

## Latam Economic Update

- Economic activity across Latam appears to have hit its nadir in April when lockdowns were the most severe and comprehensive.
- Contractions in economic activity in Brazil and Chile seem to have been less severe than in the rest of the region, reflecting relatively softer initial quarantine efforts.
- May economic activity indices point to the beginning of a long process of re-opening and recovery.

### GROWTH: BEGINNING THE LONG ROAD BACK

Economic activity across Latam appears to have hit its nadir in April when COVID-19-induced lockdowns most the most severe and comprehensive.

Quarantines were implemented across the region during the last ten days of March and produced immediate hits to national economies that month, with Peru seeing a quick -16.3% y/y pullback and Argentina registering a -11.46% y/y contraction, while the upfront impact in March in the other Latam-6 economies was held to the single digits (chart 1). April ended up being the only complete month with the most extensive and intensive contagion control measures such that economic contractions deepened substantially across the region, with the steepest declines again in Peru (-40.5% y/y) and Argentina (-26.4% y/y). Early data imply that April marked the worst of the region's pandemic recessions.

May economic activity indices point to some initial stabilization and the beginning of a long process of economic re-opening and recovery.

Lockdown measures began to be eased in most Latam countries in the latter third of May. Prints of the May GDP indices in Brazil, Chile, and Peru all point to some economic bleeding having been staunched, even if the wounds remain deep from efforts to limit COVID-19 contagion (chart 1, again). May economic activity data for Colombia follow at 15:00 ET today, with releases for Argentina and Mexico next

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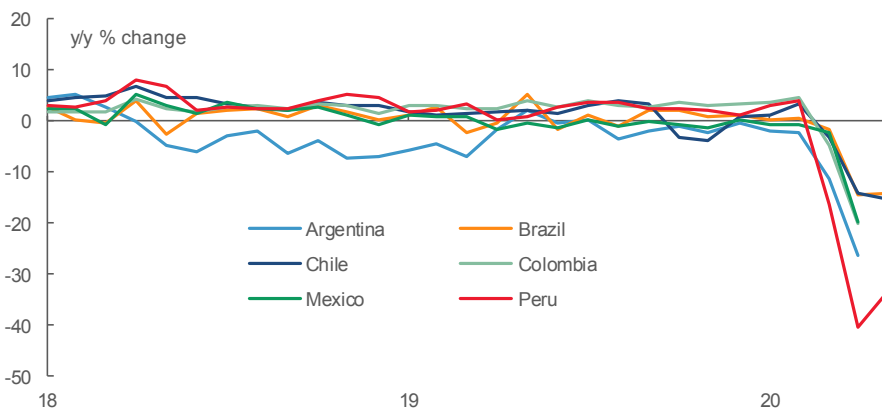
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Chart 1

Latam: Monthly Economic Activity Passing Its Bottom



Sources: Scotiabank Economics, Haver Analytics.

Table 1

Latam: Pending May Activity Indices

y/y % change	April	May	
		Consensus average	Scotiabank projections
Argentina, July 22	-26.4	—	-22.9
Colombia, July 17	-20.1	-13.8	-11.0
Mexico, July 24	-19.9	—	-17.7

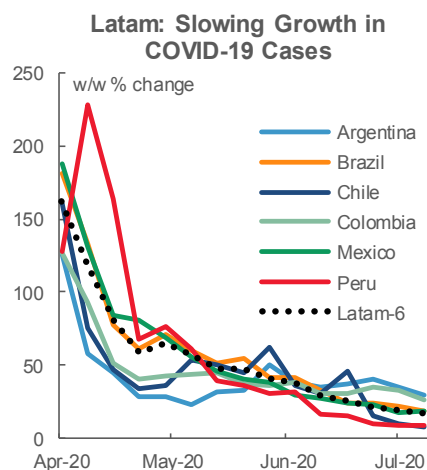
Sources: Scotiabank Economics, Bloomberg.

week (table 1); high-frequency sectoral data imply that all three indices should show some recovery from April's lows.

**Contractions in economic activity in Brazil and Chile seem to have been notably less severe than in the rest of the region, but their initial public-health controls were also softer.** While Brazil's response to the pandemic has been very uneven, Chile's initial quarantine measures were concerted, but less intense than in its other neighbours. The question now is whether both countries will see milder initial economic damage followed by more drawn-out recoveries than in the rest of the Latam-6. The reimposition of tight control measures in greater Santiago from end-June certainly underscores this danger, but as we discussed in our most recent [Latam Weekly](#), with COVID-19 positivity rates still high in all of the Latam-6 countries, re-opening is set to be an uneven, stop-start process across the region. While Latam remains one of the two epicentres of the pandemic in the Americas, slowing growth in COVID-19 cases (chart 2) could mean that we've also passed the worst of its public health crisis.

