Latam Daily: Colombia Inflation Expectations & Rate Calls Remain Stable

- **Argentina: August retail sales add stale data on recovery**
- **Colombia: October's Citi survey shows consensus on rate stability**
- **Mexico: Pace of recovery softened in August**

ARGENTINA: AUGUST RETAIL SALES ADD STALE DATA ON RECOVERY

Retail data for August, published on Monday, October 26, confirmed what we already knew from the EMAE monthly GDP proxy that came out on Thursday, October 22: Argentina's recovery firmed a touch in August, but Q3 remains on track to be down -10% y/y compared with the same quarter in 2019. Supermarket sales levels slipped back below 2019 benchmarks, coming down from being up 0.95% y/y in July to down -5.66% y/y in August (chart 1). Shopping centre sales came up a touch in their annual comparison, from -83.3% y/y in July to -79.0% y/y in August, but that was basically treading water. In short, industry, construction, and some agriculture—not consumption—are driving the leading edge of Argentina's recovery.

—Brett House

COLOMBIA: OCTOBER'S CITI SURVEY SHOWS CONSENSUS ON RATE STABILITY

October's Citi Survey, which BanRep uses as one of its measures of expectations of inflation, the monetary policy rate, GDP, and the COP, came out on Monday, 26 October. Key points included:

- **Growth forecasts were mildly revised.** For 2020, a contraction of -6.89% y/y, 0.8 ppts weaker than last month's survey reading of -6.81%, is now expected. In 2021, the recovery is anticipated to hit a pace of 4.67% y/y, above the previous survey's 4.49% y/y consensus. We expect -7.5% y/y in 2020 and a rebound to 5.0% y/y in 2021.

- **Inflation expectations rose, although the pace of price increases is still expected to remain below the central bank's target range (2%–4%) in 2020, but it would return to the range in 2021.** October's monthly inflation rate is, on average, expected to be 0.14% m/m and 1.95% y/y; we expect 0.16% m/m and 1.97% y/y owing to offsetting forces between reduced education-sector inflation and faster inflation in foodstuffs and utility fees. For December 2020, the survey's average projection for headline inflation is 1.89% y/y, unchanged from the September survey; we forecast 2.0% y/y. By December 2021, inflation is expected to hit 2.87% y/y, above the 2.27% y/y average projection in the previous survey; again, our forecast is a bit higher at 3.0% y/y (see the October 18 *Latam Weekly*).

- **Market consensus points to rate stability.** Notably, 100% of analysts surveyed project a pause at 1.75% at the next meeting on Friday, October 30. By December 2020 monetary policy rate is still expected to remain at 1.75%, as is the case in our forecasts. In 2021, consensus anticipates one 25 bps

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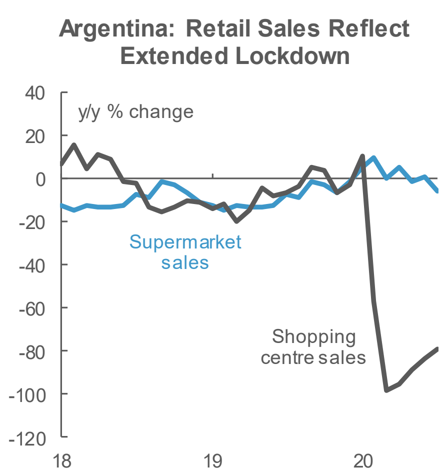
Chart 1



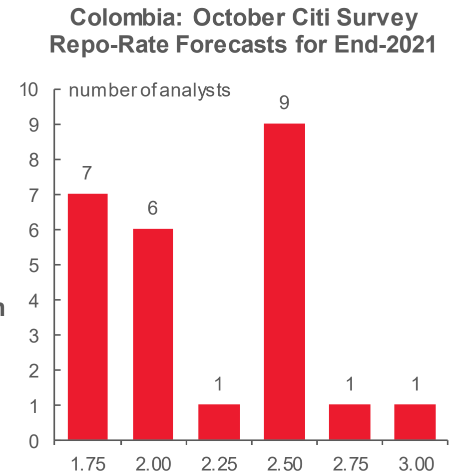
Sources: Scotiabank Economics, INDEC.

hike; although analysts' projections are dispersed between stability and 125 bps of hikes, the mode is at 2.50% (chart 2). Our forecast anticipates four hikes in the second half of 2021 to take the policy rate to 2.75% (again, see the October 18 *Latam Weekly*).

