

## Latam Economic Update

- **Brazil:** Elimination of COVID-19 registry likely to escalate political crisis
- **Colombia:** Inflation in May contracted by 0.32% m/m; government policy to blame
- **Mexico:** March's investment and consumption figures fell sharply, while the auto sector shrank in May
- **Peru:** Mining investment revised down for 2020

### BRAZIL: ELIMINATION OF COVID-19 REGISTRY LIKELY TO ESCALATE POLITICAL CRISIS

Over the weekend, it was reported that President Bolsonaro ordered the country's COVID-19 statistics to be wiped out from the government's tracking web page. The government is currently in the middle of a controversial dispute with State level governments over the pandemic, with Bolsonaro minimizing the epidemic and demanding that the economy be reopened, while local governments are pushing for a more orthodox lockdown approach. With Brazil's cumulative case number now ranking second globally, and the number of daily deaths having topped 1,000 in recent days, the President is reported to have issued orders to eliminate public data and stop reporting statistics related to the pandemic. Senior political leaders, including Congressional Leader Maia reacted harshly to the decision, suggesting that the country's political crisis is likely to have yet another escalation.

—Eduardo Suárez

### COLOMBIA: INFLATION IN MAY CONTRACTED BY 0.32% M/M; GOVERNMENT POLICY TO BLAME

Monthly CPI inflation contracted by 0.32% in May, below market expectations (0.13% m/m, according to BanRep survey) and below our expectation of +0.09% m/m according to data published on June 5. May inflation posted the most significant contraction since August 2016. Government assistance programs, again, led prices contraction. Foodstuff inflation was almost unchanged in the month, while the health-services group posted positive inflation due to demand pressures. The annual inflation rate decreased by 66 bps to 2.85%, the lowest level in six years (chart 1).

The IT & Communication group had the biggest price contraction in May (-3.12% m/m, charts 2 and 3), due to a government aid program that temporarily withdrew the VAT in low-cost cell-phone plans. Housing services also fell (-0.20% m/m), due to the government-mandated freeze in rents and utility fees subsidies (especially in power bills). Transport group dynamics (-0.47% m/m), also were related to government stimulus. Those three groups accounted for 79% of the CPI monthly contraction. It is worth noting that some of those results will reverse their disinflationary effect as soon as the emergency stops and stimulus ends. Having said that, other housing-related goods, such as cleaning-

#### 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)

#### TODAY'S CONTRIBUTORS:

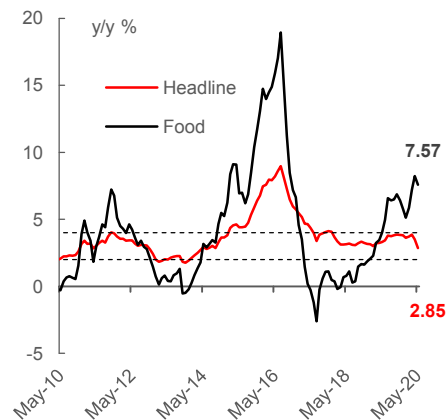
**Jackeline Piraján**  
57.1.745.6300 (Colombia)  
Scotiabank Colombia  
[jackeline.pirajan@co.scotiabank.com](mailto:jackeline.pirajan@co.scotiabank.com)

**Daniel Mendoza**  
52.55.5123.2684 Ext. 31797 (Mexico)  
Scotiabank Mexico  
[damendoza@scotiabank.com.mx](mailto:damendoza@scotiabank.com.mx)

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

#### Chart 1

**Colombia: Consumer Price Index**  
Headline vs Foodstuff



Sources: Scotiabank Economics, DANE.

related goods (-0.07% m/m) and clothing (-0.01% m/m) inflation, showed some mild price reductions due to weaker demand. In contrast, prices of other items related to sectors that have re-opened in May did not fall. For instance, vehicle inflation was 0.25% m/m.

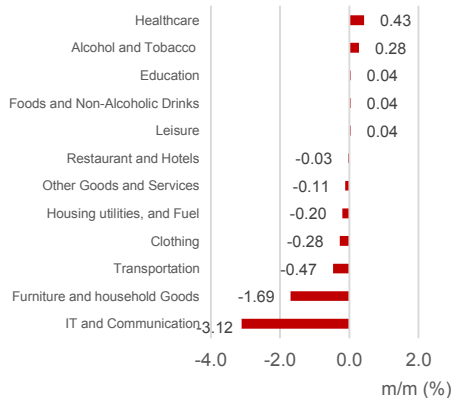
**The picture of May's low inflation is completed by foodstuffs inflation (0.04% m/m), which came below market expectations, showing that prices reached a new equilibrium after the surge in demand pressures due to the quarantine.** Having said that, y/y foodstuff inflation remained very high (7.57% y/y). Going forward, in June a partial shutdown of the principal central market in Bogota (Corabastos) could lead to higher inflation.

