

## Latam Daily: Mexico Inflation at Top of Range; Consumer Pick-up in Brazil, Colombia

- **Brazil:** August retail sales growth hit consensus expectations, much more robust than we expected
- **Colombia:** September's consumer confidence index kept improving
- **Mexico:** September headline inflation cooled, but was still above upper limit of Banxico's target range

### BRAZIL: AUGUST RETAIL SALES GROWTH HIT CONSENSUS EXPECTATIONS, MUCH MORE ROBUST THAN WE EXPECTED

August retail sales growth, out on Thursday, October 9 from IBGE, at 6.1% y/y, slightly exceeded the consensus expectation of 6.0% y/y, and came in above July's 5.5% y/y pace (chart 1). We had expected a weaker print at 4.2% y/y. Our call was informed by formal job creation, which stood at -775k YTD in August (chart 2), and the unemployment rate, which stood at 13.8% in July, some 260 bps above its level at the close of 2019. With the labour market still very soft, alongside weakness in manufacturing, we are reassessing our estimate of the impact of the Brazilian government's stimulus in propping up consumption. This implies that consumer demand is likely to close 2020 more strongly than we have expected to this point, but we fear next year's demand is likely to be softer after this stimulus ends.

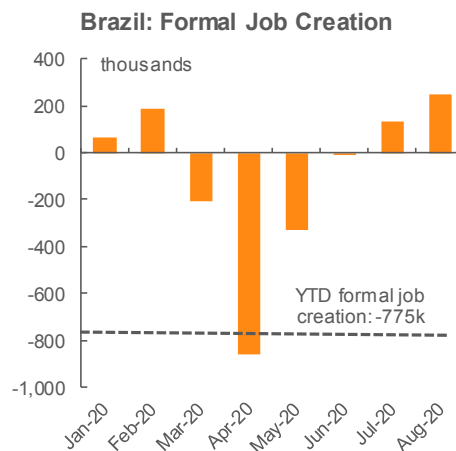
—Eduardo Suárez

Chart 1



Sources: Scotiabank Economics, IBGE.

Chart 2



Sources: Scotiabank Economics, IBGE.

#### CONTACTS

**Brett House, VP & Deputy Chief Economist**  
416.863.7463  
Scotiabank Economics  
[brett.house@scotiabank.com](mailto:brett.house@scotiabank.com)

**Guillermo Arbe**  
51.1.211.6052 (Peru)  
Scotiabank Peru  
[guillermo.arbe@scotiabank.com.pe](mailto:guillermo.arbe@scotiabank.com.pe)

**Mario Correa**  
52.55.5123.2683 (Mexico)  
Scotiabank Mexico  
[mcorrea@scotiabank.com.mx](mailto:mcorrea@scotiabank.com.mx)

**Sergio Olarte**  
57.1.745.6300 (Colombia)  
Scotiabank Colombia  
[sergio.olarte@co.scotiabank.com](mailto:sergio.olarte@co.scotiabank.com)

**Jorge Selaive**  
56.2.2939.1092 (Chile)  
Scotiabank Chile  
[jorge.selaive@scotiabank.cl](mailto:jorge.selaive@scotiabank.cl)

**Marc Ercolao**  
416.866.6252  
Scotiabank Economics  
[marc.ercolao@scotiabank.com](mailto:marc.ercolao@scotiabank.com)

#### TODAY'S CONTRIBUTORS:

**Jackeline Piraján**  
57.1.745.6300 (Colombia)  
Scotiabank Colombia  
[jackeline.pirajan@co.scotiabank.com](mailto:jackeline.pirajan@co.scotiabank.com)

**Miguel Saldaña**  
52.55.5123.0000 Ext. 36760 (Mexico)  
Scotiabank Mexico  
[msaldanab@scotiabank.com.mx](mailto:msaldanab@scotiabank.com.mx)

**Eduardo Suárez**  
52.55.9179.5174 (Mexico)  
Scotiabank Mexico  
[esuarezm@scotiabank.com.mx](mailto:esuarezm@scotiabank.com.mx)

## COLOMBIA: SEPTEMBER'S CONSUMER CONFIDENCE INDEX KEPT IMPROVING

September's Consumer Confidence Index (CCI), released on Thursday, October 8, stood at **-21.6 ppts**, an improvement of **3.8 ppts** from August's level (**-25.4 ppts**). Although September's reading remained fairly deep in pessimistic territory, it improved on better consumer assessments of the country's future (chart 3).

In September, the Current Conditions Index mildly improved to **-57.6 ppts** versus August's **-59.0 ppts**. Additionally, the **Expectations Index** moved into positive territory for the first time since March 2019 at 2.4 ppts (versus the previous -2.9 ppts). It appears that announced re-opening measures were absorbed positively by Colombian households. Additionally, we think that the gradual rebound in the CCI is in line with the August employment figures' positive surprise.

September's consumer confidence numbers improved in three out of five cities surveyed, with **Medellín** and **Barranquilla** leading the gains in perceptions, while **Cali** saw the poorest numbers. In Bogota, sentiment improved slightly, owing to the new announcements of re-opening strategies. Additionally, Bogota showed a substantial increase in consumers' willingness to buy houses, which could be related to subsidies for low-income and middle-income homes.

