

Latam Daily: Chile Elections; Colombia Confidence; Mexico Investment & Consumption

- **Chile:** Quick tips on understanding the May 15–16 elections
- **Colombia:** April consumer confidence fell to its lowest levels since the start of the pandemic
- **Mexico:** Investment and consumption lost momentum in February

CHILE: QUICK TIPS ON UNDERSTANDING THE MAY 15–16 ELECTIONS

This coming weekend, Chile will have its most important elections in decades as a Constitutional Assembly of 155 members will be selected to write a new constitution. There will also be elections for regional governors—one for each of the 16 regions of Chile—mayors and members of municipal councils.

- **Available polls are not sending clear signals regarding the likely outcome of the votes.** The large number of candidates, the uncertain turnout given the public-health situation, the government's recent political setbacks, and the strong polarization of public opinion make it difficult to have high degrees of confidence on what to expect.
- **We will probably not have definitive results until Tuesday, May 18, as the counting of votes will be particularly slow and there will be four elections to tally up at the same time.**
- **A requirement of gender parity makes the Chilean constitutional process exceptional.** No gender may have more than 50% + 1 of the Constitutional Assembly's members. This means that there may be a maximum of 78 elected women or men. A correction system will be used in each district so that the seats in each area are distributed equally between men and women.
- **For the first time in democratic Chilean history, there will be seats reserved for Indigenous people: 17 Assembly members will be chosen through a special electoral roll.** Qualified voters may support Indigenous candidates independent of the region in which they reside, but they may vote for only representatives of their own ethnic group.
- **It will be important to see if the right-of-centre coalition Chile Vamos elects more than 1/3 of the Assembly members since this would provide a blocking minority on significant changes to the constitution under a scenario where other Assembly members make proposals in line with the platforms of their parties.**
- **New leaders may emerge ahead of the November presidential election.** Some parties, depending on the number of governors, mayors, and Assembly members they elect, could achieve new importance within their coalitions and push their candidates.

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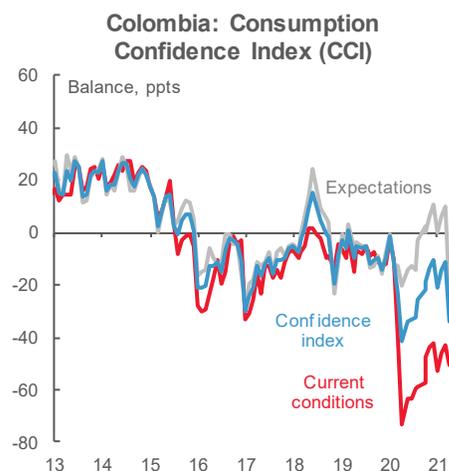
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Chart 1



Sources: Scotiabank Economics, Fedesarrollo.

- **Since 1992, the results of the municipal elections have served as a good predictor of how the voters will cast their ballots in the presidential election.** In fact, when the right-of-centre coalition obtained good municipal results in 2008 and 2016, both presidential elections in the following years were won by Piñera.
- **Turnout will be nearly as important as the distribution of seats in the Constitutional Assembly.** It is crucial that participation reaches no less than 50% of eligible voters, as was the case in October 2020's constitutional referendum, in order to establish the Assembly's legitimacy and stem possible calls for protest.
- **A market-friendly result would feature a high turnout in which no side obtains the two-thirds majority needed in the Assembly to take decisions unilaterally.** Other outcomes under which the mandate of the Assembly is questioned or more extreme positions are enabled would likely have more complex implications for markets.

—Jorge Selaive, Carlos Muñoz, & Waldo Riveras

COLOMBIA: APRIL CONSUMER CONFIDENCE FELL TO ITS LOWEST LEVELS SINCE THE START OF THE PANDEMIC

April's Consumer Confidence Index (CCI) data, contained in a Fedesarrollo release on Tuesday, May 11, stood at a balance of -34.2 ppts, a decline of -22.8 ppts from March's level of -11.4 ppts. This brought the index close to its worst levels since the pandemic began (April 2020's -41.3 ppts, chart 1). In April, the third COVID-19 wave led to stricter lockdowns in Colombia's principal cities and regions; additionally, the discussion of potential fiscal reforms and the ensuing social protests against them weighed on overall sentiment. Expectations about the future are again in negative territory, while assessments of current conditions also deteriorated (chart 1, again).

Looking at April's details:

- **The Current Conditions Index fell to -50.5 ppts versus March's -42.8 ppts.** Consumers' perceptions softened markedly to their worst levels since December 2018 and their willingness to buy new goods remained low, falling from -52.0 ppts in March to -58.7 ppts in April (chart 2).
- **The Expectations Index fell by -32.9 ppts, a significant decline from March's level (9.6 ppts, chart 1, again).** The Expectations Index again moved into negative territory, in part owing to a large decline in perceptions of the country's state (chart 2, again). Nevertheless, the ongoing economic rebound moved Colombians' sense of their household wellbeing to a positive balance.