**In May, tradable goods ex-food inflation decreased by 73 bps to 1.33% y/y, which could suggest that weaker demand would offset the FX depreciation effect.** However, if COP continues to appreciate in the near future, foreign exchange pass through effect may not be perceptible. Non-tradable inflation stood at 2.34% y/y, while regulated prices decreased by 146 bps to 1.05% y/y, which could be partially reversed when regional subsidies to utility fees expire. Core inflation measures fell well below the central bank target. Ex-food inflation came in at 1.84% y/y (-70 bps from the previous month), while ex-food and regulated inflation reduced by 52 bps to 2.03% y/y (chart 4).

**Altogether, despite the big downward May inflation surprise, we still think that y/y headline inflation will end 2020 close to 3%.** Negative demand pressures would be partially offset by the gradual re-opening of economic activity, and eventually, increases in prices that were negatively affected by subsidies. Inflation results are compatible with our expectation that BanRep will cut the policy rate to 2.5% at the June 30 meeting.

Chart 2

Colombia: Consumer Price Index Components



Sources: Scotiabank Economics, DANE.

Chart 3

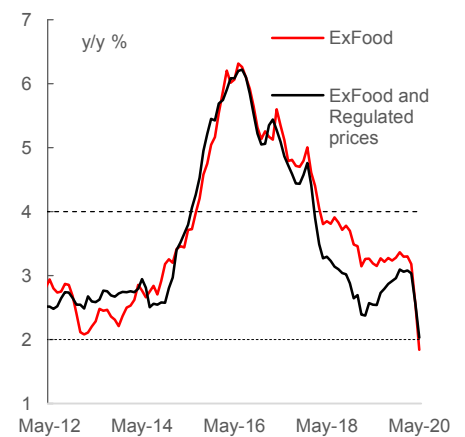
Colombia: Consumer Price Index Components (Contributions ppt)



Sources: Scotiabank Economics, DANE.

Chart 4

Colombia: Core CPI Measures



Sources: Scotiabank Economics, DANE.

—Sergio Olarte & Jackeline Piraján

**MEXICO: MARCH'S INVESTMENT AND CONSUMPTION FIGURES FALL SHARPLY, WHILE AUTO SECTOR SHRANK RESOUNDINGLY IN MAY**

**According to data published on June 5, both high uncertainty—which undermined business climate—and additional cuts in Mexico's economic growth forecasts account for the fourteenth consecutive drop in investment in March.** Moreover, lockdown measures came into effect, further exacerbating an already challenging macroeconomic dynamic. Thereby, gross fixed investment (GFI), nsa, in March deepened its decline, from -8.7% y/y to -11.0% y/y (chart 5).

- The decrease outstripped consensus (-10.7% y/y) and the previous' year drop (-1.9% y/y).
- Notably, GFI fell by an average 9.3% in the January–March period, the most pronounced for a similar period since the 2009 crisis.

- Expenditure on machinery and equipment decreased more sharply, from -9.7% y/y to -16.1% y/y, accumulating 14 consecutive declines. Within, its domestic component accelerated its decline from -5.5 % y/y to -14.9% y/y, as did the imported component, which fell from -12.5% y/y to -16.9% y/y.
- On the other hand, construction spending softened its deterioration, from -8.1% y/y to -7.2% y/y. By components, the residential sub-index moderated its fall from -7.6% y/y to -3.1% y/y, but non-residential spending weakened more, from -8.6% y/y to -11.3% y/y.

**In April, we anticipate a further deterioration of GFI figures, which will include the full effects of COVID-19 and additional downgrades in sovereign and Pemex debt ratings (Moody's).** Particularly, several events further deteriorated the investment environment in March, including the cancellation of the Constellation Brands plant and cuts in the sovereign's and Pemex's rating.

**Furthermore, domestic private consumption further weakened in March, as nsa figures released on June 5 plunged.** In particular, nsa private consumption figures decreased 2.6% y/y, the strongest since October 2009 (chart 6).

