message from these exercises is that the undecided votes do not seem to be a determining factor in either direction.

The polls were undertaken before the Sunday, May 23, debate between the two campaign's technical teams (as they are termed in Peru). That debate was largely viewed as having mildly favoured Keiko Fujimori's side. However, it's hard to see this having a large enough impact in itself to affect the election results. The debate covered six issues: reform of the State; economic recovery and poverty reduction; health and management of the pandemic; infrastructure, regional development, and decentralization; public security and domestic order; and protection of the environment and sustainable development.

—Guillermo Arbe