Latam Economic Update

- **Brazil: Growth shows good start to Q3**
- **Colombia: July's coincident indicator recovery slowed by regional quarantines**
- **Mexico: Formal job creation rebounded in August**

BRAZIL: GROWTH SHOWS GOOD START TO Q3

July economic activity in Brazil landed in between consensus and our own call in its print on Monday, September 14. While consensus looked for an improvement from the -7.05% y/y print we got in June, to a -5.3% y/y rate, we expected a stronger -4.2% y/y. The actual print came in at -4.89% y/y (chart 1).

Continued positive surprises on the growth front, alongside higher inflation (though it remains anchored and materially below the BCB's target at 2.44% in August) have increased the risk that our call for a final -25 bps cut in the Selic rate to 1.75% will not materialize. Based on the BCB's communications, the likely outcome from the Copom meeting on Wednesday is a hold or one final cut. All economists surveyed by Bloomberg think the easing cycle is over. Our sense is the decision will hinge on whether the BCB wants to send a message of prudence or if it wants to send a message that its prioritizing growth in the current uncertain times.

Fiscal policy remains an uncertain part of the BCB debate on how much easing room remains without risking financial stability. The transition from Bolsa Familia (BRL 89/mo. transfers for 14 mn households) to Renda Familia (BRL 250–300/mo. transfers for an expected 24 mn households) still has moving parts.

—Eduardo Suárez

COLOMBIA: JULY'S COINCIDENT INDICATOR RECOVERY SLOWED BY REGIONAL QUARANTINES

On Monday, September 14, DANE released real retail sales and real manufacturing production data for July; both indicators implied that the economic recovery slowed due to regional governments' pandemic restrictions. Real retail sales declined by -12.4% y/y, similar to the -12.5 % y/y expected (chart 2), while real manufacturing production fell by -8.5% y/y (chart 3), worse than consensus expectations (-4.6% y/y). In August, Colombia's main cities implemented similar lockdown measures to those we saw in July. As a result, we expect the coincident indicator to show some stagnation next month; however, September should see some improvement.

Although the national government allowed more than 85% of the economy to operate in July, local lockdown measures weighed on the economic recovery. The most restrictive measures were in Bogota and Antioquia, which contributed the most to the contractions in the July numbers. Prospects for further

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

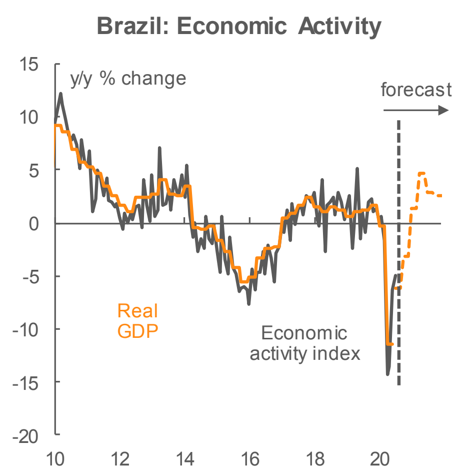
TODAY'S CONTRIBUTORS:

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

Eduardo Suárez
52.55.9179.5174 (Mexico)
Scotiabank Mexico
esuarezm@scotiabank.com.mx

Chart 1

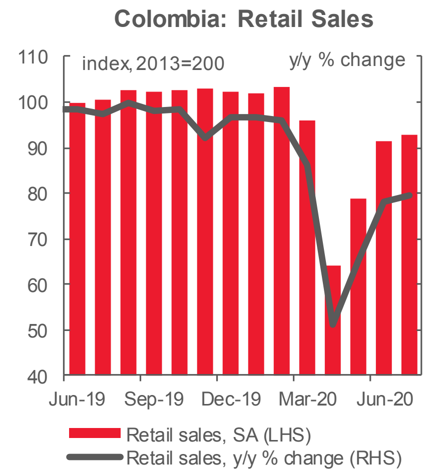


Sources: Scotiabank Economics, IBGE.

recovery should be stronger in September as the country entered a "new normal" with broader re-opening measures. For now, July's results are aligned with our Q3 GDP growth expectations (-9.3% y/y).

On the retail sales side, gasoline (-19.7% y/y), other vehicles (-39.1% y/y), and vehicles for domestic use (-30.6% y/y) accounted for 80% of the contraction in July. These contractions were directly related to mobility restrictions and weaker demand due to the main cities' lockdown measures. Consumer staples continued to perform well, with foodstuffs (up 0.6% y/y) and cleaning products (up 20.7% y/y) leading the way. Retail sales have contracted by -11.9% y/y year-to-date.