At the regional level, consumer confidence numbers deteriorated in the five major cities surveyed, with Bucaramanga leading the retreat. Bogota and Cali had the worst absolute results. Restrictions to contain the pandemic were especially tough in Bogota, and their impact was compounded by the protests at the end of April. Consumers' willingness to buy houses fell by -8.7 ppts on weaker sentiment in Cali (-20.4 ppts) and Bucaramanga (-24.3 ppts).

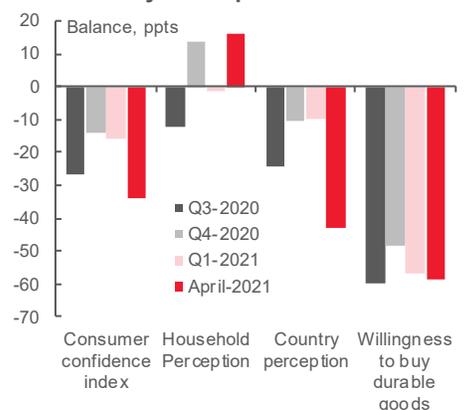
By socio-economic levels, April's indices painted a negative picture for all classes. Low- and middle-income earners' confidence fell the most, with reductions of -29.1 ppts and -26.5 ppts, respectively, in their indices. The index for high-income populations fell by -18.8 ppts to -34.2 ppts.

To sum up, April's decline in consumer confidence numbers reflected Colombians' immediate reactions to worsening public-health conditions, lockdowns in the major cities, discord around the government's fiscal-reform proposals, and the nationwide strike in response to them. Consumers are now more cautious about the future. We expect sentiment to remain at low levels as demonstrations continue and the government's discussions with protest leaders stretch out. Even as a public-health restrictions are lifted, ongoing strikes and demonstrations could slow some of the country's progress in recovering jobs.

—Sergio Olarte & Jackeline Piraján

Chart 2

Colombia: CCI-Household and Country Perception Balances



Sources: Scotiabank Economics, Fedesarrollo.

MEXICO: INVESTMENT AND CONSUMPTION LOST MOMENTUM IN FEBRUARY

I. Investment growth moderated in February of 2021

On Tuesday May 11, INEGI released [investment data](#) for February, showing that investment is about halfway recovered from its pre-pandemic levels (currently about 10% below its volumes at the start of the COVID-19 shock). On a sequential basis, investment saw a moderation in its gains, with growth softening from 3.9% m/m sa at the start of the year to 2.4% m/m sa in February. Weighing on overall investment, we saw construction's recovery lose momentum from its relatively robust 3.6% m/m sa pace in January, to 2.6% m/m in February, while machinery and equipment spending also softened from 4.3% m/m sa to 1.5% m/m sa. Despite these slowdowns in sequential month-on-month growth, all three series continued to show year-on-year gains, with investment in machinery and equipment moving closest to pre-pandemic levels (chart 3).

These latest data point add further evidence to the slowdown that the Mexican economy experienced at the start of the year. However, we expect that at least the machinery and equipment component will have a stronger showing in March based on trade data from the end of Q1. Recent investment announcements in the tourism and the auto sectors are also expected to boost capital-spending figures in the second half of the year.

II. Consumption setback in February after January's hike

Also published on Tuesday, May 11, by INEGI, [private consumption data](#) for February showed a -0.2% m/m sa decline in the month after a positive of 0.6% m/m sa print in January. This setback reflected some cautious behaviour by consumers after delayed holiday sales as well as continued COVID-19-related disruptions. Similar to our expectations for the March investment figures, we also anticipate a materially stronger consumption print for the end of Q1, which has been foreshadowed by a rebound in consumer goods imports as well as consumer confidence indicators.

By components, domestic goods and services consumption dropped by -0.3% m/m sa as domestic services spending decreased by -0.2% m/m sa while goods spending rose by 0.4% m/m sa. Imported merchandise consumption pulled back from a 3.6% m/m sa gain in January to a -1.8% m/m loss in February.

On an annual basis, domestic consumption was still down around -7.5% y/y (chart 4). While domestic goods consumption is nearly back to pre-pandemic levels at -1.8% y/y, consumption on domestic services remains off by -14.6% y/y.

Further recovery in consumption will need to be accompanied by stronger gains in employment, particularly in the services sector. As vaccination campaigns gain further traction into H2-2021 and 2022, we expect to see Mexico's consumption and employment recoveries gain a bit more steam.

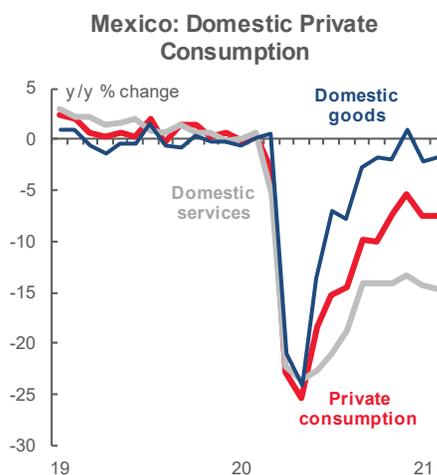
—Miguel Saldaña

Chart 3



Sources: Scotiabank Economics, INEGI.

Chart 4



Sources: Scotiabank Economics, INEGI.

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