- **The USDCOP forecasts point to relatively stable currency through December 2020 and a COP appreciation in 2021.** On average, respondents expect a level of USDCOP 3,716 by the end of 2020 and USDCOP 3,582 in 2021. Our forecasts anticipate a touch more COP strength with USDCOP 3,654 at end-2020 and USDCOP 3,450 at end-2021.

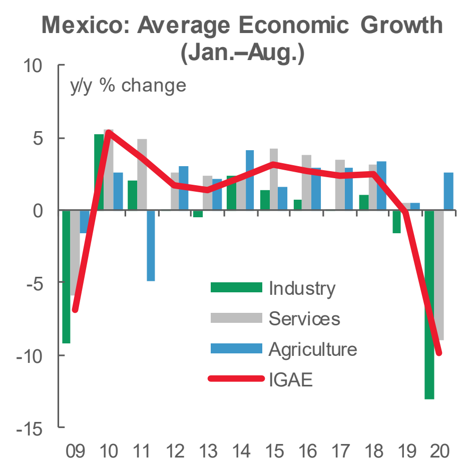
—Sergio Olarte & Jackeline Piraján

Chart 2



Sources: Citi Survey, Scotiabank Economics.

Chart 3



Sources: Scotiabank Economics, INEGI.

MEXICO: PACE OF RECOVERY SOFTENED IN AUGUST

The August Global Indicator of Economic Activity (IGAE), published by INEGI on Monday, October 26, showed a marked—and expected—softening in the pace of Mexico's economic recovery. In seasonally-adjusted sequential terms, growth slowed from 5.69% m/m in July to 1.07% m/m in August, below the Bloomberg consensus of 1.70% m/m. This kept the annual comparison broadly unchanged, narrowing only slightly from -9.84% y/y in July to -9.45% y/y in August, a touch worse than the -8.30% y/y expected by the market, but stronger than the -10.5% y/y we forecast in the October 18 *Latam Weekly*.

Mexico's monthly GDP proxy arrives with such a long lag that the August print is stale: it came in only four days ahead of Friday's scheduled release of preliminary Q3 GDP numbers. Still, it's worth digging into a few of the August IGAE details:

- **Recall that Mexico's decline in economic activity predated the arrival of the pandemic:** August marked the eight month in a row that the IGAE was lower than a year before, and the 15th of 17 months in which this has been the case.

- At the sector level, the leading edge of the **industrial recovery** slowed from 7.1% m/m in July to 3.3% m/m in August. Industrial activity was down compared with the year before for an 18th straight month, but it pared its losses from -11.4% y/y in July to -9.0% y/y in August.

- In **services**, growth also slowed from 4.7% m/m in July to 0.4% m/m in August. The annual comparison remained off by -10.2% y/y, the same as in July. This made for a sixth straight month of annual losses, and eight in the last 10 months.

- The **agricultural sector** saw a contraction in August, reversing from 14.0% m/m growth in July to a sequential shrinkage in activity of -5.9% m/m in August. In annual terms, the August pullback brought the sector's gains down from 11.0% y/y in July to 5.2% y/y in August.

- Thus, **in January–August, the IGAE averaged a decline of -9.9% YTD,** the largest drop this period in the last 25 years—continuing a YTD trend of the last few months (chart 3).

Considering the poor performance to date of gross fixed investment and private consumption, as well as the uncertainty surrounding the evolution of the COVID-19 pandemic, we continue to project that Mexico's level of overall economic activity will remain below 2019 watermarks through end-2020 and rebound moderately only in 2021.

—Miguel Saldaña