

Tracking activity:
Towards over-adjustment in the absence of a
prompt response of monetary policy

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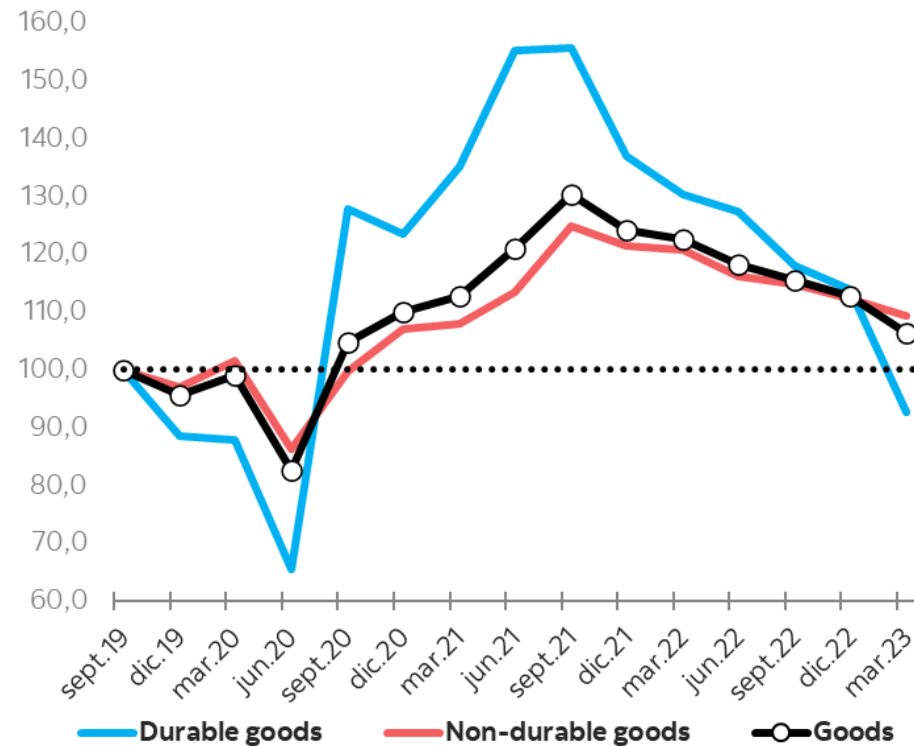
Key messages

- **We forecast a (mild) technical recession in Q3-23.** Negative y/y quarterly GDP growth the whole year with a contraction of 0.8% in 2023. In the short-run, we forecast monthly GDP growth between -1.5/-0.5% y/y in May.
- **National Accounts revealed a fall in private consumption of 9.5% (SAAR) last quarter while durable goods collapsed 56% and non-durable goods 10%.** Our high-frequency data suggest that the slowdown process has continued in Q2-23. **This is not only a story of durable goods as has been mentioned by some observers.** The resilience in the consumption of services was explained by travel expenditure during Jan./Feb.; a response that seems natural as the first summer without any restriction to mobility.
- **We forecast Retail Sales decreasing 11% y/y in May (-1.5% m/m) and 1st week of June confirms that no recovery is observed for now.** As we anticipated, a rapid adjustment in the current account deficit is already underway and is no longer a concern (we forecast a CA deficit of 2% of GDP in 2023).
- **We continue to forecast headline inflation of 3.7% in 2023** driven by declining tradable inflation and weak private consumption.
- **The Central Bank's new baseline scenario will revise downward headline inflation 2023 and, consequently, the monetary policy rate corridor closer to Scotiabank's view.** Remarkably, most measures of two-year inflation expectations will return to (or will be very close to) 3% before June's monetary policy meeting.

Broad adjustment in consumption of goods. After stability in the second half of 2022, commerce resumes its downward trend (-4.1% in the last two months).

Consumption of goods

(level, real, index Sep.2019=100, seasonally adjusted, quarterly data)



GDP of Commerce

(level, real, index 2018=100, seasonally adjusted, monthly data)

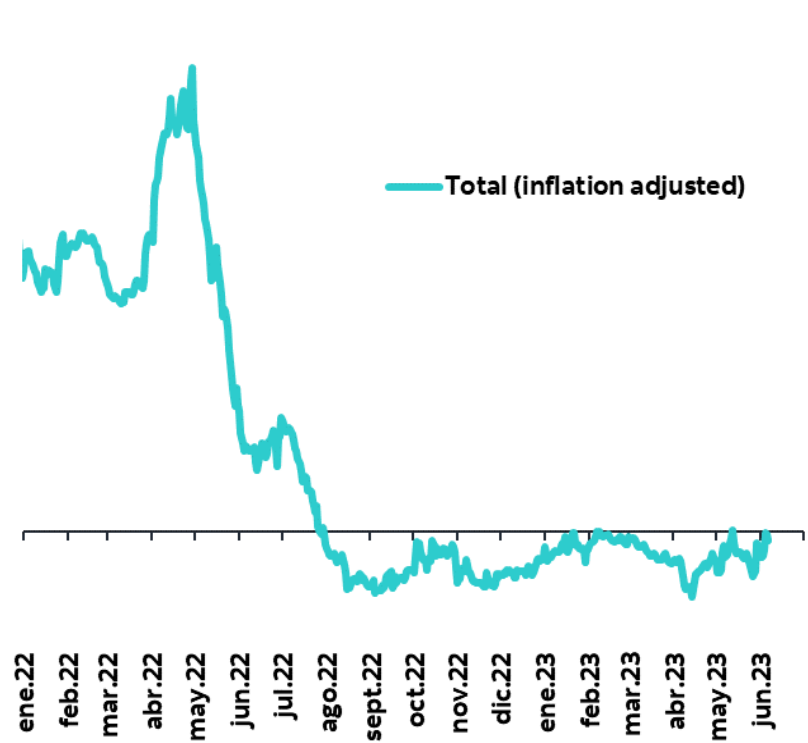


Source: Central Bank, Scotiabank Economics

Private consumption without support in sight

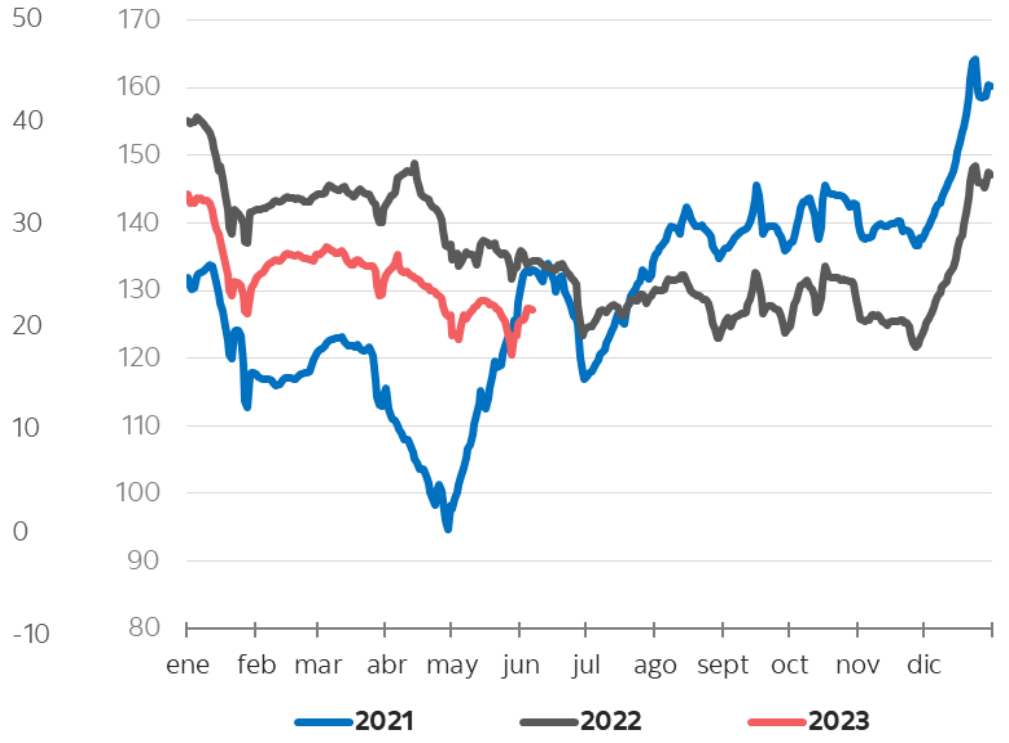
Purchases with credit and debit cards

(%, real annual growth, 28-day mov. avg., up to June 6)



