

Latam Daily: Mexico’s Rebound Slowed as Banxico Raised Forecasts, Clarified “Pause”

- **Argentina:** Retail sales and consumer confidence holding steady
- **Mexico:** Q3-2020 GDP rebound’s momentum slowed; Banxico *Quarterly Report* raised growth and inflation forecasts; minutes clarified “pause”

ARGENTINA: RETAIL SALES AND CONSUMER CONFIDENCE HOLDING STEADY

Argentina’s retail sales have become range bound, locked in by extended contagion control measures as the country continues to struggle to contain the surge in COVID-19 cases it has experienced through the southern winter. In INDEC data released on Thursday, November 26, supermarket sales were down -2.3% y/y in September, an only mild improvement from August’s -5.6% y/y annual contraction (chart 1). Malls remained largely closed or under significant limits, with sales down -81.4% y/y in September, essentially unchanged from the -79.0% y/y annual contraction in August. Consumer confidence readings also remained steady through November, rising only a touch from 38.38 pts in October to 40.87 pts in November, still deep in pessimistic territory despite an ongoing improvement in Argentina’s leading indicators (chart 2).

Overall, persistently soft retail sales data and steady pessimism in consumer sentiment reflect a recovery that is being driven more by external than domestic demand. Even with some export hesitancy as producers anticipate a major ARS devaluation, mixed success in controlling the spread of COVID-19 means that domestic activity is likely to lag the external side of the economy as we move through Q4.

—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@scotiabank.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

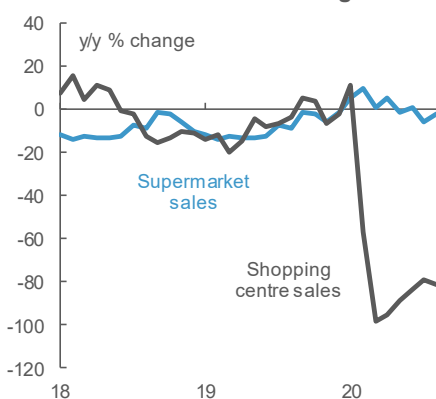
Marc Ercolao
416.866.6252
Scotiabank Economics
marc.ercolao@scotiabank.com

TODAY’S CONTRIBUTORS:

Paulina Villanueva
52.55.5123.6450 (Mexico)
Scotiabank Mexico
pvillanuevac@scotiabank.com.mx

Chart 1

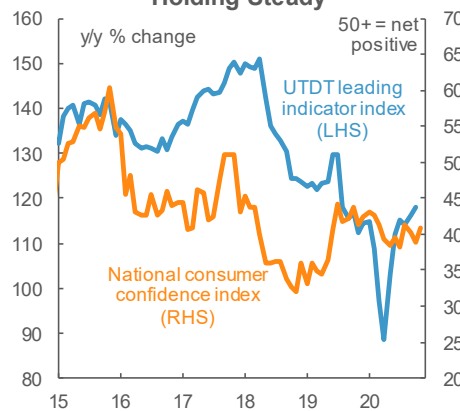
Argentina: Retail Sales Bound by Winter COVID-19 Surge



Sources: Scotiabank Economics, INDEC.

Chart 2

Argentina: Consumer Confidence Holding Steady



Sources: Scotiabank Economics, INDEC, UTDT.

MEXICO: Q3-2020 GDP REBOUND'S MOMENTUM SLOWED; BANXICO QUARTERLY REPORT RAISED GROWTH AND INFLATION FORECASTS; MINUTES CLARIFIED "PAUSE"

I. The Q3-2020 GDP rebound slowed in September

According to revised figures released by INEGI on Thursday, November 26, real GDP rose 12.1% q/q sa in Q3-2020, marginally better than the 12.0% q/q sa first estimate published on October 30. The sequential rebound translated into a similarly small improvement in the annual reading, which moved from -8.9% y/y in the first estimate to -8.6% y/y in this final print—either way a significant gain from Q2's record -18.7% y/y (-17.0% q/q sa) annual decline (chart 3). Growth in 2019 was also revised slightly from the previously reported -0.3% y/y to -0.1% y/y.

Looking at the components, the rebound spanned the Mexican economy's major sectors:

- The industrial sector (29.1% of GDP) saw annual activity come up from -25.5% y/y to -8.8% y/y, a pronounced improvement despite also notching up an eighth straight quarter of annual decline. Within industry, construction was still down by -17.5% y/y, but this was half as bad as in Q2. In contrast, external demand supported stronger rebounds in manufacturing, mining, and utilities, but from less pronounced Q2 contractions than we saw in construction;
- The service sector (63.5% of GDP) also saw strong gains, up from -16.3% y/y to -8.8% y/y, but this still left it down in annual terms for a third consecutive quarter. Within the services, recreation (-65% y/y), lodging and food services (-54% y/y), and transportation (-25% y/y) continue to be the most impaired; and
- Finally, the agricultural component (3.5% of GDP) was the one major sector that showed annual gains, up from -1.5% y/y in Q2 to 7.7% y/y in Q3.