Chart 2



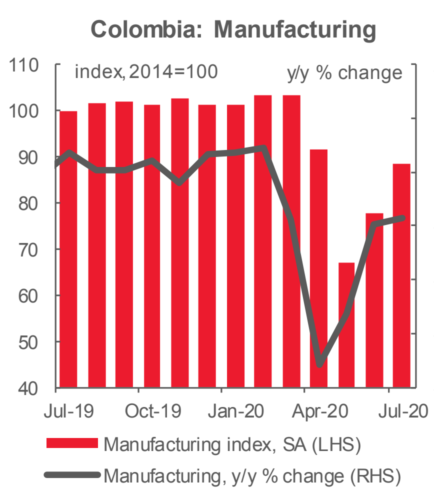
Sources: Scotiabank Economics, DANE.

On the manufacturing side, production in 32 out of 39 sub-sectors fell in y/y terms in July. Four sectors accounted for half of the contraction. Beverages (-11.4% y/y), oil refining (-15.9% y/y), clothing manufacturing (-29.4% y/y), and vehicles (-49.1% y/y) were the worst-performing sectors. The municipal-level COVID-19 control measures hit demand for alcoholic beverages and fuel oil. On the other side, the clothing sector accounted for two-thirds of employment losses in the month, particularly in temporary jobs. It is worth noting, that the manufacturing decline is equivalent to a shutdown of around 2.8 business days in July, a bit smaller than our estimate for the extent of June's closure (3.3 days). Manufacturing has contracted by -11.8% y/y year-to-date.

July's indicators was broadly in line with our expectations and affirm that the economic recovery is still strongly dependent on the lockdown measures—but better numbers should lie ahead. Energy demand (chart 4) and card transactions (chart 5) imply, respectively, that manufacturing growth and retail activity are likely to remain subdued in August, but September should see a more robust rebound.

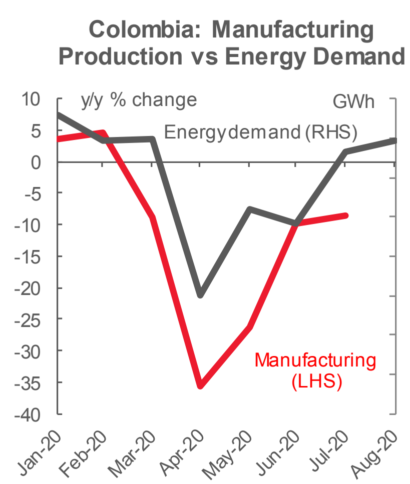
Economic data support BanRep's still-gradual approach in adjustments to the monetary policy rate. We think BanRep will cut the monetary policy rate by -25 bps to 1.75% at the September 25 meeting.

Chart 3



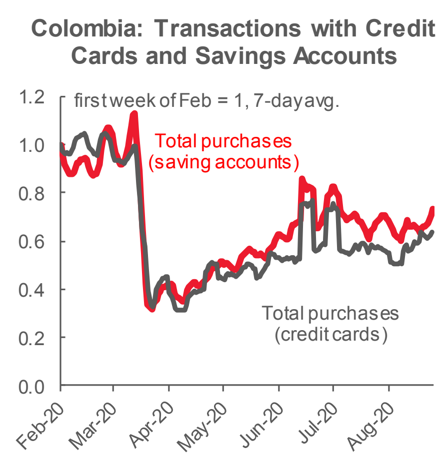
Sources: Scotiabank Economics, DANE.

Chart 4



Sources: Scotiabank Economics, DANE, XM.

Chart 5



Sources: Scotiabank Economics, Scotiabank Colpatria data.

—Sergio Olarte & Jackeline Piraján

MEXICO: FORMAL JOB CREATION REBOUNDED IN AUGUST

Formal job creation rebounded in August, according to IMSS data released on Saturday, September 12, but continued to report losses for the January–August period.

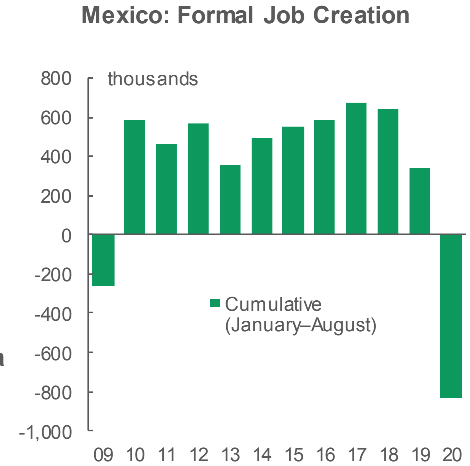
The number of urban jobs affiliated to the social-security system summed up to 19.6 mn in August, below 20 mn for a fifth consecutive month. This represented the first monthly increase in the last six months, for a gain of 92,390 jobs. However, in the first eight months of 2020, a total of 833,100 jobs were lost (chart 6), and, over the last year some 833,688 positions were eliminated, the worst numbers since at least 1998.

IMSS wage data also reported a nominal increase of 6.4% y/y. In real terms, base salary growth for formal workers moderated from 2.7% y/y in July to 2.3% y/y.

We maintain our expectations of a modest pace of job creation for the coming months.

—Miguel Saldaña

Chart 6



Source: Scotiabank Economics, STPS.