Purchases with debit cards

(level, real, index 1-Jan-2020=100, 28-day moving sum, up to June 6)

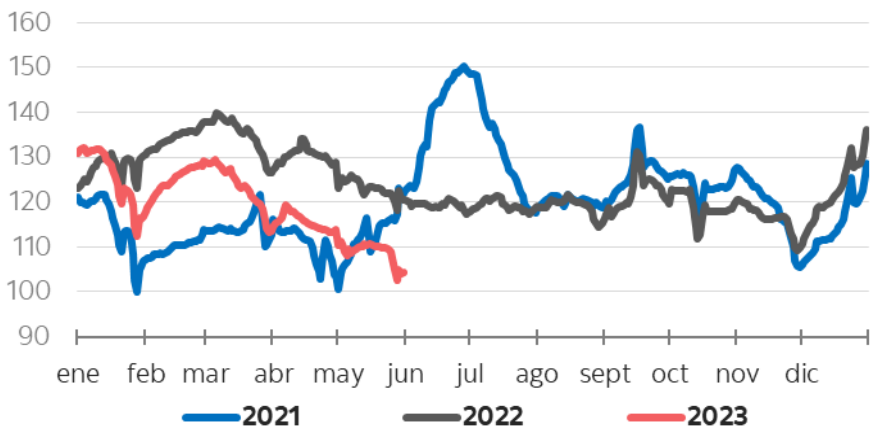


Source: Scotiabank Economics

Drop in consumption is not only a story of durable goods

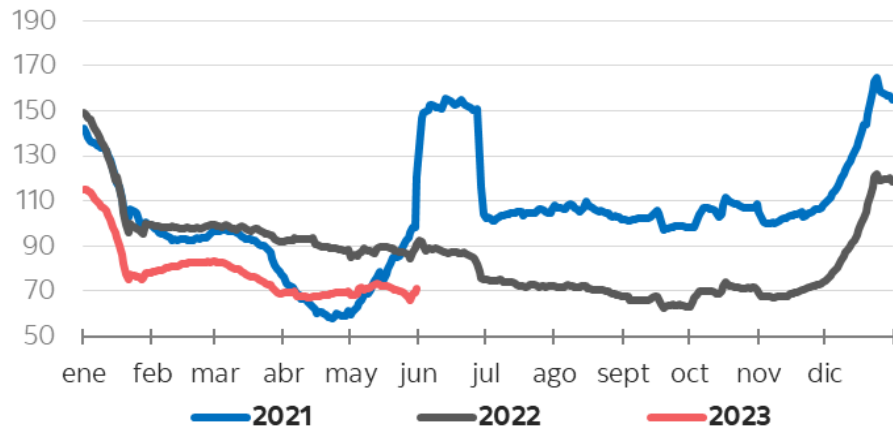
Supermarkets

(level*, index 1-Jan-2020=100, 28-day moving sum, up to May 31)



Department stores

(level*, index 1-Jan-2020=100, 28-day moving sum, up to May 31)



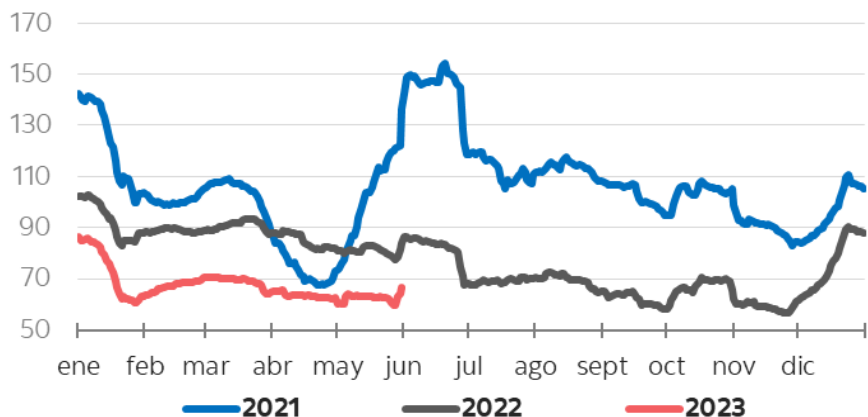
- Supermarket sales worsening.
- Department stores affected by weak demand.

* Data show purchases with debit cards. Inflation-adjusted index.
Source: Scotiabank Economics

Worsening in purchases of semi-durable goods

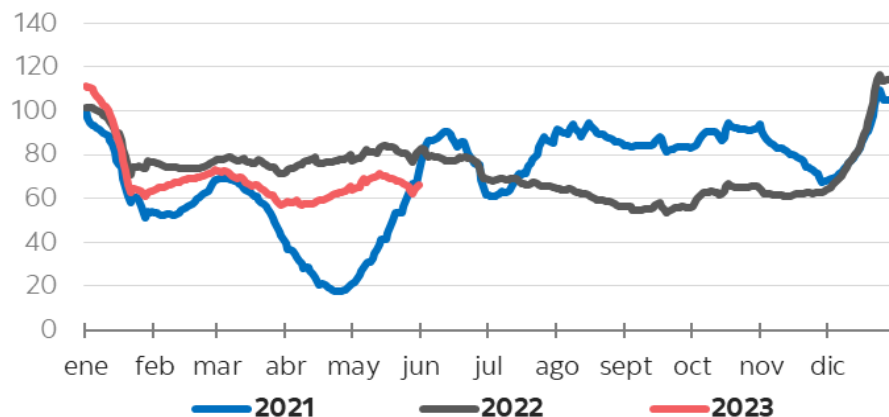
Electronic stores

(level*, index 1-Jan-2020=100, 28-day moving sum, up to May 31)



Clothing and footwear

(level*, index 1-Jan-2020=100, 28-day moving sum, up to May 31)