**Our forecasts for the region (charts 3 through 8, table 2) reflect our view that COVID-19 has both fundamentally altered the Latam-6's economic trajectories and intensified forces already at work.** While our forecast of a deep -9% y/y contraction in Peru during 2020 represents a fundamental turnaround from the country's 2.2% y/y expansion in 2019, the similarly deep declines in real GDP forecast for Argentina and Mexico reflect a deepening of trends already present at the beginning of 2020. Somewhat smaller contractions in Brazil and Chile are forecast to be followed by recoveries that are marginally more muted than in some of their neighbours. At present, Colombia is forecast to see the least extreme swings in economic activity over the next two years, but all of our projections remain highly contingent on the progress of the pandemic.

Chart 2



Sources: Scotiabank Economics, WHO.

—Brett House & Marc Ercolao

Chart 3

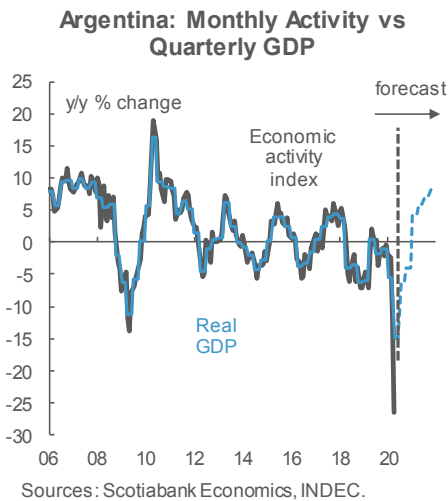


Chart 4



Chart 5



Chart 6

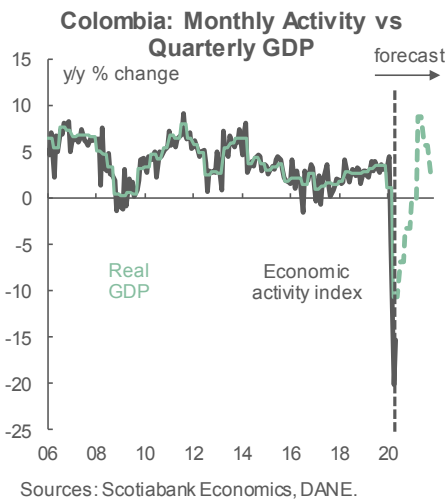


Chart 7

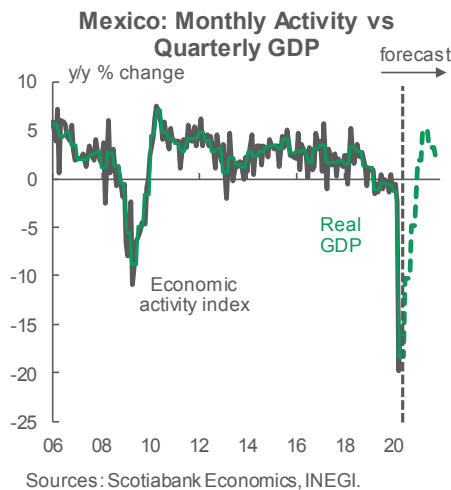


Chart 8

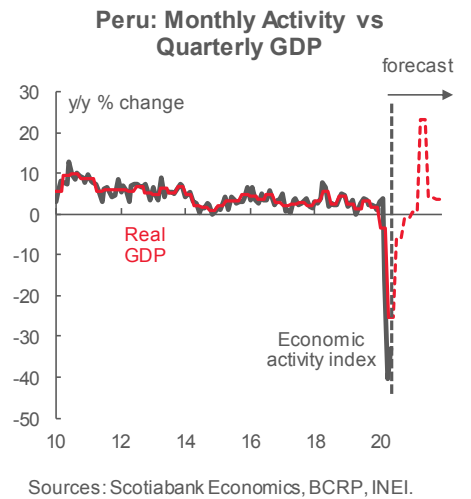


Table 2

Latam: Scotiabank Economics' Macro Forecasts as of July 11, 2020

	2019		2020			2021						
	Q4	Q1	Q2e	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2019	2020f	2021f
<b>Argentina</b>												
Real GDP (y/y % change)	-1.1	-5.4	-15.0	-6.2	-4.1	4.5	5.8	7.1	8.4	-2.2	-7.9	6.5
CPI (y/y %, eop)	53.8	48.4	41.2	32.4	25.8	27.5	33.2	38.5	42.6	53.8	25.8	42.6
Unemployment rate (% avg)	8.9	10.4	12.1	11.4	11.0	10.9	10.3	9.8	9.7	9.8	11.2	10.2
Central bank policy rate (% eop)	55.00	38.00	37.00	36.00	36.00	36.00	37.00	38.00	40.00	55.00	36.00	40.00
Foreign exchange (USDARS, eop)	59.89	64.40	70.50	78.30	83.10	86.20	87.50	89.20	93.10	59.89	83.10	93.10
<b>Brazil</b>												
Real GDP (y/y % change)	1.7	-0.3	-12.6	-6.9	-3.1	1.0	4.9	3.1	2.7	1.1	-5.7	2.9
CPI (y/y %, eop)	3.8	3.3	1.8	2.4	3.1	3.8	4.4	5.1	5.2	3.8	3.1	5.2
Unemployment rate (% avg)	11.3	11.7	12.8	13.5	14.3	13.7	12.3	12.1	11.7	11.9	13.1	12.5
Central bank policy rate (% eop)	6.50	3.75	2.25	1.75	1.75	1.75	2.25	3.25	4.25	4.50	1.75	4.25
Foreign exchange (USDBRL, eop)	4.02	5.20	5.46	5.31	5.26	4.88	4.96	5.07	5.03	4.02	5.26	5.03
<b>Chile</b>												
