

Latam Economic Update

- **Argentina:** Recovery process starts to slow
- **Brazil:** Green-shoots in industrial production and services
- **Mexico:** Employment continued its recovery in July as economic activity re-opened

ARGENTINA: RECOVERY PROCESS STARTS TO SLOW

The recovery in industrial production and construction activity started to slow in July data released late on Thursday, September 3 (chart 1). IP in July was down -6.9% y/y compared with the same month in 2019, almost identical to the -6.6% y/y print in June. Fourteen of sixteen sub-sectors still saw year-on-year declines, with transportation equipment down the most at -43.1% y/y, while tobacco (58.8% y/y) and chemicals (13.3% y/y) led the IP recovery. Construction activity saw slightly better gains, but from a more compromised base: the year-on-year growth rate improved from -14.8% y/y in June to -12.9% y/y in July. With COVID-19 numbers surging over the last couple weeks and re-opening measures likely to stall or be reversed, the July IP and construction numbers imply that it will be progressively harder for the Argentine economy to generate gains.

Vehicle production, sales, and export numbers for August painted a slightly brighter picture with continued improvement from the total shutdown of production in April (chart 2). Total production hit 25.8k units, back to pre-lockdown levels observed during January–February, but still down -16.2% y/y from August 2019 in an industry that has been in secular decline for years. Total sales were off -25.4% y/y as quarantine measures were still substantial in August, and exports were down -27.8% y/y, but both figures represented sustained gains over the last five months.

—Brett House

BRAZIL: GREEN-SHOOTS IN INDUSTRIAL PRODUCTION AND SERVICES

The rapid recovery of the Brazilian economy seems to be helping to boost President Bolsonaro's approval rating, which now stands at its highest level since the election. The activity indicators we got yesterday, Thursday, September 3, provide further evidence that the economy is re-opening at a much faster than anticipated pace.

Industrial production growth in July printed at -3.0% y/y, materially higher than the consensus expectation of -6.0% y/y. In the details, intermediate goods production growth printed back in positive territory at 1.4% y/y after we had not seen any component of IP in the black since February (table 1). Uncertainty, combined with large slack in the economy, still mean capital goods and durable goods continue to contract at a fast pace—both had declines of over -15% in y/y terms—but the economy's rapid recovery will help reduce spare capacity.

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Chart 1



Sources: Scotiabank Economics, INDEC.

The Markit manufacturing PMIs for August that we got on Tuesday, September 1, suggest that the gains in industrial activity have continued. At this pace, we could see industrial production back in positive territory in the next few months (chart 3).

On the services front, which has been lagging the recovery in output in industrial activity, mining, and agriculture, we also got good news from the August services PMI on Thursday, September 3.

The August services PMI almost got back into positive territory, bouncing back to 49.5 from its 42.5 reading back in July.

	Feb.	March	April	May	June	July
Capital goods	-4.7	-4.5	-52.3	-39	-22.4	-15.4
Intermediate goods	2.8	-1.5	-17.6	-14.6	-5.7	1.4
Consumer goods	-3.9	-7.8	-39.4	-30.8	-11.2	-7.7
Durable goods	-10.6	-9.9	-85	-69.7	-35	-16.9
Semi / Non-durable	-1.8	-7.2	-25.4	-19.1	-5	-5.2

Sources: Scotiabank Economics, IBGE.

Overall, the Brazilian economy seems to be recovering at a faster pace than we have anticipated. However, the reductions in fiscal stimulus that are expected to start kicking in this month could slow the pace of the rebound.

—Eduardo Suárez

MEXICO: EMPLOYMENT CONTINUED ITS RECOVERY IN JULY AS ECONOMIC ACTIVITY RE-OPENED

On Thursday, September 3, INEGI released July employment data that showed a higher participation rate and a slight decrease in the unemployment rate. INEGI published the results of the National Survey of Occupations and Employment (ENOE), a new version, after three releases of the telephone-based survey while the pandemic hampered full face-to-face data collection. This new version of the national survey considers both face-to-face and telephone interviews in order to prevent further disruptions in data collection.

