Latam Economic Update

- **Central banks: Even lower for even longer**
- **Argentina: Wage growth slumped in May**
- **Chile: Monetary measures to contain the market impact of the withdrawal of pension funds**
- **Colombia: Employment recovery continued as the re-opening process consolidated in June**
- **Mexico: Record declines in GDP and oil revenues**
- **Peru: COVID-19 contagion increasing mildly; details on governing plans begin to appear**

CENTRAL BANKS: EVEN LOWER FOR EVEN LONGER

Colombia's BanRep meets today and is expected—by both market consensus and our team in Bogota—to announce at 16:00 ET another -25 bps cut in its monetary policy rate that would bring it down to 2.25%. We expect the BanRep to maintain its gradualist tone, but with inflation well below target, we anticipate another -25 bps cut at a subsequent meeting. This would take the policy rate through record lows to a terminal rate of 2.00% for this cycle.

Chile's BCCh also published at 08:30 ET the *Minutes* from its July 15 policy meeting at which it voted unanimously to hold the policy rate at its "technical minimum" of 0.50%. Our team in Santiago recently changed its view and expects September's *Monetary Policy Report* will see the BCCh lower its rate floor to 0.25% and accompany that move with a cut to the headline rate by -25 bps to keep it at the lower bound.

Our latest edition of the *Latam Weekly* details the further easing in monetary policy we expect across the region.

—Brett House

ARGENTINA: WAGE GROWTH SLUMPED IN MAY

Wage growth continued to cool in May despite the initiation of some re-opening in the latter third of the month. The overall wage index declined by -0.1% m/m (38.3% y/y), continuing a steep decline from 6.0% m/m (44.9% y/y) at the beginning of the year in January 2020 (chart 1). The slowing in wage growth had clearly started ahead of COVID-19 control measures and continued with the imposition of the quarantine in March.

It's worth putting these wage numbers in context: annual headline inflation is falling owing to level effects from last year's spike, not cooling labour markets. Sequential, month-on-month inflation is steady only because of price monitoring, controls on utilities charges, and FX and capital controls. Headline inflation prints are still expected to pick up toward the end of 2020. The BCRA has been on hold since March 5, but it could implement further easing to support domestic demand before reversing itself next year.

—Brett House

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Guillermo Arbe
51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiacb.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

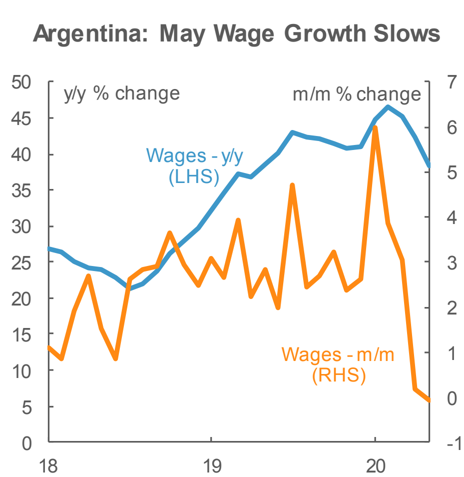
Marc Ercolao
416.866.6252
Scotiabank Economics
marc.ercolao@scotiabank.com

TODAY'S CONTRIBUTORS:

Jackeline Piraján
57.1.745.6300 (Colombia)
Scotiabank Colombia
jackeline.pirajan@co.scotiabank.com

Miguel Saldaña
52.55.5123.0000 Ext. 36760 (Mexico)
Scotiabank Mexico
msaldanab@scotiabank.com.mx

Chart 1



Sources: Scotiabank Economics, INDEC.

CHILE: MONETARY MEASURES TO CONTAIN THE MARKET IMPACT OF THE WITHDRAWAL OF PENSION FUNDS

Chile's central bank, the BCCh, announced on Thursday, July 30, in a statement that it would implement specific measures from next week to mitigate market volatility that could develop as the country's pension funds liquidate assets in response to early withdrawals from individual retirement accounts under the new "10% law". These include:

1. **Repos for bank bonds** under a total program of up to USD 10 bn on one- to three-month terms;
2. **Continuation of the bank bond purchase window** for the remaining USD 4.1 bn from the March program, to contain volatility; and
3. **Add a term deposit purchase window** for up to USD 8 bn.