Real GDP (y/y % change)	-2.1	0.4	-16.5	-8.3	0.7	-1.1	15.4	5.0	-0.1	1.1	-6.0	4.4
CPI (y/y %, eop)	3.0	3.7	2.7	2.7	2.4	2.5	2.9	3.3	3.0	3.0	2.4	3.0
Unemployment rate (% avg)	7.0	8.2	13.5	16.2	14.8	11.7	11.4	10.6	9.8	7.2	13.2	10.9
Central bank policy rate (% eop)	1.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.75	0.50	0.50
Foreign exchange (USDCLP, eop)	753	852	821	800	790	780	760	740	720	753	790	720
<b>Colombia</b>												
Real GDP (y/y % change)	3.4	1.1	-10.6	-6.8	-3.3	-0.4	8.8	5.7	2.6	3.3	-4.9	4.2
CPI (y/y %, eop)	3.2	3.9	2.2	2.0	1.9	1.8	2.9	3.0	3.1	3.2	1.9	3.1
Unemployment rate (% avg)	10.4	12.6	20.9	20.5	17.8	14.8	13.1	12.6	12.1	11.2	18.0	13.2
Central bank policy rate (% eop)	4.25	3.75	2.50	2.00	2.00	2.00	2.00	2.50	3.00	4.25	2.00	3.00
Foreign exchange (USDCOP, eop)	3,287	4,065	3,758	3,725	3,654	3,473	3,465	3,458	3,450	3,287	3,654	3,450
<b>Mexico</b>												
Real GDP (y/y % change)	-0.7	-1.4	-18.3	-10.3	-4.8	1.9	5.0	3.2	2.4	-0.3	-8.7	3.1
CPI (y/y %, eop)	2.8	3.2	3.3	3.8	3.7	3.9	3.9	3.9	3.8	2.8	3.7	3.8
Unemployment rate (% avg)	2.9	3.7	6.7	7.7	7.1	6.3	6.0	6.5	5.8	3.5	6.1	6.3
Central bank policy rate (% eop)	7.50	6.50	5.00	4.75	4.75	4.75	4.75	4.75	4.75	7.25	4.75	4.75
Foreign exchange (USDMXN, eop)	18.85	21.97	23.00	23.45	24.29	24.43	24.25	24.11	24.20	18.93	24.29	24.20
<b>Peru</b>												
Real GDP (y/y % change)	1.8	-3.4	-25.4	-5.6	-1.1	0.7	23.2	4.0	3.5	2.2	-9.0	7.0
CPI (y/y %, eop)	1.9	1.8	1.6	1.2	1.1	1.1	1.1	1.7	1.7	1.9	1.1	1.7
Unemployment rate (% avg)	6.1	7.4	15.0	16.0	14.0	14.0	13.0	11.0	10.0	6.6	13.1	12.0
Central bank policy rate (% eop)	2.25	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	2.25	0.25	0.50
Foreign exchange (USDPEN, eop)	3.31	3.44	3.54	3.50	3.45	3.47	3.51	3.47	3.40	3.31	3.45	3.40
<b>United States</b>												
Real GDP (y/y % change)	2.3	0.3	-10.4	-5.2	-2.5	1.0	13.8	7.8	4.9	2.3	-4.5	6.7
CPI (y/y %, eop)	2.0	2.1	0.9	0.9	0.7	1.5	2.0	2.3	2.6	2.0	0.7	2.6
Unemployment rate (% avg)	3.5	3.8	15.9	14.6	12.7	10.5	8.3	6.6	5.3	3.7	11.8	7.7
Central bank policy rate (% eop)	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.25	0.25
Foreign exchange (EURUSD, eop)	1.12	1.10	1.12	1.10	1.12	1.13	1.14	1.15	1.16	1.12	1.12	1.16

Source: Scotiabank Economics.

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