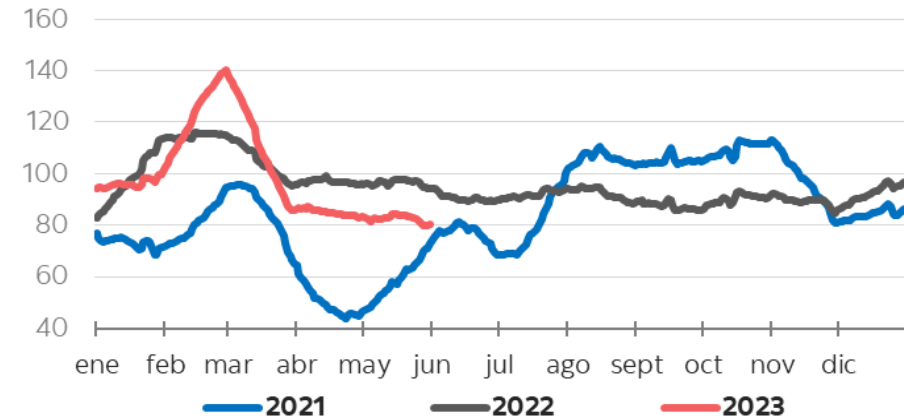
- **Drop in demand of durable goods (cars and electronics).**
- **Clothing and footwear purchases decreasing in the margin.**

* Data show purchases with debit cards. Inflation-adjusted index.
Source: Scotiabank Economics

Service spending in sharp decline

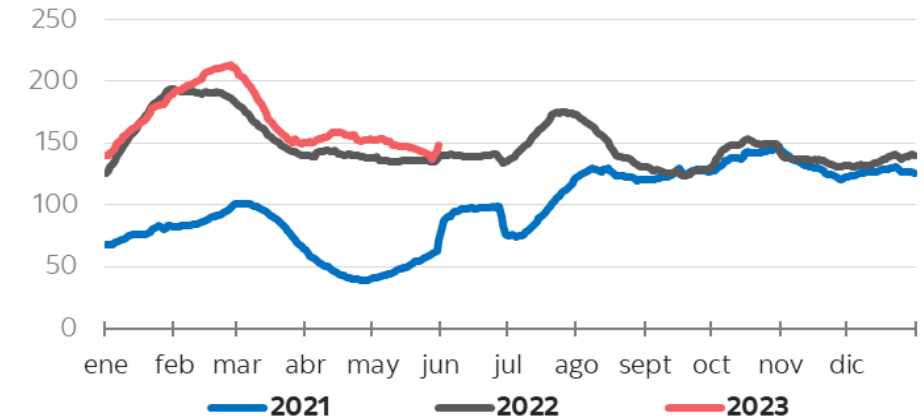
Restaurants

(level*, index 1-Jan-2020=100, 28-day moving sum, up to May 31)



Tourism travel

(level*, index 1-Jan-2020=100, 28-day moving sum, up to May 31)

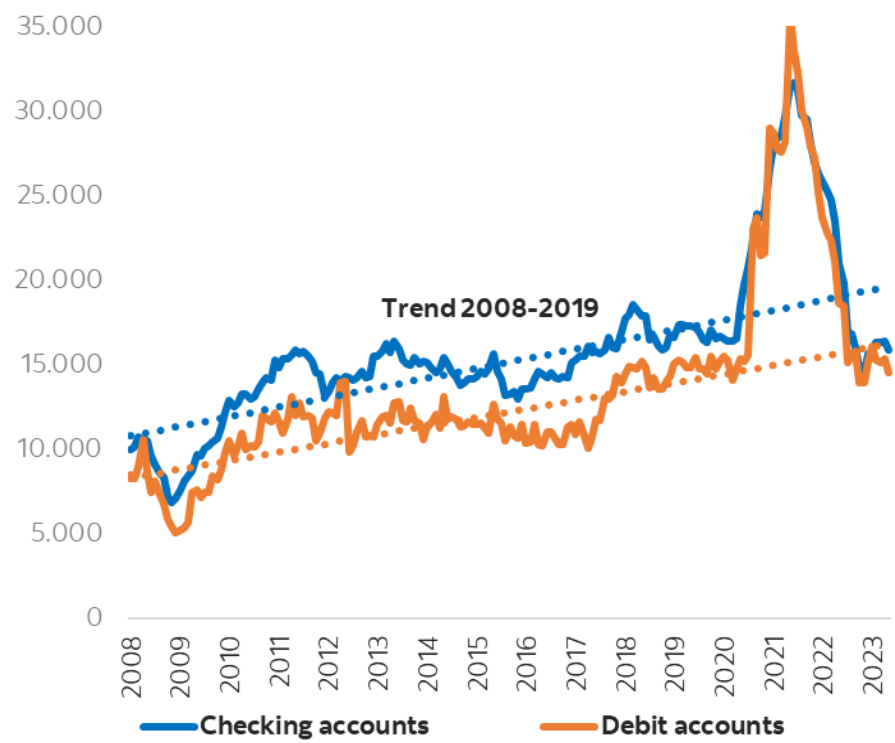


- Restaurant spending falls to 2021 levels.
- Travels remain the most dynamic service sector, but shows normalization in the margin, with zero annual growth.

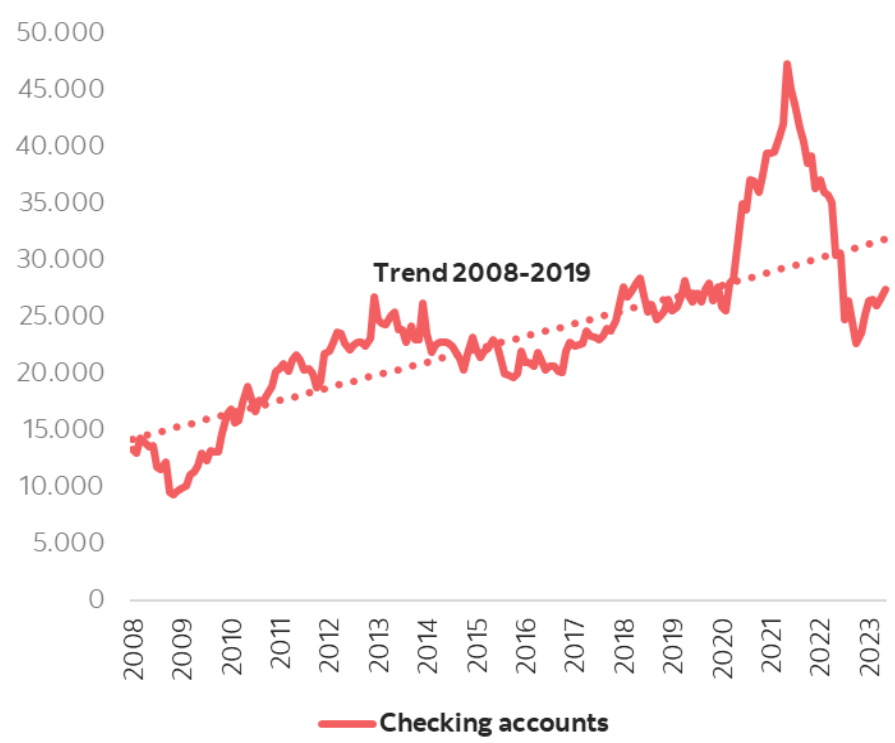
* Data show purchases with debit cards. Inflation-adjusted index.
Source: Scotiabank Economics

High short-term interest rates drained liquidity, encouraging greater household saving. Term deposits (<90 days) reaching fresh highs.

