

## Latam Economic Update

- **Argentina:** Provinces follow sovereign in default and extension of offer periods
- **Colombia:** April's imports contracted by -31.6% y/y, the second monthly contraction in a row, to the lowest level since 2010.
- **Mexico:** Q1-2020 aggregate supply and demand illustrated the pre-pandemic weakening in economic activity
- **Peru:** Unlocking continues to accelerate; the BCRP updated its forecasts

### ARGENTINA: PROVINCES FOLLOW SOVEREIGN IN DEFAULT AND EXTENSION OF OFFER PERIODS

In a [statement](#) released on Sunday, June 21, the Province of Buenos Aires extended the offer period on its possible exchange of defaulted bonds to July 31. The move followed the national government's June 19 extension of its own offer period to July 24 and Mendoza province's entry into default with a missed payment, also on June 19.

—Brett House

### COLOMBIA: APRIL'S IMPORTS CONTRACTED BY -31.6% Y/Y, THE SECOND MONTHLY CONTRACTION IN A ROW, TO THE LOWEST LEVEL SINCE 2010

April's import data, released on June 19, came in at USD 3.09 bn, a contraction of -31.6% y/y to the lowest level since 2010. Manufacturing-sector imports fell by -35.5% y/y and accounted for most of the y/y decline. YTD up to April, imports contracted -12.3% y/y, which is a result of two effects: (i) a high statistical base for the annual comparison, led by the stimulus provided to capital imports in 2019; and (ii) weaker domestic demand due to the shock from the COVID-19 pandemic and lockdowns from the last week of March.

From the perspective of imports by use, there were declines in most sectors. April capital imports declined -45.8% y/y, due to contractions in the transport-related sector (-64.9% y/y), industrial sector (-36.3% y/y), and construction materials (-45.9% y/y), while capital goods imports for the agriculture sector increased by 6.2% y/y.

Consumption imports fell -37.9% y/y, the worst contraction since 1999, owing mainly to a significant decline in durable goods imports (-62.9% y/y). Non-durable goods imports contracted by -18.5% y/y, the worst performance since 2016. Both components act as automatic stabilizers that were driven by the exchange rate depreciation and the sudden change in the macro scenario. Raw materials imports contracted by -19.2% y/y, pointing to a generalized weakening in economic activity (chart 1).

The trade deficit stood at USD 1.07 in April (chart 2), which took the YTD deficit to USD 3.5 bn, a 25.8% widening. The deterioration in the trade balance

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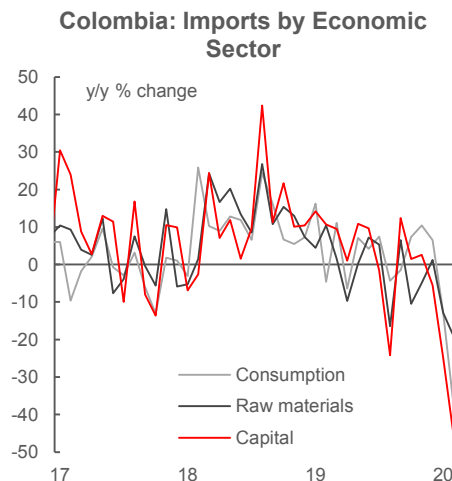
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Chart 1



Sources: Scotiabank Economics, DANE.

was mainly due to weaker mining exports that were not fully offset by lower imports. However, in the forthcoming months, a recovery in coal exports and in oil prices should lead to a more stable trade deficit, as the significant contraction in internal demand will likely remain a dampener on imports for some time.

—Sergio Olarte & Jackeline Piraján

### MEXICO: Q1-2020 AGGREGATE SUPPLY AND DEMAND ILLUSTRATED THE PRE-PANDEMIC WEAKENING IN ECONOMIC ACTIVITY

According to data published Friday, June 19, real aggregate supply and demand contracted during Q1-2020 for a fourth consecutive quarter. Both aggregate supply and demand contracted by -1.9% y/y (versus 1.4% in Q1-2019), building on the -1.7 y/y decline they both saw in Q4-2019. This was the worst pace of growth since Q4-2009 (chart 3).

The Q1 contraction in aggregate supply deepened the slowdown in GDP growth into the start of 2020, which fell from -0.7% y/y in Q4-2019 to -1.4% y/y in Q1-2020 (versus an expansion of 1.1% y/y in Q1-2019).

On the demand side, investment led the decline.

