

Latam Economic Update

- **Chile:** New central bank survey adjusts GDP forecast for 2020—in line with Scotiabank's view
- **Mexico:** June industrial production recovers slightly from historic decline; retail sales remain weak
- **Peru:** Cabinet gets confidence vote from Congress

CHILE: NEW CENTRAL BANK SURVEY ADJUSTS GDP FORECAST FOR 2020—IN LINE WITH SCOTIABANK'S VIEW

On Tuesday, August 11, the Professional Economist Survey was released by the central bank. The survey shows an upward revision in the median GDP forecast for 2020 to -6.0%. The revised forecast is in line with our current projection of -6.0% (chart 1), which we still maintain with an upward bias, as the latest economic indicators have shown resilience in the mining and external sectors. For 2021, the survey shows no change, with a median expected expansion of 4.5% for GDP, slightly above our forecast of 4.4%.

As a reminder, June's IMACEC GDP proxy, published Monday, August 3, showed a contraction of -12.4% y/y (consensus: -15% y/y), with a surprising seasonally adjusted expansion of 1.7% m/m. The June economic activity numbers mean that Q2 GDP likely saw a contraction of -14% y/y (-43% q/q saar). This implies that April–May was the bottom for economic activity in Chile amidst strong quarantine measures. Due to some short-term transitory factors and better-than-expected monthly activity numbers, the contraction in aggregate GDP in 2020 should be at the better end of the -5.5% to -7.5% range forecasted by the central bank. Therefore, the next *Monetary Policy Report*—to be released on September 2—will probably adjust the forecast to the range of -5% to -6% for GDP 2020 and 4% to 5% for 2021.

—Carlos Muñoz

MEXICO: JUNE INDUSTRIAL PRODUCTION RECOVERES SLIGHTLY FROM HISTORIC DECLINE; RETAIL SALES REMAIN WEAK

Figures published on August 11 for June industrial production showed a slight improvement in real annual terms. Industrial production registered a drop of -16.7% y/y in June (chart 2), above market expectations (-17.9% y/y). The decline is still alarming but considerably less than the record decline recorded in May (-30.6% y/y), indicating a partial recovery in activity. On a monthly basis, industrial production picked up from -1.2% m/m in May to 17.9% m/m in June as a number of industries including the automotive sector resumed activities.

- The June results were driven by a smaller decline in manufacturing, from -37.1% y/y to -16.5% y/y (versus -1.1% y/y in June 2019), resulting in nine consecutive months of decline, as well as a lower, though still strong, decline in construction, from -36.3% y/y to -26.1% y/y. The fall in electricity, gas and water generation was almost unchanged from -13.1% y/y in May to -13.3% y/y in June, and mining went from -5.9% y/y to -5.2% y/y.

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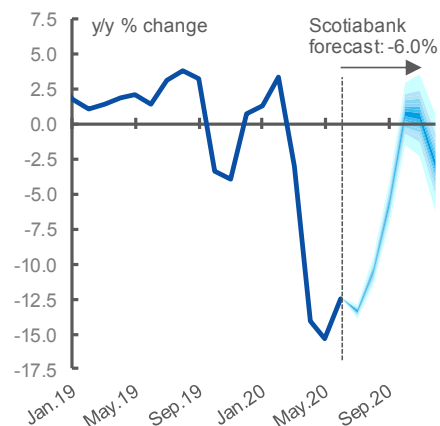
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Chart 1

Chile: 2020 GDP Forecast



Source: Scotiabank Economics.

- As a result, in the January-June period, the industry averaged a drop of -14.2% (versus -1.6% in the same period of 2019), the lowest rate recorded since 1993 (chart 3).

The Mexican retailers' association (ANTAD) reported on Tuesday, August 11 that same-store sales fell by -9.1% y/y in July. The decline shows a moderate improvement over the double-digit drops reported in April (-22.9% y/y), May (-19% y/y) and June (-17.9% y/y). Figures show that sales remain weak, as the COVID-19 pandemic has reduced household consumption.

—Paulina Villanueva

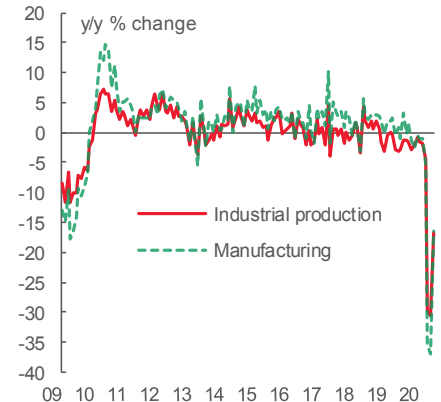
PERU: CABINET GETS CONFIDENCE VOTE FROM CONGRESS

Congress (finally!) awarded the government cabinet, this time led by retired General Walter Martos, its vote of confidence. The vote was, actually, impressively favorable, with 115 yays to only five nays and four abstentions. There were a couple things of note from Martos's presentation and the responses of member of Congress. One is that Martos gave the impression that—whereas the previous Cabinet Head, Pedro Cateriano, seemed more concerned about the economy—Martos would apparently tilt the balance of concerns back again towards health and COVID-19. There were suggestions in his presentation, and in earlier days by Health Minister Pilar Mazzetti, that new COVID-19 containment measures were under discussion in the Cabinet. The second issue of note, was that the focus of criticism by members of Congress was Finance Minister María Alva. The risk is that there may be members of Congress that now have her within their crosshairs.

—Guillermo Arbe

Chart 2

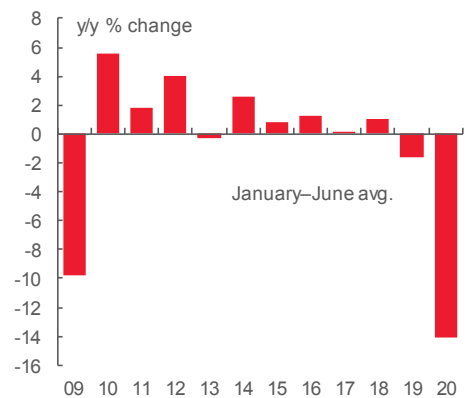
Mexico: Industrial Production and Manufacturing



Source: Scotiabank Economics, INEGI.

Chart 3

Mexico: Industrial Production



Source: Scotiabank Economics, INEGI.

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