

Latam Economic Update

- **Argentina:** Industrial production and construction activity lifted in May as some lockdowns eased
- **Brazil:** President Bolsonaro tested positive for COVID-19
- **Chile:** Pension fund reform under discussion in Congress
- **Colombia:** Consumer confidence was relatively stable in June

ARGENTINA: INDUSTRIAL PRODUCTION AND CONSTRUCTION ACTIVITY LIFTED IN MAY AS SOME LOCKDOWNS EASED

According to data released on July 7, industrial production and construction activity both saw lifts in May as some lockdowns eased in the latter third of the month (chart 1).

- **Industrial production** rose 9.0% m/m sa, which left total industrial output down -26.4% y/y compared with May 2019—an improvement from the full month of lockdown in April when production was off -33.4% y/y (revised from -33.5%) from the same month last year. Nevertheless, every one of 16 industrial sub-sectors still saw year-on-year declines in May.
- **Construction activity** bounced by a whopping 99.9% m/m sa in May, albeit from a comprehensive shutdown in April. Compared with a year ago, construction activity was down “only” -48.6% y/y in May compared with a -75.6% y/y decline in April.

May industrial and construction activity unsurprisingly imply that April, the month with the most comprehensive lockdowns, likely saw the bottom for Argentina’s economy. Even with the extension and re-imposition of quarantine measures into July, the intensity of the country’s lockdowns are unlikely to revisit the degree of the pandemic controls seen in April. The economy, as a whole, however, remains on track for a -15% y/y contraction in Q2-2020.

—Brett House

BRAZIL: PRESIDENT BOLSONARO TESTED POSITIVE FOR COVID-19

On Monday, July 6, it was announced that President Bolsonaro once again had himself tested for COVID-19, after showing symptoms of the disease. On Tuesday, the test results came back positive. The BRL did not react to the confirmation of the news, likely reflecting both the fact that he has not yet needed to be hospitalized and an assumption by market participants that he will recover from the illness. President Bolsonaro said that he is getting treated with hydroxychloroquine, even though the effectiveness of this drug against COVID-19 remains contested.

It will be worth watching to see whether Pres. Bolsonaro’s approach to the pandemic changes now that he has contracted the illness, similar to how UK PM Boris Johnson shifted tack after he fell ill. Until now, President Bolsonaro

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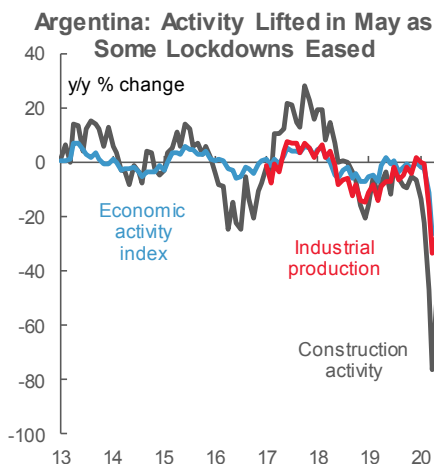
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Chart 1



Sources: Scotiabank Economics, INDEC, FIEL.

has minimized the threat from the novel coronavirus, giving priority instead to reducing the economic fallout from it. We will also monitor whether Pres. Bolsonaro's approval ratings are affected by his diagnosis in the country that is now the second most severely hit globally by COVID-19.

We will additionally be watching for other diagnoses amongst senior members of the government. Last Thursday, the President held a meeting with six members of his team—including Caixa Economica Federal CEO Guimares, and Regional Development Minister Marinho—who were not wearing protective gear even though the President was coughing.

—Eduardo Suárez

CHILE: PENSION FUND REFORM UNDER DISCUSSION IN CONGRESS

On Monday, July 6, the Constitutional Committee of the Chamber of Deputies, Congress' lower house, approved an initiative that proposes a constitutional reform to allow a percentage of AFP pensions to be withdrawn by contributors during the state of emergency. The proposal will be voted on this week in the full Chamber of Deputies, where it needs 93 votes (i.e., 60% of the 155 total) in favour for approval. If approved, it would then be discussed in the Senate.