Liquidity in non-remunerated accounts: people
(millions of USD, natural persons, as of May 2023)



Liquidity in non-remunerated accounts: firms
(millions of USD, firms, as of May 2023)

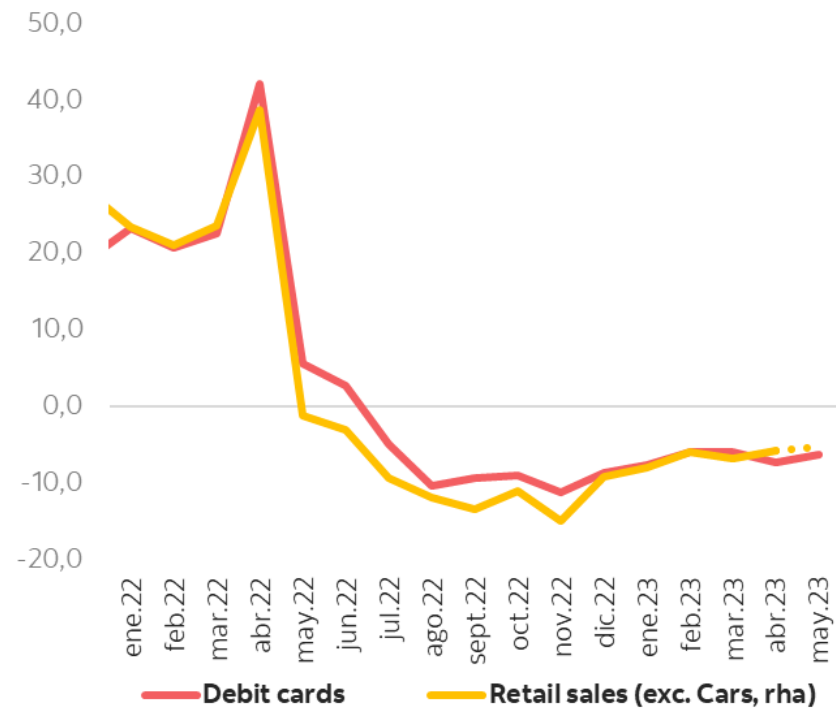


Source: Central Bank, Scotiabank Economics

Retail sales fell 10.7% y/y in April. For May, we forecast a drop of 11% y/y. Car sales and imports show signs of overadjustment.

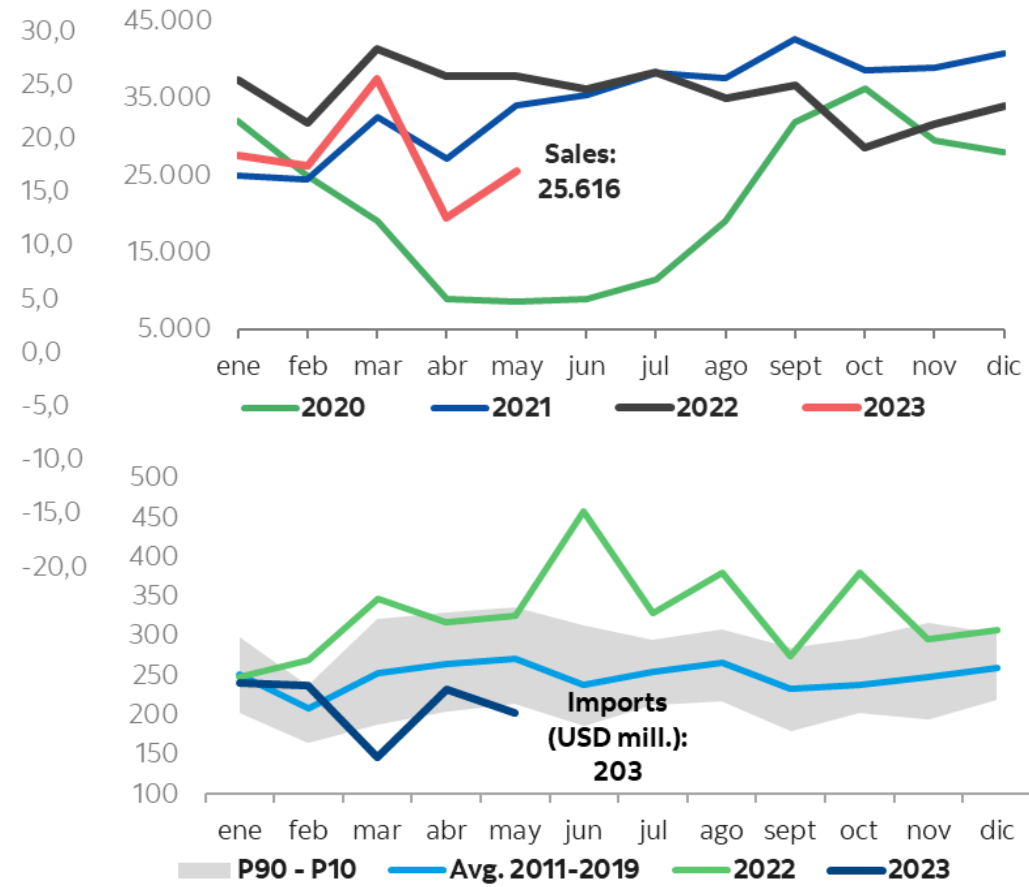
Retail sales (INE) vs Transactional data*

(percentage, annual growth)



New cars: sales & imports

(Sales: units per month; Imports: USD millions per month)

