Latam Economic Update

- **Central banks & macro data: Banxico *Inflation Report* and *Minutes* dominate**
- **Argentina: Telecom prices frozen 'til end-2020**
- **Mexico: Commercial activity moderately attenuated its decline since its historic collapse**
- **Peru: H1-2020 balance of payments robust, GDP growth weak**

CENTRAL BANKS & MACRO DATA: BANXICO *INFLATION REPORT* AND *MINUTES* DOMINATE

Central banks in Latam are mainly quiet this week, with the main action in Mexico City where Banxico's *Quarterly Inflation Report* arrives on Wednesday, August 26 and the *Minutes* of the Thursday, August 13 monetary policy decision follow on Thursday, August 27. We will be watching the *Inflation Report* for any changes in the outlook for real GDP growth and inflation. The *Minutes* may be rendered somewhat dated by the forecast updates in the *Inflation Report*, but could still provide some sense of how Board members are weighing different factors in their decision making as inflation creeps up.

Brazil and Mexico have heavy data weeks. In **Brazil**, inflation readings lead off Monday and Tuesday, with July credit and employment data on Friday. In **Mexico**, bi-weekly inflation for the first half of August came in above consensus at 3.99% y/y today, while Q2 GDP numbers on Wednesday round out the week.

—Brett House

ARGENTINA: TELECOM PRICES FROZEN 'TIL END-2020

In a move that further ensconces Argentina's price controls and adds to challenges for coming talks with the IMF, government authorities announced late on Friday, August 21, new price freezes on TV, mobile phone, and internet services. The move cast these telecoms channels as "essential public services" and means that government approval would be needed for any price increases between now and end-2020. The order extends price freezes that have been in place since May and were due to expire at end-August.

—Brett House

MEXICO: COMMERCIAL ACTIVITY MODERATELY ATTENUATED ITS DECLINE SINCE ITS HISTORIC COLLAPSE

Retail sales showed some improvement in June, according to data published on Friday, August 21. Commercial activity moderated its decline since its historic collapses in April and May, but sales still remain well below pre-pandemic levels.

In sequential monthly terms, retail sales growth accelerated from 0.8% m/m in May to 7.8% m/m in June, while wholesale sales rebounded from a decrease of -5.1% m/m to 11.1% m/m (chart 1).

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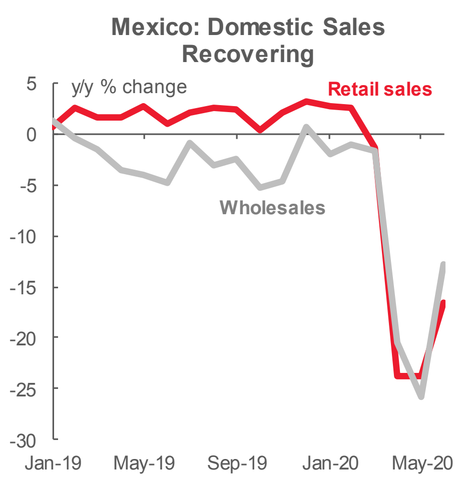
Chart 1



Sources: Scotiabank Economics, INEGI.

In real annual terms, both sales categories continued to report strong declines although of lesser magnitudes than we saw in May. For retail there was a -16.6% y/y decline, from -23.7% y/y in May, in line with market expectations. Meanwhile, wholesale sales saw a stronger improvement, from -25.9% y/y in May to -12.8% y/y in June (versus -4.8%y/y in June 2019).

June and July indicators published so far have broadly shown some improvements as lockdown measures have eased since mid-May. The economic recovery is advancing despite the latest statistics that show that Mexico has become one of the countries most affected by COVID-19 with, amongst other tough indicators, the third highest number of fatalities in the world. The risk of a return to nationwide lockdowns combined with the modest scale of the government's fiscal policy responses could lead to a GDP contraction in 2020 that would be even deeper than the -9.1% y/y we forecast in the latest edition of the *Latam Weekly*. This points to a risk that further recovery in consumption and retail activity could be muted.

—Paulina Villanueva

PERU: H1-2020 BALANCE OF PAYMENTS ROBUST, GDP GROWTH WEAK

The BCRP released a host of second quarter data on Friday, August 21, that broadly confirmed the main themes that we have been seeing in monthly data: the lockdown has had a dramatic impact on GDP growth and the government's fiscal accounts, but Peru's external accounts have remained healthy.

Balance of payments. The main surprise, and strength, in the data was the significant improvement in the current account balance, which at mid-year stood at -0.8% of GDP in cumulative yearly terms (table 1). This is a healthy improvement from -1.1% of GDP in Q1-2020 and from -1.8% of GDP in Q2-2019. The trade balance narrowed significantly in H1-2020, as exports declined much more than imports, but continued in positive territory. The main factor behind the improvement in the current account was the reduction in the accounting outflow of profits by foreign companies, especially in mining, as operations were affected by the lockdown. This is temporary, and the current account improvement is likely to reverse going forward, albeit without turning into a cause for concern. Financial accounts were solid, largely linked to the government issuance of debt. On this front, the BCRP also reported that public-sector debt now stands at 30.2% of GDP, up four ppts from Q2-2019.

Table 1

Peru: Balance of payments

USD mn	H1-2019	H2-2019	H1-2020
Current acccount balance	-2,539	-992	-733
Current account (% GDP, 4 quarter rolling)	-1.8%	-1.5%	-0.8%
Trade balance	2,656	3,959	810
Exports	22,843	24,846	16,748
Imports	-20,185	-20,889	-15,937
Investment income	-5,697	-5,052	-1,868
Profits	4,864	4,200	905
Financial accounts	7,809	2,739	5,621
Long-term capital, private sector	1,508	4,004	642
Long-term capital, public sector	5,741	-1,324	4,076
Short-term capital	561	58	903
Balance of payments	5,689	1,219	2,311
Net international reserves	67,860	68,316	71,450

Sources: Scotiabank Economics, BCRP.

GDP growth. GDP fell -30.2%, y/y, in Q2-2020, down from -3.5% in Q1 (revised from -3.4% y/y, table 2). This was not a surprise, as the monthly data had already pointed in this direction. Most of Q2 was affected by the lockdown, which began on March 16 and was at least partially in place throughout the entire quarter. There was one thing that was surprising, however, in the detailed data: private consumption fell an impressive -22.1% y/y. This certainly reflected the quarter's decline in household incomes, but also the lockdown itself, as malls, and most stores, including delivery services, were closed. Consumption should rebound in Q3-2020, but this will partially reflect pent-up demand, so the real, more sustainable, damage to demand won't be revealed until Q4.

Table 2

Peru: GDP growth, 2020

y/y % change	Q1-2020	Q2-2020
Aggregate GDP	**-3.5**	**-30.2**
Domestic demand	-2.3	-26.7
Private consumption	-1.7	-22.1
Public current spending	6.0	-3.9
Private investment	-16.8	-60.2
Public investment	14.8	-70.0
Inventories (ppts contribution)	1.1	2.8
Exports	-9.6	-43.6
Imports	-5.8	-30.5

Sources: Scotiabank Economics, BCRP.

Investment. Also of note was Q2's -60% y/y decline in private investment. The drop wasn't a surprise, but it was staggering nonetheless. The lack of government spending was also a disappointment, both on current expenses and public investment. As we've noted before, there is no justification for government spending to be the main drag on the economy at this time.

—Guillermo Arbe

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