

Latam Economic Update

- **Mexico: Banxico significantly lowers GDP forecast in 2020; trade balance suggests there's still weakness in domestic demand**
- **Peru: Phase 4 unlocking being contemplated**

MEXICO: BANXICO SIGNIFICANTLY LOWERS GDP FORECAST IN 2020; TRADE BALANCE SUGGESTS THERE'S STILL WEAKNESS IN DOMESTIC DEMAND

Banxico's new quarterly report, published on August 26, provides a detailed account of the performance of the economy during the period of greatest disruption generated by containment measures to control the spread of the Covid-19 pandemic. The central bank reaffirms that "in the current situation it is not possible to present a central scenario for forecasting economic activity", so they reviewed the three scenarios they presented in the previous Quarterly Report (table 1). The deterioration in the numbers for 2020 is notable: the scenario that we could call more optimistic, Type V, has a fall of -8.8%, while the most pessimistic, Type U Deep, contemplates a contraction of -12.8%. By 2021, the Type V and Type U scenarios contemplate a higher growth of 5.6% and 1.3% in each case, which presumably is due to the arithmetical effect of a lower base of comparison in 2020.

On the other hand, the forecast for inflation are revised slightly upwards for the short term. The revision of Q3 stands out especially, which rises to 3.9% for both general and underlying inflation, responding to the rebound that has recently been observed in the dynamics of prices. However, in the horizon of influence for the monetary policy, from 12 to 24 months, the expectation of a descendent inflation towards the goal of 3% is maintained. One of the central arguments for this expectation is that the notable gap that has opened in the economy will end up being the main determinant for returning inflation to its tendency of convergence towards the official goal. However, they point out that the outlook for inflation remains highly uncertain and without a defined risk balance.

Speaking of the challenges for economic policy in the future, they point out that "it is necessary to preserve the macroeconomic foundations of the Mexican economy and to adopt the necessary actions in the monetary and fiscal areas. [...] it is imperative to continue working to correct the institutional and structural problems that have led to low levels of investment and have prevented the country from increasing its productivity, affecting the country's potential growth. [...] it is essential to improve the perception of the business climate in the country and reduce internal economic uncertainty".

Overall, the outlook for IMSS-affiliated jobs is improving somewhat, while for the current account is anticipated to have a less deficient range.

Finally, there is no clear message to anticipate future monetary policy decisions. Nor is there a more abundant reference to the deterioration of the fiscal position and its possible implications for macroeconomic stability and the

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Table 1

Mexico: GDP Growth Scenarios (%)

	2020		2021	
	Previous	Current	Previous	Current
V-shaped	-4.6	-8.8	4.0	5.6
Deep V-shaped	-8.8	-11.3	4.1	2.8
Deep U-shaped	-8.3	-12.8	-0.5	1.3

Sources: Scotiabank Economics, Banxico.

conduct of monetary policy, beyond the concern expressed about the possibility of further downgrading of the sovereign and Pemex ratings. By doing so, Banxico leaves open the possibilities to act as it deems necessary in its next monetary policy decisions.

According to figures released by INEGI on August 27, in July, the trade balance surprised with a record surplus USD 5,799 mn, the highest ever recorded, surpassing the market consensus expectation of USD 429 mn and a deficit of USD 1,290 mn in the same month last year. This was caused by a decline in imports (-26.1% y/y versus -22.2% y/y in June), which was partially offset by a smaller annual reduction in exports (-8.9% y/y versus -12.8%/y/y previous) (chart 1).

The performance of exports was marked by a greater fall in its oil component, which went from -35.6% y/y to -36.5% y/y, in the opposite direction to the more attenuated annual decline of the non-oil component, from -11.6% y/y to -7.2% y/y. In turn, manufacturing exports softened their annual decline.

Imports of capital goods continued to decline, recording their 16th consecutive decline, which suggests business investment will remain depressed. In the same sense, imports of intermediate goods deepened their contraction.

In sum, the foreign trade of Mexico advanced with respect to the previous month; although it showed an annual fall of -17.6% in total trade (exports + imports). While a recovery in trade is expected, led mainly by the performance of the US economy, the behaviour of imports suggests that there is still a weakness in domestic demand, which may persist at the end of the year.

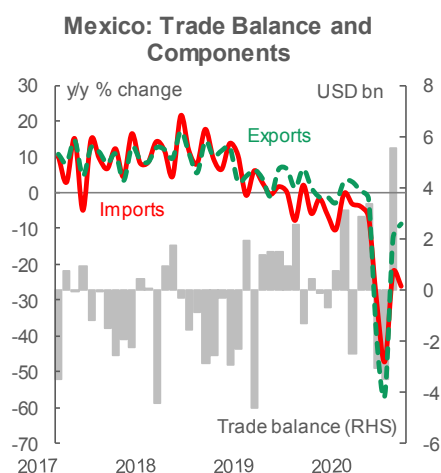
—Paulina Villanueva

PERU: PHASE 4 UNLOCKING BEING CONTEMPLATED

On August 31, government officials will consider beginning Phase 4 of the re-opening process. This would include international flights, gyms, movie theaters and other entertainments. Most of these activities involve the concentration of people, and would only be allowed to operate at reduced capacity. Apparently, schools will be one sector which will remain closed. Phase 4 consists of less than 5%, of economic activities that have yet to be unlocked. Given low demand and capacity issues it is likely that even as Peru approaches 100% unlocking, actual operational levels will remain below pre-COVID-19 levels for some time. The discussion over further unlocking is occurring amidst signs that COVID-19 is finally starting to lose some ground. The number of people that are hospitalized for COVID-19 has declined from its mid-August peak, and is now at the lowest level since late July. Total daily deaths (COVID-19 and non-COVID-19) also peaked in mid-August, and is now at its lowest levels since May.

—Guillermo Arbe

Chart 1



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