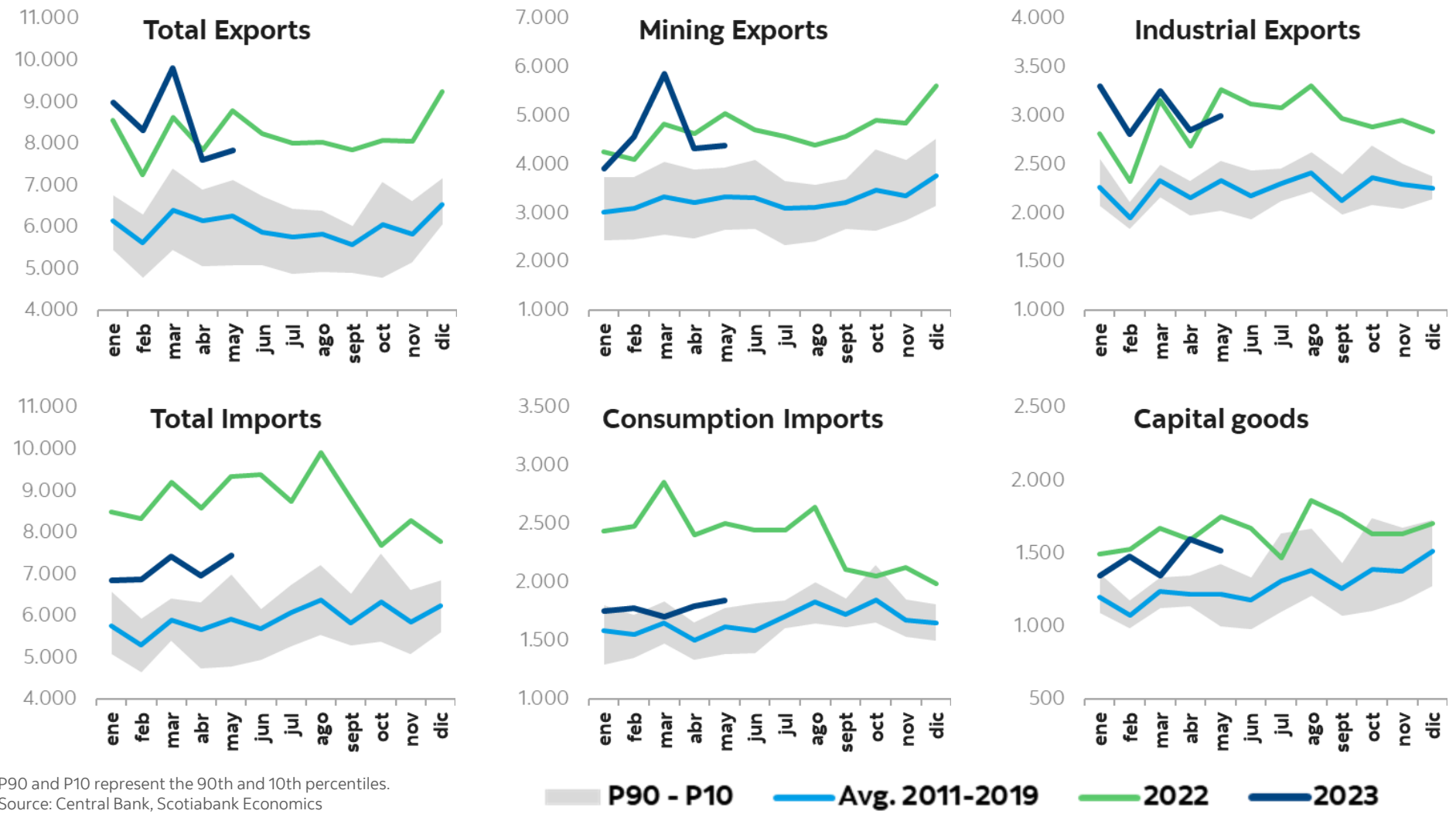


* This figure compares the INE's monthly retail sales indicator with our data on total purchases with debit cards reported in previous slides.
Source: National Bureau of Statistics (INE), ANAC, Central Bank, Scotiabank Economics

Resilient exports but imports are fading out. We forecast CA deficit close to 5% of GDP in Q2 2023.

Monthly flow of Exports and Imports

(level, USD millions per month)

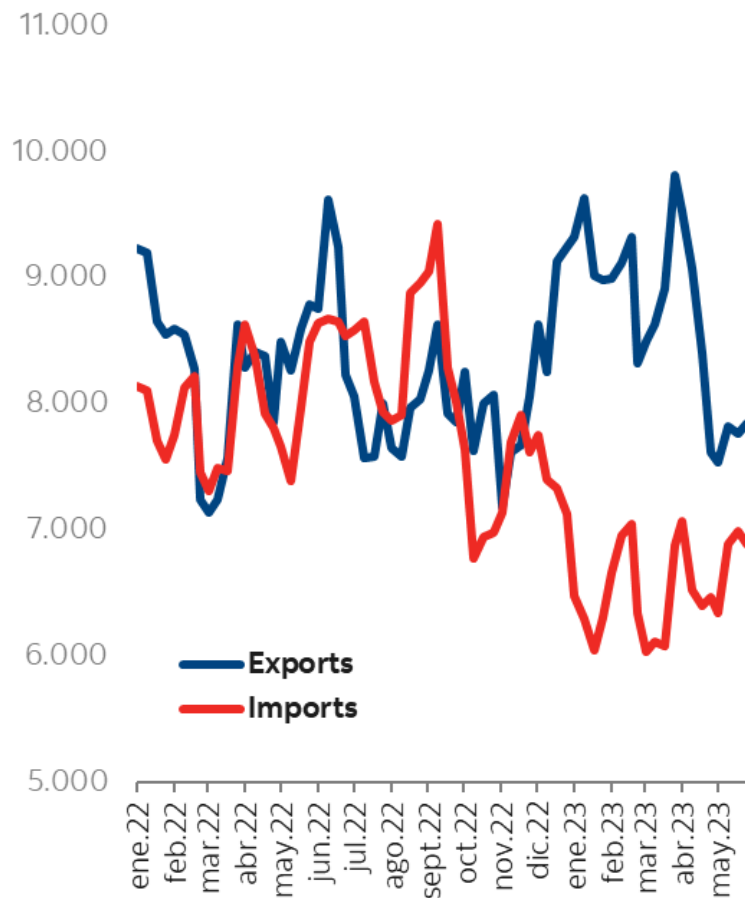


P90 and P10 represent the 90th and 10th percentiles.
 Source: Central Bank, Scotiabank Economics

Convergence of the current account towards a sustainable level sooner than later. Freight cost normalization is favoring a reduction in trade balance of services.

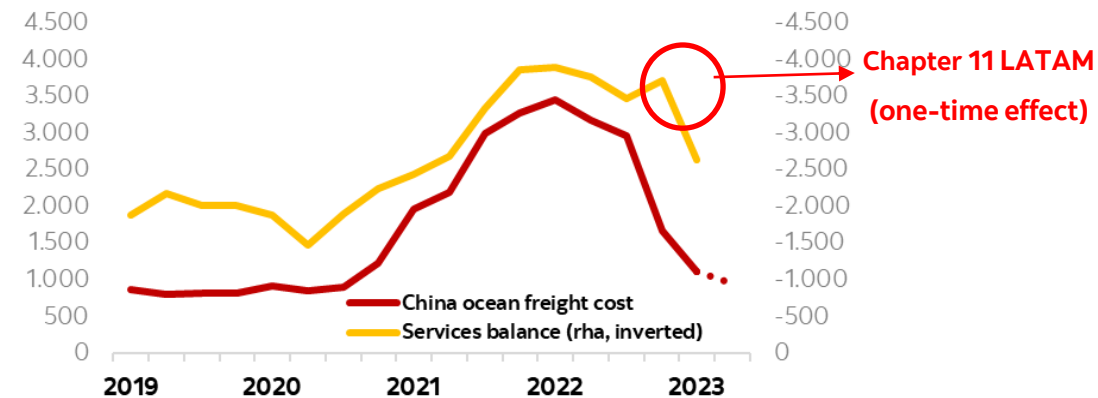
Exports and Imports of goods

(level, USD millions, 1-month accum., weekly data)



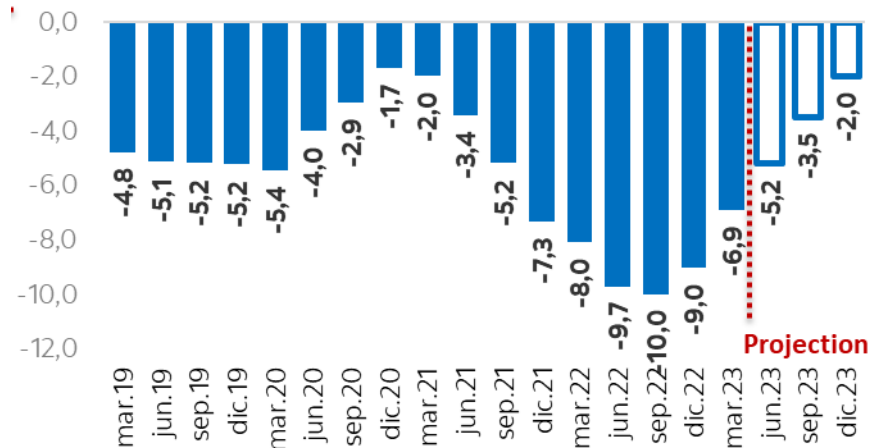
Freight cost and Balance of services

(USD million & index in USD)



Current Account deficit

(% of GDP, accum. last 12 months)