By socio-economic levels, September's indices painted a broadly improving picture. High-income earners' confidence improved the most, followed by those of low-income and middle-income populations, which is compatible with the increased willingness amongst these cohorts to buy houses, supported by government efforts to subsidize the residential construction sector. On the other side, consumers' inclination to buy vehicles and durable goods—such as furniture and home appliances—remained at historically low levels, which continues to pose a significant challenge for the economic recovery.

September's recovery in consumer confidence is good news and it implies that re-opening announcements are having an effect on expectations. However, there is still a long road ahead. We continue to think that the recovery in economic activity will be gradual rather than following a V-shaped profile.

—Sergio Olarte & Jackeline Piraján

## MEXICO: SEPTEMBER HEADLINE INFLATION COOLED, BUT WAS STILL ABOVE UPPER LIMIT OF BANXICO'S TARGET RANGE

Headline inflation slightly cooled from **4.05% y/y** to **4.01% y/y** in September (versus **3.00% y/y** a year ago), as shown by data released by INEGI on Thursday, October 8 (chart 4). This left the pace of price gains above the upper limit of Banxico's target range (**2.00–4.00% y/y**) for the second time since June 2019. In the details:

- **Core annual inflation increased**—for the fifth consecutive month—from **3.97% y/y** to **3.99% y/y** (versus **3.75% y/y** a year earlier), in contrast to the **non-core component**, which slowed from **4.30% y/y** to **4.10% y/y** (versus **0.71% y/y** in September 2019).
- **On a sequential basis, September headline inflation (0.23% m/m)** came in below the consensus expectation (**0.28% m/m**) and below the **0.26% m/m** recorded a year ago (chart 5).
- **Core monthly inflation stayed at 0.32% m/m**, in line with analysts' consensus of **0.31% m/m** and the **0.32% m/m** recorded in August. Merchandise price inflation

Chart 3

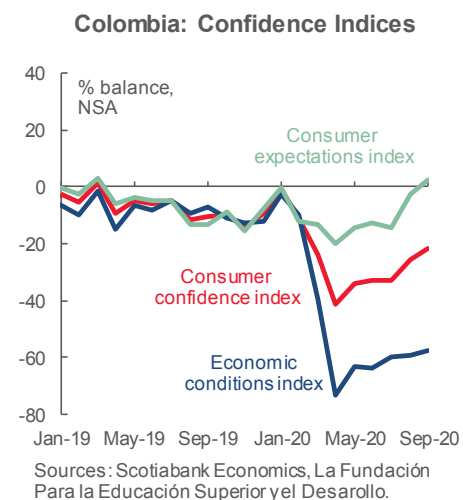
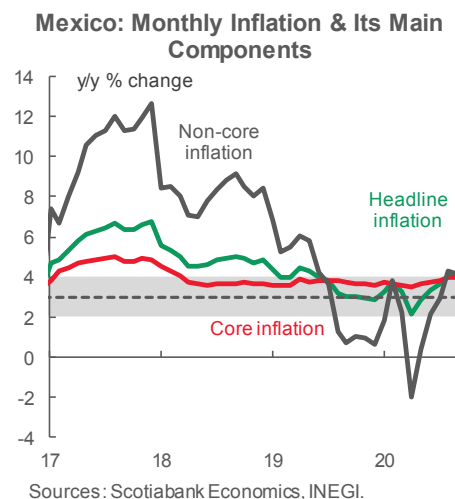


Chart 4



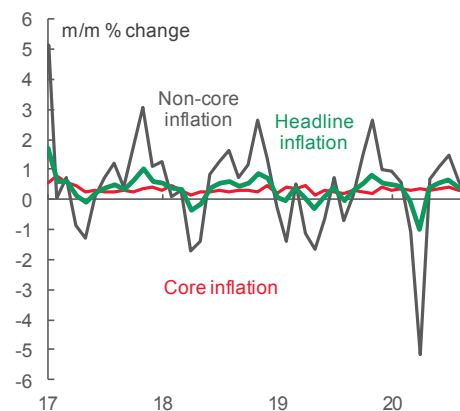
(0.42% m/m) contributed the most to the headline inflation reading; however, there are signs of stabilization in this item. Meanwhile, services inflation (0.20% m/m) remains moderate, but it has slowed its downward trend as the sector gradually re-opens.

- **On the other hand, the non-core component fell -0.04% m/m, down markedly from the 0.63% m/m reading in August (and 0.15% m/m in September 2019).** The drop was driven by the decline in energy prices (-0.33% m/m), in line with the decrease observed in oil prices in September. The lower pace observed in agricultural price inflation also contributed to this decline, going from 2.97% m/m in August to 0.00% m/m in September.

INEGI also published the sub-index of the prices for items in the **Minimum Consumption Basket, which is made up of 176 products and 299 generic services.** The goods and services considered come from the basket used by the National Council for the Evaluation of Social Development Policy (Coneval) for the multi-dimensional measurement of poverty. Prices in the Minimum Consumption Basket registered a variation of 0.33% m/m and 4.47% y/y in September; in September 2019 the corresponding figures were 0.30% m/m and 2.44% y/y.

In Banxico's August [Quarterly Inflation Report](#), the Bank incorporated into its forecasts a short-term increase in inflation, but it expects the rise to be transitory and to begin subsiding by mid-2021, thereby returning to levels close to the 3% target over the long term. Our most recent forecasts, published in the October 4 [Latam Weekly](#), anticipate a little more price stickiness.

Chart 5

**Mexico: Headline & Core Inflation**


Sources: Scotiabank Economics, INEGI.

—Miguel Saldaña

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