The revised GDP figures for Q3-2020 reflected the ongoing normalization of production dynamics, with the resumption of activities in several sectors. Still, even with Q3's improvements, GDP in the first three quarters of this year was down -9.6% y/y, the deepest annual decline for Q1–Q3 in the series' modern history.

September's GDP proxy (the Global Indicator of Economic Activity or IGAE in Spanish), also released on Thursday, is instantly stale, but it implied that the pace of the rebound moderated at the end of Q3, slowing from 1.4% m/m in August to 1.0% m/m in September. The IGAE print showed that monthly real GDP was down -5.5% y/y in September, putting Mexico in the middle of the Latam-6 in terms of progress on its post-COVID-19 recovery (chart 4).

II. Banxico Quarterly Report raised growth and inflation forecasts

On Wednesday, November 25, the Mexican central bank (Banxico) updated its forecasts for the Mexican economy in its latest *Quarterly Report (QR)*. Notable developments in this QR included:

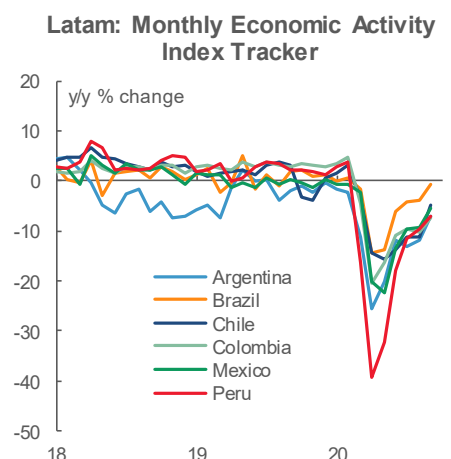
- Banxico returned to producing a central scenario for the growth of the national economy, replacing the three scenarios presented in the two previous QRs. Banxico's central scenario assumes a gradual recovery along the forecast horizon, reflecting continued caution from consumers and investors. Under this scenario, GDP growth for 2020 is forecast at -8.9% y/y, close to Banxico's most optimistic expectations in its previous QR; for 2021, the Banxico staff expects the Mexican economy to rebound at a pace of 3.3% y/y before moderating to 2.6% y/y in 2022. The QR noted that vaccine availability in 2021 presented an upside risk to the central scenario; and
- For inflation, the QR presents moderate downward revisions to Banxico's short-term forecasts, with slightly higher longer-term trajectories. The

Chart 3



Sources: Scotiabank Economics, INEGI.

Chart 4



Sources: Scotiabank Economics, Haver Analytics.

forecast for end-2020 headline inflation was brought down from 3.7% y/y to 3.6% y/y, while end-2021 inflation was pushed up from 2.9% y/y to 3.3% y/y, before settling at 3.1% y/y in mid-2022. The forecast for core inflation remained at 3.8% y/y at end-2020, but the call for end-2021 moved up from 2.8% y/y to 3.1% y/y. The expectation that inflation will return toward its 3.0% y/y target seems to rest on a view that the negative output gap, which isn't expected to close until end-2022, and price reductions during the "Buen Fin" shopping event will dominate inflation dynamics over the coming quarters.

It was noted that long-term rates in Mexico have benefited from Banxico's gradual easing cycle and its conservative approach to guarding financial stability. In the press conference, Banxico's Governor noted that the Board's "pause" at its last meeting was intended to assess convergence toward the Bank's inflation target and that early-November's downside inflation surprise would not be sufficient to reach a conclusion on the future path of the Bank's policy rates. We continue to expect the Board to remain on hold at its December monetary-policy meeting.

—Paulina Villanueva

III. Banxico's minutes clarify its November 12 "pause"

Banxico published on Thursday, November 26, the minutes of the Board's monetary-policy meeting on November 12 where members voted 4-1 to keep the Bank's main policy rate on hold at 4.25% in a "pause" to assess whether inflation is indeed converging to the Bank's 3% y/y target. The minutes revealed that Jonathan Heath was the lone dissenter and that he voted for another -25 bps cut to 4.00%. The minutes also indicated that two Board members saw a possible need for further easing, while the other three Board members placed greater emphasis on confirming the likely trajectory for inflation before taking further action. Given the upward revisions to the Banxico staff's headline and core inflation projections for end-2021, the minutes' characterization of the Board's "pause" doesn't dampen our expectation that members will vote to maintain their hold at the Board's next monetary-policy meeting on December 17.

—Brett House

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