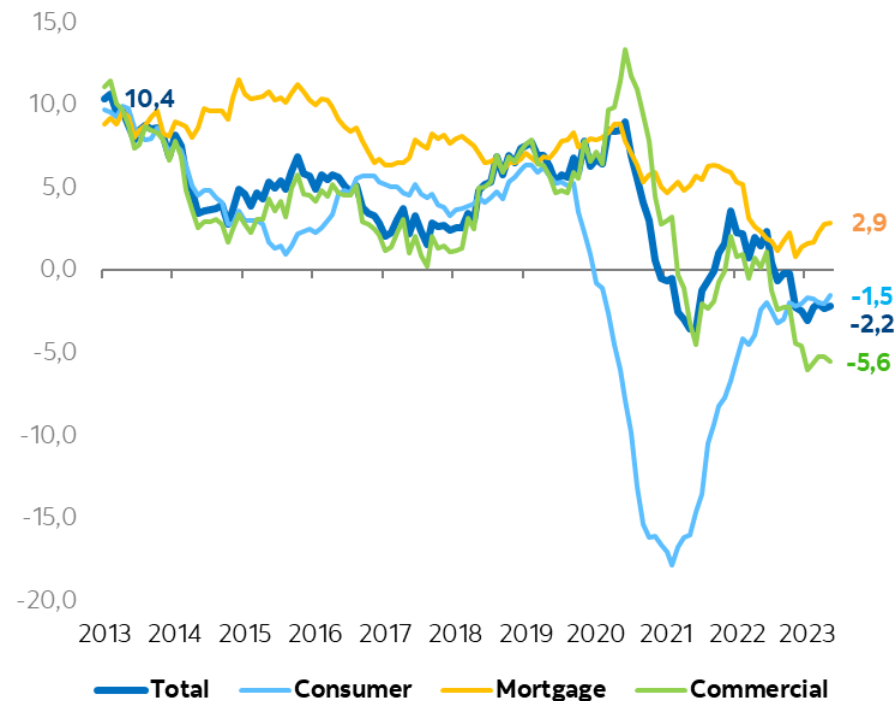


Source: Central Bank, Scotiabank Economics

Banking credit partially flat in May amid tight supply and weak demand. High interest rates and a sluggish labor market have prevented a counter-cyclical credit flow.

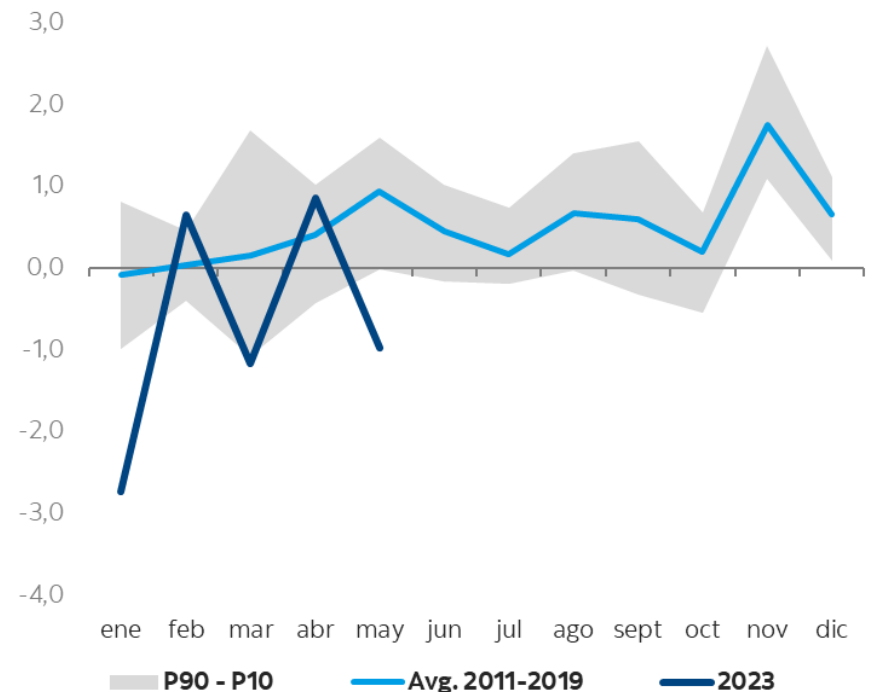
Loans by segment

(percentage, real annual growth)



Monthly dynamism of commercial loans

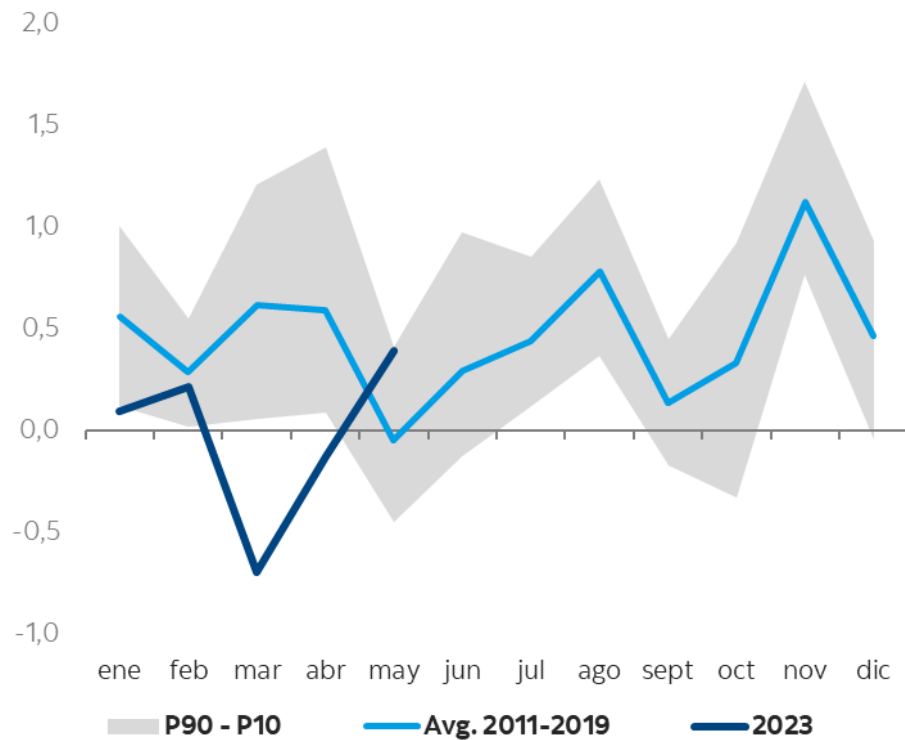
(percentage, real monthly growth)



Credit supply conditions remain restrictive, but consumer and mortgage lending are (slowly) recovering.

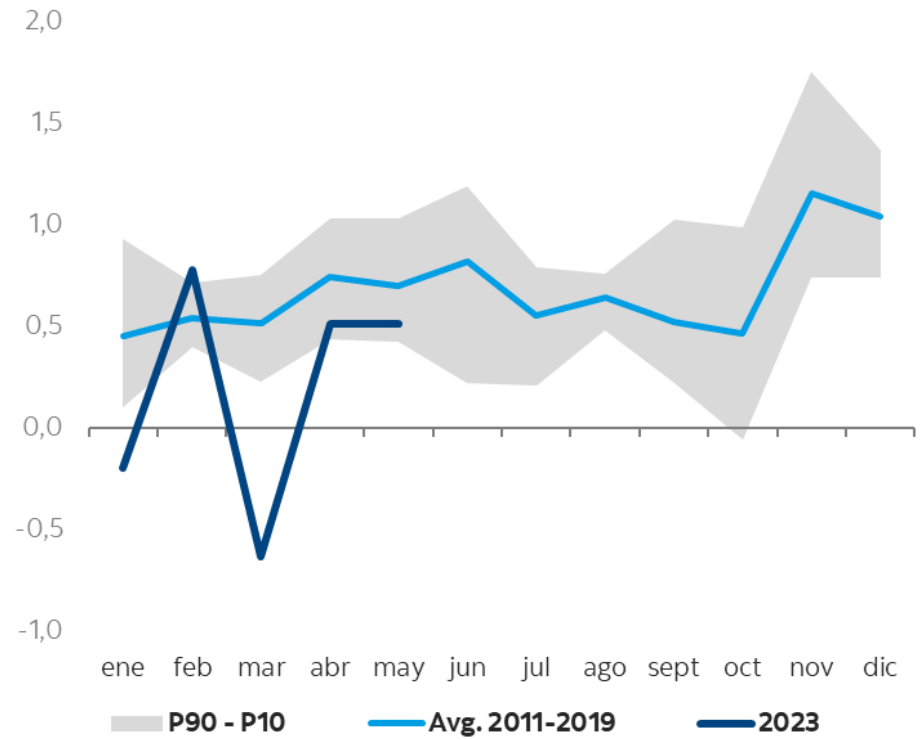
Monthly dynamism of consumer loans

(percentage, real monthly growth)