We expect that these new measures will be implemented by the central bank in the coming days conditional on the evolution of interest rates and the exchange rate. The announcement immediately generated a slight drop in interest rates and a depreciation of the CLP during the day.

—Jorge Selaive

COLOMBIA: EMPLOYMENT RECOVERY CONTINUED AS THE RE-OPENING PROCESS CONSOLIDATED IN JUNE

On Thursday, July 30, DANE reported that in June, nationwide unemployment came in at 19.8% (June 2019 was 9.4%), while urban employment (i.e., across 13 cities) came in at 24.9% (June 2019 was 10.7%). Seasonally adjusted series showed that the national unemployment rate improved to 20.8% in June versus 21.2% in May 2020 and declined slightly to 24.4% versus 24.8% in May 2020 for the urban print, which implies that the worst may be behind us (chart 2). However, labour-market recovery will be very gradual in the months ahead. The re-opening process has led to some progress on employment, but sectors that haven't yet shown significant re-opening have had the worst performance (e.g., leisure activities).

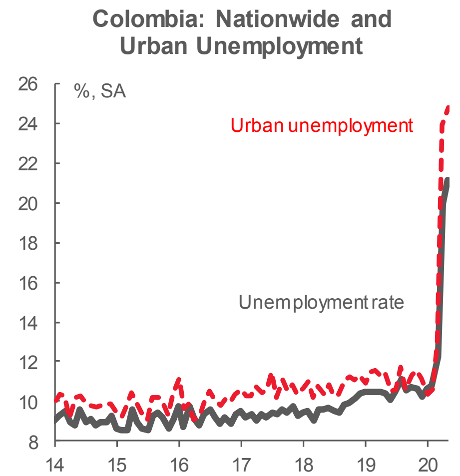
Compared with May's numbers, the number of inactive people contracted by 48%, which means that around 2.2 mn people came back to the labour force in June. About 20% of the people who returned to the labour market are still unemployed and approximately 80% are working again. It is worth noting that employment gains should moderate in the forthcoming months since some major cities are resuming lockdown measures.

In June, the re-opening of the economy allowed around 80% of total usual activity to resume work, including the retail sector. However, leisure-related activities remained closed and this sector remains the one with the most job losses. On a y/y basis, the deterioration in employment is now concentrated in leisure activities (-737k), sales (-636k), and public sector and health services (-635k). The most significant decline was in urban areas (-2.4 mn y/y), especially in activities related to leisure (-469k y/y), sales (-449k y/y), and manufacturing (-408k y/y, chart 3).

The labour market continued to show that urban areas were the most affected by the lockdown: they contributed 56% to total job losses. Job losses have also been concentrated in the formal sector. The last three months' average net job numbers contracted by -21.8% y/y, but the destruction of informal employment (-18.9% y/y) was proportionately smaller than the decline in waged employment (-23.7% y/y).

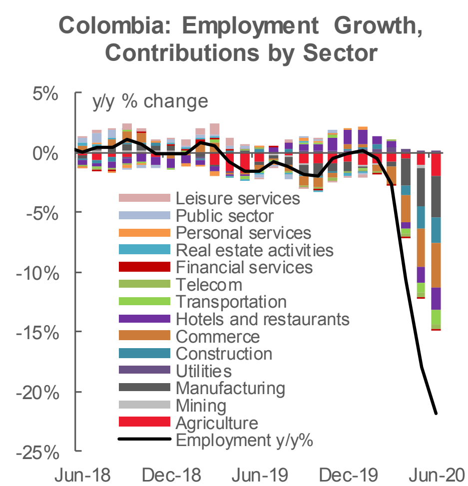
Despite some "green shoots" due to the effects of inactive people coming back to the labour market, we think that in the coming months the employment recovery will be slower and that informality could increase. Leisure-related activities will continue to be the hardest hit since re-opening this sector is expected to take more time.

Chart 2



Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

The labour market remains the biggest concern for policymakers and for us it constitutes the main risk for the economic recovery. The health system's capacity is limiting new re-opening plans in the main cities and increasing structural economic losses over time. We expect the unemployment rate to hit 17.8% by end-2020, which is still high compared with a normal situation.