- **The economically active population (EAP) expanded by 1.5 mn people to 52.6 mn between June and July.** The labour-market participation rate rose from 53.1% to 54.9% of the working-age population, driven mainly by an increase of 1.4 mn people in the employed population (POC), while there was also a 26k-person increase in the unemployed population. Together, this resulted in a slightly lower unemployment rate (nsa)—declining from 5.5% to 5.4% of the EAP—which still left it at its highest rate since July 2014 (chart 4);
- **The underemployment rate decreased from 20.1% to 18.4%;**
- **Meanwhile, the labour informality rate rose from 53.0% to 54.9%, reflecting 27.3 mn people working in the informal sector;** and

Chart 2

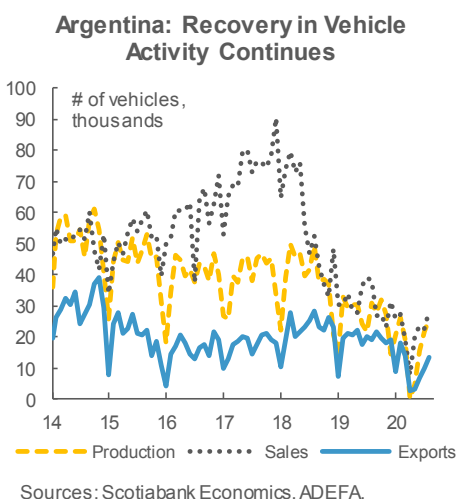


Chart 3

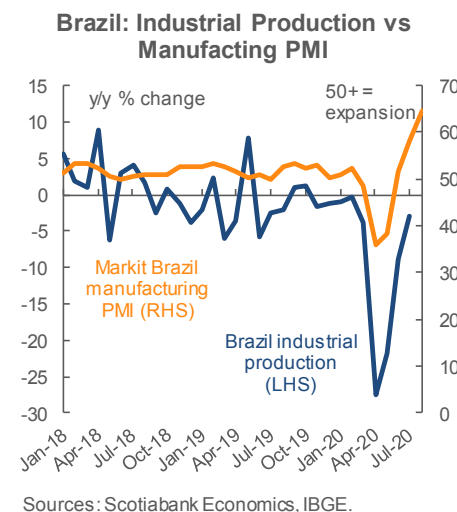
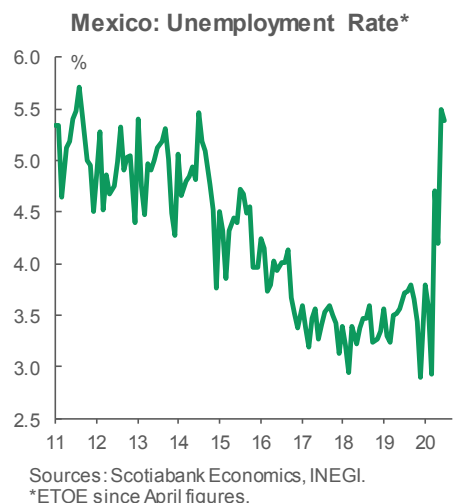


Chart 4



- **Likewise, within the POC, the employed population, there was a range of improvements:** a reduction in temporary absentees amongst people who have a relationship with an employer (down to 3.3 mn people, 9.8% of employed population), an increase in people working full-time hours (up to 16.1 mn people, 47.5%), and a rise in employed persons with incomes between one and two minimum wage equivalents (up to 13.8 mn people, 40.9%).

The ENOE showed a clear recovery in employment in July compared to June, driven by the re-opening of economic activity amidst some still wide-ranging disruptions. High rates of unemployment and informality reflect a significant number of people looking for job opportunities even as formal employment prospects are still constrained by the crisis.

—Miguel Saldaña

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