Monthly dynamism of mortgage loans

(percentage, real monthly growth)

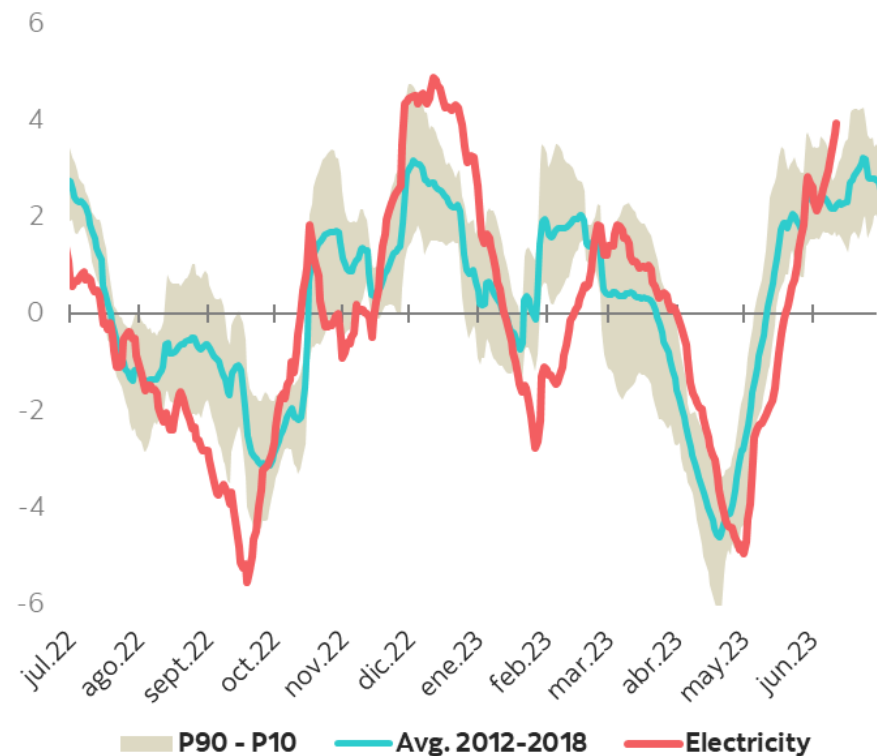


Source: Central Bank, Scotiabank Economics

Electricity demand confirms low dynamism in May.

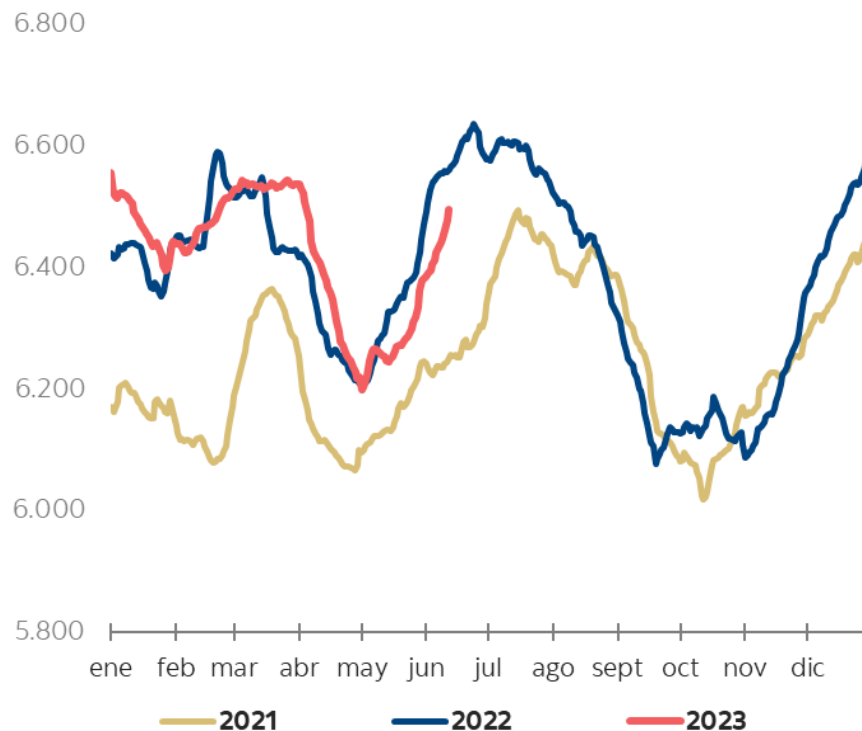
Monthly growth of electricity generation

(percentage, monthly growth, 28-day accum., up to June 12)



Level of electricity generation

(percentage, annual growth, 28-day accum., up to June 12)

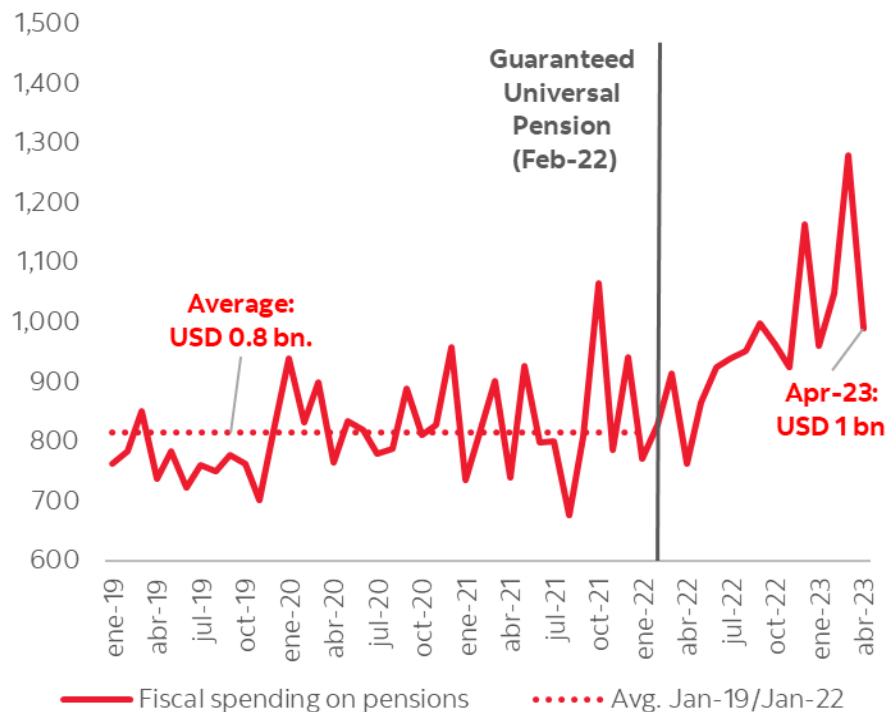


P90 and P10 represent the 90th and 10th percentile.
Source: Coordinador Eléctrico, Scotiabank Economics

