LATAM Market Update

- **Chile: One past set of data, one past survey… some future conjunctures**
- **Peru: Government investment fell 6.2% in January, which was less than expected**

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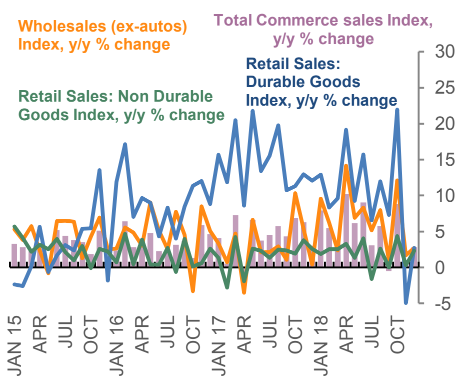
CHILE: ONE PAST SET OF DATA, ONE PAST SURVEY… SOME FUTURE CONJECTURES

Chile Commerce Monthly Sales



Sources: Scotiabank Economics, Instituto Nacional de Estadísticas (INE).

As expected, a couple of information sets were released yesterday. First, the commerce data for December: activity grew 2.8% y/y. Though the market average forecast was around 3%, the result was, by no means, extraordinary considering the comparison basis, in general, were weaker than those of November. One exception were the car sales, that accelerated to 2.7% (following a severe contraction of 4.9% in the previous month) despite the slowdown in the previous year was not significant. All in all, there is some resilience of consumption, but probably the determinant factors are not going to be strong enough to get a much faster recovery in closer months: labour market remains rather sluggish and it is hard to forecast a much faster growth supported only by a benign inflation mix. However, this spot of data (it is just that, a spot) helps to avoid an extremely negative view for consumption and sustains hopes of recovery within two or three quarters.

Also yesterday, the Central Bank (BCCh) released its quarterly Business Perception Survey, which is referred to Q4 2018. There are a few changes vs that of Q3, and some repetitions, too. Let's highlight a few illustrative comments. First, most of the surveyed does not see a dramatic change in the activity rhythm for 2019. There is a general well-installed (it also was in previous surveys) view that there is a high competition in several sectors and a demand has become highly price-sensitive, which should help to keep the demand-driven inflation contained (and that has also being seen in recent inflation reports). About investment, it is perceived to have rebounded in Q4 2018, but mainly focused on keeping the productive capacity and to avoid higher costs, not to increase capacity. Though big investments in mining sectors are expected to be a driver for other sectors, few of the surveyed are already working on it. In the same line, new hiring are very limited to strictly needed people and no salary pressures are seen in short, though difficulties to find well-trained people is remarked. This point has a curious reading: there is some spare capacity in labour market, which could wane quickly if a strong recovery in demand happens. This happened in 2011-2013 and had a huge impact on companies' margins, along other consequences.

Though modest, this chunk of data conveys additional arguments that the economy will show some recovery by midyear, in my opinion. Some times in the Chilean cycle, especially if terms of trade do not improve briskly, but are not negative or stopped deteriorating, these periods of “mezzanine” before a more convincing rebound are common and precede a more significant recovery. Of course the circumstances always vary, last decade showed a pattern that resembles this, and the 1980's, too, but are short periods in a cyclical context. Other explanation can be obtained considering that international risk increased in the last year, which cooled (or chilled) expectations in its spring time (this is not just in Chile but in almost any other economies in the same risk class). Even putting aside a brisk improvement in terms of trade (as some researchers are expecting but is not our base case), it seems we are getting close to a turning point. Strategically, the year will be very important. One can argue that any year is it, but this change of direction is usually preceded by changes in the direction of asset prices. It is important to be sensitive and well-prepared. Some effects could be seen in the exchange rate, but the most interesting would come from long term debt and stock market. Real estate prices would likely receive some collateral effect, but later.

Today we will know the official data for activity in December. As said, our economic team is expecting a growth of 3.4% y/y, made up of 1.3% in the mining sector and 3.5% in the non-mining sector, all which would allow an annual expansion of 4% for the whole year.

PERU: GOVERNMENT INVESTMENT FELL 6.2% IN JANUARY, WHICH WAS LESS THAN EXPECTED

As predicted, government investment was down 6.2%, y/y, in January. The reason for the decline was the change in regional and local authorities on January 1st, after last year’s elections. Given high rotation of authorities, regional and local government investment has always fallen when new authorities are elected into office. The decline can last as long as three quarters. This is the reason why we expect only 2% government investment growth in 2019, with all the growth coming from the national government. Having said this, however, January’s 6.2% decline was less than we were expecting (10%). The main, huge, surprise that, while local government investment declined as expected, -81%, regional government investment was actually up 76%, albeit concentrated in few regions. This may reflect a spillover from ongoing investments that started in 2018. National government investment rose: 15% in January.