—Sergio Olarte & Jackeline Piraján

MEXICO: RECORD DECLINES IN GDP AND OIL REVENUES

I. Real GDP saw an unprecedented drop in Q2-2020

GDP Q2-2020 flash estimates released on July 30 show that the Mexican economy shrank at its fast pace in history at -18.9% y/y (chart 4), versus -1.4% y/y in the previous quarter and -1.1% y/y in Q1-2019. Still, this beat the market consensus of -21.2% y/y. The scale of the slump was fully anticipated by recent employment and monthly economic activity numbers. Our outlook anticipates some persistence in economic softness into Q3 despite the partial re-opening of some sectors and we don't rule out further cuts to our -9.1% y/y forecast for real GDP growth in 2020.

By sector, the Q2 data show ongoing weakness that has carried over from late-2018. Industrial activity dropped for the seventh consecutive quarter, with growth slowing from -2.9% y/y in Q1 to -26.0% y/y in Q2, compared with -3.0% y/y in Q2-2019; the service sector deepened its fall from -0.7% y/y in Q1 to -15.6% y/y in Q2, versus -0.3% y/y a year earlier. Agricultural sectors showed greater stability, falling slightly from 1.4% y/y in Q1 to -0.7% y/y, compared with -1.2% y/y in Q2-2019.

Chart 4

Sources: Scotiabank Economics, INEGI.

II. Oil revenues plummeted at a record pace in the first half of 2020

In public finance data released on Thursday, July 30, the January–June period registered a MXN -293.3 bn deficit, better than the MXN -311.0 bn budgeted for the period, but much worse than the MXN -119.9 bn deficit observed in the first half of 2019. In the details, the H1-2020 primary balance was MXN 61.2 bn in surplus, which was MXN 20.6 bn below budget and -73.9% below the primary surplus observed in H1-2019.

Oil revenues in the first half of 2020 saw a record decline. Total revenues amounted to MXN 2.6 tn in the first six months of 2020, some MXN 169.0 bn below budget; this represented a -3.7% y/y decrease in real terms from H1-2019. Oil revenues, which accounted for 17% of total public revenues in 2019, summed to MXN 249.8 bn in the January–June period, which represented a -41.3% y/y drop real in terms, a record setback for any half-year since at least 1991. However, tax revenues amounted to MXN 1.9 tn, an increase of 0.1% y/y compared with H1-2019, owing to some changes in tax collection and refund rules that reflect "recent efforts to increase tax compliance and reduce evasion".

Spending also came in below budget—a testament to the authorities' restraint even in the midst of the pandemic. Net expenditures summed up MXN 2.9 tn in H1-2020, below the MXN 3.1 tn scheduled, but which was still a 2.1% y/y increase in real terms. Current expenditures totaled MXN 1.7 tn in H1-2020, up only 0.8% y/y, which contrasted strongly with the 23.1% y/y increase in capital expenditures that amounted to MXN 400 bn in the January–June stretch.

—Miguel Saldaña

PERU: COVID-19 CONTAGION INCREASING MILDLY; DETAILS ON GOVERNING PLANS BEGIN TO APPEAR

The Minister of Health, Pilar Mazzetti, was quoted in the press on Thursday, July 30, stating that the rate of COVID-19 contagion was increasing in Peru, although at a pace too mild to be able to call it a second wave. Min. Mazzetti also stated that actual deaths would likely be more than double the official register of 570 per million inhabitants.

Government spokespersons gave details on some of the announcements made during Pres. Vizcarra's July 28 Independence Day Address, including:

- The Minister of Housing, Carlos Lozada, stated that the government was working on defining the second phase of the PEN 6.4 bn Arranca Perú investment program. Phase 2 would begin in Q1-2021. Phase 1 had been previously announced for the remainder of 2020, although there is yet to be evidence that actual execution will begin soon;
- Min. Lozada also stated that the government's goal is to build in 2020 some 80,000 homes for low-income families, thereby creating 100,000 jobs; and
- The Minister of Agriculture, Jorge Montenegro, stated that the long-awaited stage 3 of the Chavimochic irrigation project will be constructed over the next 18 months, rendering it operational in 2022.

—Guillermo Arbe