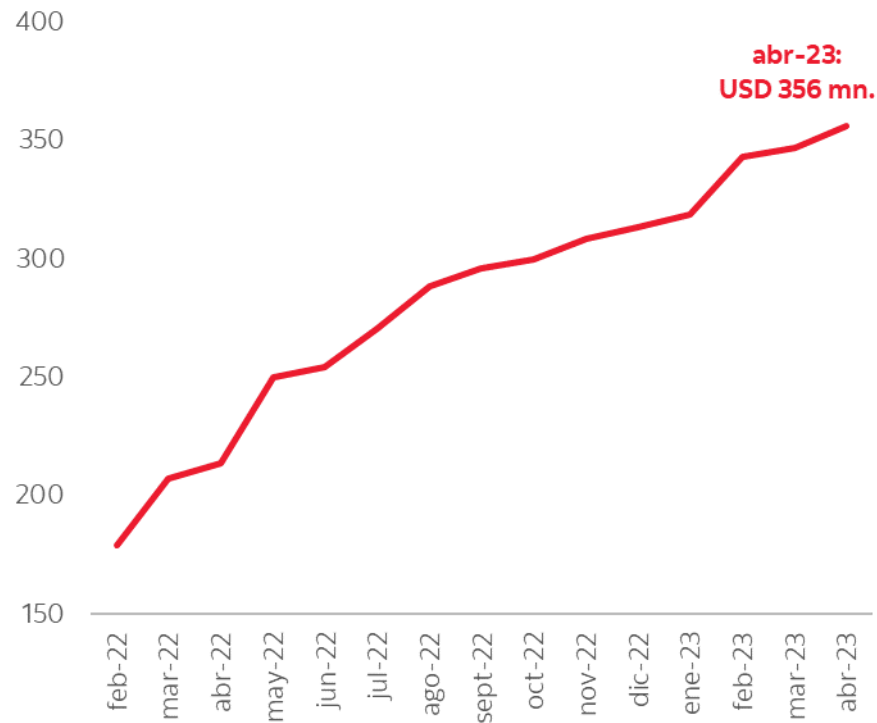
Strong acceleration in fiscal spending (Universal Guarantee Pension) has given support to commerce/consumption in recent months.

Fiscal spending on pensions

(USD mn, inflation adjusted)



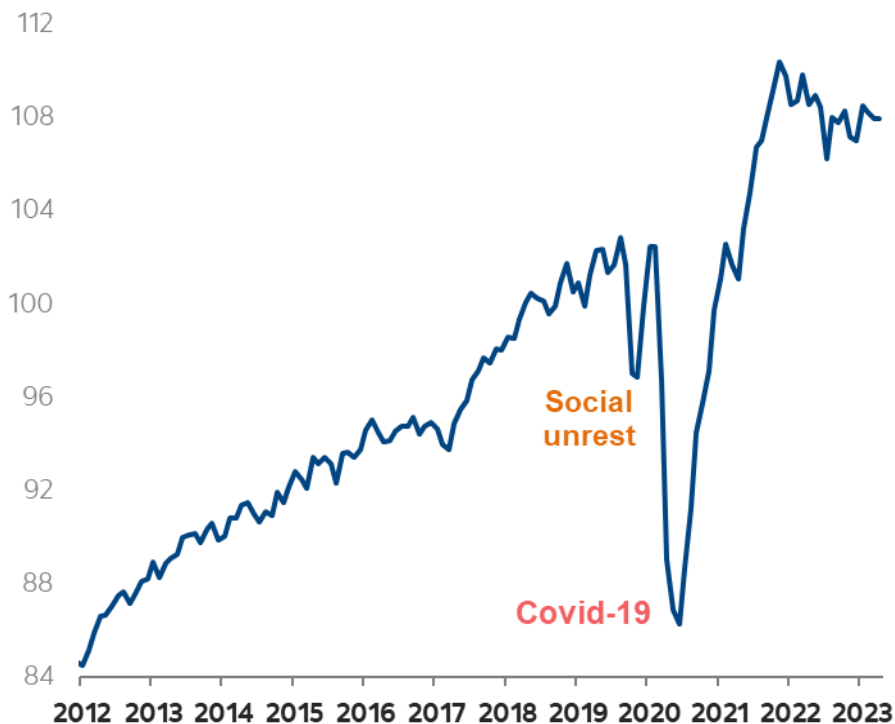
Fiscal spending on Guaranteed Universal Pension (PGU) (USD mn, nominal)



March Imacec will have a contraction between -1.5 and -0.5% y/y with a monthly drop in the range of -1 to 0% (m/m).

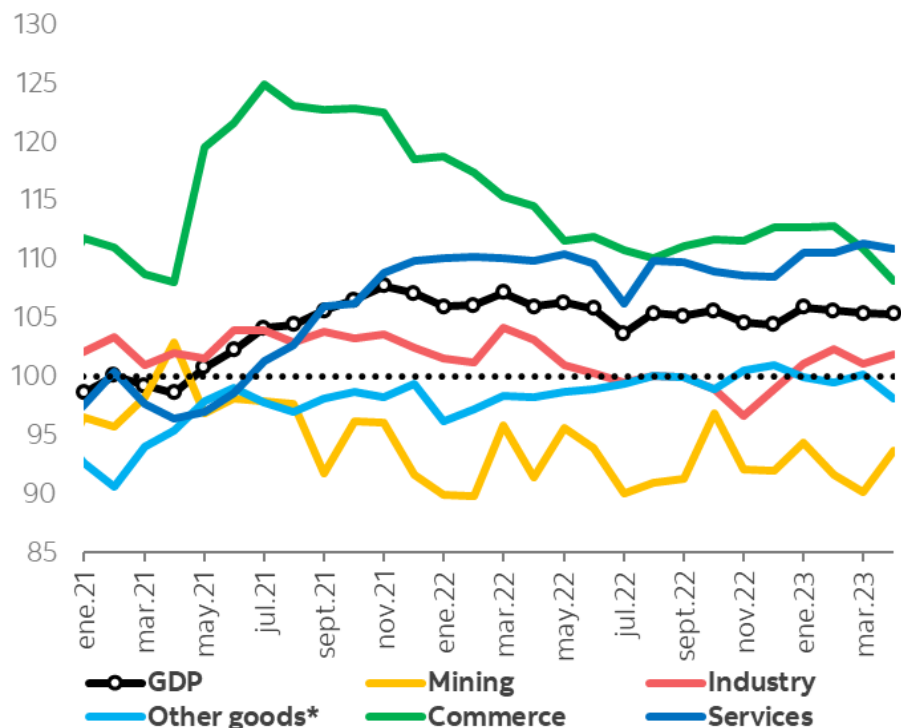
GDP level

(level, 2018=100, seasonally adjusted, monthly data)



GDP level by sector

(index, February 2020=100, monthly data)



Short run forecasts: growth of monthly GDP

Imacec (% y/y)

March-23

-1.9%

April-23

-1.1%

May-23 (f)

-1.5 to -0.5%

* Includes Construction, Agro-forestry, Fishing and Utilities.
Source: Central Bank, Scotiabank Economics

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