- Although **private consumption** growth, the main driver of economic activity, decreased from 0.7% y/y in Q4-2019 to -0.5% y/y in Q1-2020 (versus a 0.8% y/y expansion in Q1-2019), gross capital formation (GCF) plummeted -9.3% y/y in Q1-2020 from -5.3% y/y in Q4-2019, compared with -0.4% y/y a year ago in Q1-2019.
- On the other hand, **exports** growth rebounded, from -2.2 y/y in Q4-2019 to 1.7% y/y in Q1-2020 (versus 2.8% y/y a year ago in Q1-2019), which was offset only partially by a smaller contraction in **imports**, which moved from -4.3% y/y in Q4-2019 to -3.4% y/y in Q1-2020 (versus growth of 2.1% y/y in Q1-2019).
- **Government consumption** growth jumped from -0.4% y/y in Q4-2019 to 3.4% y/y in Q1-2020 (versus -0.6% y/y in Q1-2019).

The Q1-2020 aggregate supply and demand results highlighted that economic activity continued to weaken before the disruptions related to the COVID-19 pandemic.

We anticipate even stronger supply and demand shocks in Q2-2020, as several high-frequency indicators for April and May already seem to indicate. The economy is entering a significant recession with a further bias to the downside.

—Daniel Mendoza

### PERU: UNLOCKING CONTINUES TO ACCELERATE; THE BCRP UPDATED ITS FORECASTS

In yet more proof that the government is accelerating the unlocking process, another 27 sectors have been authorized to resume operations beginning on Monday, June 22. This was a surprise, as the decision came before the July 1 beginning of Phase 3: none of these activities were expected to open until Phase 3 (July) and even Phase 4 (August). At this point, only activities involving travel, social gatherings, a high concentration of people (i.e., spectator sports, music, and theatre), and education are still restricted.

The newly unlocked sectors would reportedly represent nearly 9% of GDP and over 160,000 jobs. Most of the sectors involve industrial production, such as leather and rubber products, precious metal products and jewelry, electronics, navigation and control equipment, clocks and watches, medical and optical equipment, photography, home appliances, ship-making, musical

Chart 2

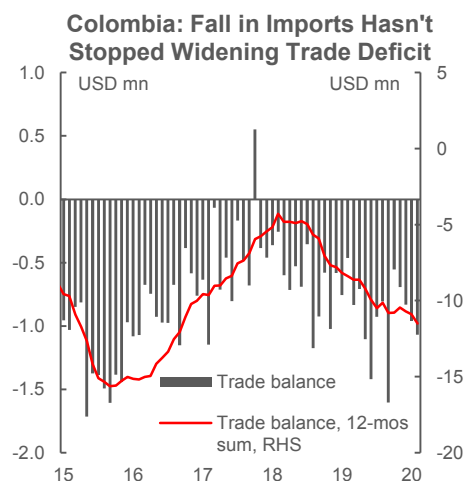
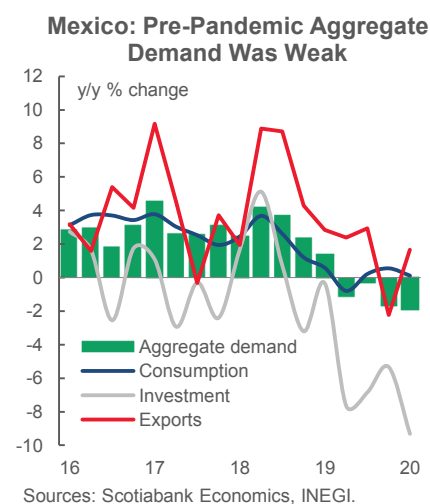


Chart 3



instruments, sports equipment, toys, and handcrafts, among others. In addition, real-estate activities and on-premises hairdressing activities will be allowed to re-open. This adds to malls and open-air markets, which have also been allowed to operate this week.

**The BCRP released its quarterly [Inflation Report](#) on Friday, June 19.** This was the first *Report* since December, as the March edition was canceled due to the quarantine. Some of the highlights of the June *Inflation Report* follow.

- The BCRP is now forecasting a -12.5% y/y contraction in GDP for 2020. This is near the middle of our -9% y/y to -14 y/y forecast range. The previous forecast, 3.8% y/y growth, was released in December, well before COVID-19.
- The BCRP is expecting 11.5% y/y GDP growth in 2021, significantly above our 7% y/y forecast.
- Looking in more detail, the main difference between the BCRP forecast and our own lies in consumption, which they see declining -9.4% y/y in 2020, and then jumping back 9% y/y in 2021, whereas we are much more measured—and perhaps overly optimistic—with -2.8% y/y in 2020 and 2.6% y/y in 2021.
- The BCRP forecasts fiscal deficits of -9.7% of GDP for 2020 and -4.2% of GDP for 2021. Both are fairly in line with our forecasts of -9% of GDP and -5% of GDP, respectively.
- The BCRP sees inflation at nil in 2020, and not much higher, at 0.5% y/y, in 2021. Our forecast is 1.1% y/y and 1.7% y/y, respectively. The difference is not very material, as both justify the BCRP's ultra-expansionary monetary policy.

—Guillermo Arbe

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