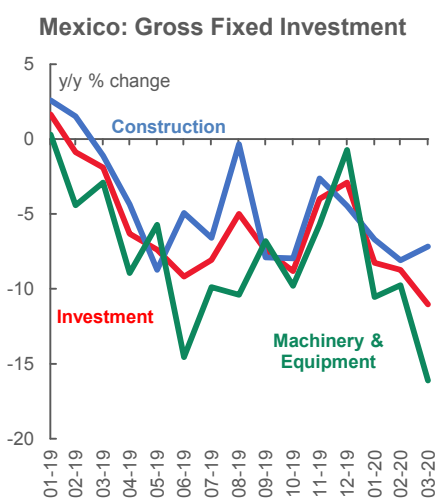
- In comparison, domestic private consumption increased 0.5% y/y in February 2020 and 0.0% y/y in March 2019.
- During the January-March period, it averaged a drop of -0.7% y/y (versus +1.3% y/y in March 2019).
- Broken-down, this was caused by a sharp contraction in the service sector, from 0.4% y/y to -5.7% y/y (versus +1.6% y/y in March 2019). In addition, imported goods also exhibited a setback, from 0.1% y/y to -5.7% y/y (versus -2.4% y/y in March 2019), both components more than offset the greater dynamism that domestic goods printed, from 0.6% y/y to 1.5% y/y (versus -1.1% in March 2019).

**As harder lockdown measures were introduced in April, we foresee a stronger drawback in the next consumption release.** Nevertheless, certain disruptions in consumption patterns that stemmed from the COVID-19 health crisis were observed during March, with imported goods and services declining significantly.

**Mexico auto production and exports showed the sharpest annual drop in over a decade, as data from the national statistics agency showed on June 5 (chart 7).**

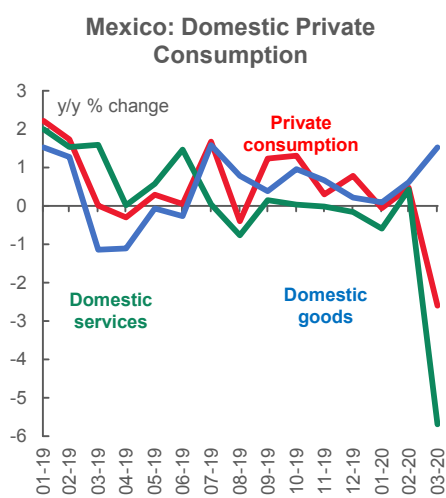
- Auto production plunged 43.2% y/y with a monthly contraction of 93.7% m/m in May, while exports fell 42.4% y/y and sank 95.1% m/m.
- With cumulative figures during the first five months of the year, vehicle production suffered a decrease of 43.2% y/y with respect to the same period in 2019. Meanwhile the industry exported 42.4% less than that for the same period in 2019.

Chart 5



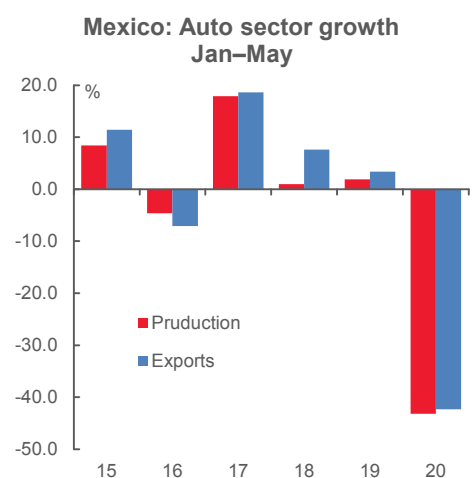
Sources: Scotiabank Economics, INEGI.

Chart 6



Sources: Scotiabank Economics, INEGI.

Chart 7



Sources: Scotiabank Economics, INEGI.

Measures to contain the spread of COVID-19 kept car-manufacturing plants shuttered in April and May but we anticipate that the automotive industry will begin to rebound in June due to the reopening of the sector as of June 1.

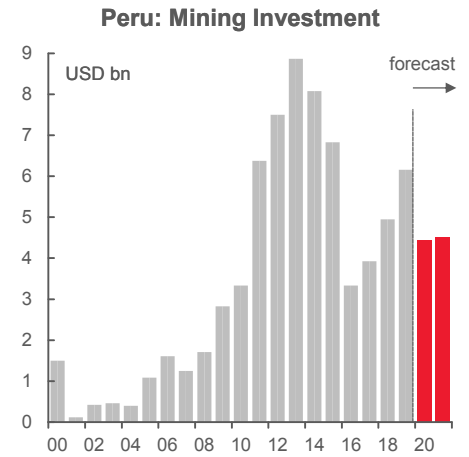
—Daniel Mendoza

**PERU: MINING INVESTMENT REVISED DOWN FOR 2020**

We have updated our forecasts for mining investment growth. We now expect mining investment to fall -28% y/y in 2020 (chart 8), whereas pre-COVID-19, we had forecast a 4.4% y/y increase. The difference is mainly due to the 70-day lockdown, as we have the same large projects as before, only with a delay. We are being a bit more conservative for projects that have not yet been initiated, which affects both 2020 and 2021. For 2021 we expect a 1.6% y/y increase, whereas before we expected a -10.9% y/y decline, but this is purely due to the large change in our 2020 base.

—Guillermo Arbe

Chart 8



Sources: Scotiabank Economics, Minem.

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