The bill specifically proposes to authorize members of the private pension system to withdraw, voluntarily and only once, 10% of the funds accumulated in their individual capitalization account of mandatory contributions. The bill would also establish a maximum withdrawal equivalent to about USD 5,000 with a minimum withdrawal of about USD 1,250.

The government, through its finance and labour ministers, expressed its refusal to approve the proposal. They argued that other relief measures have been proposed for the middle class that do not harm future pensions. For context, the Chilean pension system has a total of 5.7 million contributors and funds under management of about USD 200 bn.

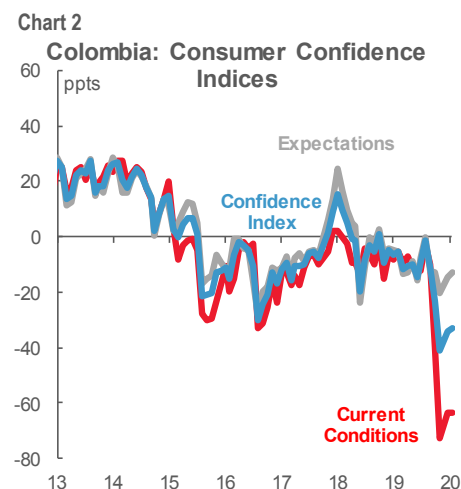
—Carlos Muñoz

COLOMBIA: CONSUMER CONFIDENCE WAS RELATIVELY STABLE IN JUNE

June's Consumer Confidence Index (CCI), released on July 7, stood at -33.1 pts—broadly unchanged from May's result of -34.0 pts (chart 2). This small 0.9 pts m/m improvement on an index that can range from +100 to -100 leaves the reading fairly deep in sub-zero net pessimistic territory. The similarly constructed Expectations Index mildly improved to -12.7 pts versus the previous -14.4 pts, well above the Current Conditions Index which stood at -63.6 pts in June, an historically low level. The spread between the Expectations and Current Conditions Indices implies that consumers expect the COVID-19 shock to be temporary. Nevertheless, caution dominates as consumers' willingness to buy durable goods is still weak (chart 3).

Consumer confidence improved in two out of five cities surveyed; however, in the main cities—Bogota and Medellin—confidence deteriorated again from May to June. Still, in Barranquilla, sentiment improved despite an increase in COVID-19 cases. In fact, Barranquilla showed the strongest increase in consumers' willingness to buy durable goods.

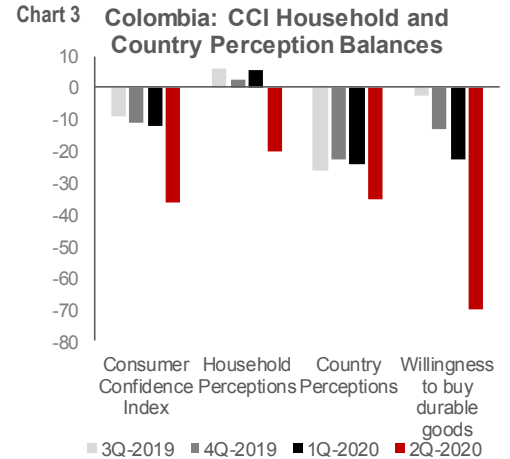
By socio-economic levels, June's indices showed a mixed picture. High-income earners' confidence fell slightly, while middle- and low-income confidence levels increased somewhat. This may be explained by an increased willingness amongst these cohorts to buy houses owing to government efforts to subsidize residential building construction. Although consumers' willingness to buy vehicles and durable goods—such as furniture and home appliances—improved in June, these indicators are still at historically low levels even with the boost to demand from the VAT holiday (chart 3, again).



Sources: Scotiabank Economics, Fedesarrollo.

As we have mentioned before, despite progress on re-opening the production side of the economy, weak demand could weigh against further economic recovery: the labour market has been strongly affected the pandemic and a recovery in employment could take longer than expected. In the coming months, any new improvements in consumer confidence will likely depend heavily on the re-opening process and the employment situation. As it stands, the June survey's results are in line with a -10% y/y decline in private consumption in Q2-2020.

—Sergio Olarte & Jackeline Piraján



Sources: Scotiabank Economics, Fedesarrollo.

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