

LATAM Market Update

- **Chile:** Monthly GDP in August would expand around 2.9% y/y
- **Colombia:** August's unemployment rate deteriorated more than expected, rural areas were the most affected
- **Mexico:** August's demand deposits increased, neutralizing the slowdown in term deposits
- **A new episode in Peru's political reality show**

CHILE: MONTHLY GDP IN AUGUST WOULD EXPAND AROUND 2.9% Y/Y

Economic activity in August (IMACEC) would grow 2.9% y/y. Employment and wages grow, but families continue showing precautionary savings. On the one hand, Manufacturing production contracted 1.5% y/y, slightly disappointing expectations. This was explained mainly by the decline in the production of Food. On the other hand, Mining production expanded 5.3% y/y, positively influenced by the 7% increase in copper extraction and production. Retail sales, published by the National Institute of Statistics (INE), will be known after the IMACEC is revealed by the Central Bank today, but having already card transactions data, we expect an expansion of 1.2% y/y. Wholesale sales would again show strong growth following the recent dynamics we have observed in investment. Finally, this August IMACEC expansion would again be supported by a 3.9% growth in public spending (+ 11.2% public investment). After a first semester of low execution of public spending, the government has resolved several obstacles to accelerate spending, especially public investment. Consequently, we will see a public execution close to 100% this year, and a quick start of spending in 2020.

Total job creation continues to recover as growth in wage bill accelerates. However, consumption remains weak, symptomatic of a significant precautionary shock of families. We estimate that the household savings rate continued to increase in the second quarter.

Unemployment rate remained at 7.2% in the quarter ended in August, staying below 2018 records. According to historical seasonality, this would correspond to the last high record of the year. Employment increased 1.5% y/y, similar to the previous quarter, still driven by the creation of public jobs, which contrast with the weakness that persists in private wage employment. This figure does not change the recent trend of private employment very much, where at a monthly level there is dynamism within what was expected.

Manufacturing remains the weakest sector, destroying nearly 60 thousand jobs in year-on-year terms, although a slight rebound is observed in the monthly comparison. On the other hand, it is worth noting the solid creation of employment in commerce, which as has been the recent trend, focus on self-employment. Finally, the highest public expenditure continues to sustain the labour market, not only for jobs created in public administration, but also in health and education sectors.

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—Jorge Selaive, Carlos Muñoz & Waldo Riveras

COLOMBIA: AUGUST'S UNEMPLOYMENT RATE DETERIORATED MORE THAN EXPECTED, RURAL AREAS WERE THE MOST AFFECTED.

Unemployment deteriorated again in August for nationwide and urban figures. Nationwide unemployment came in at 10.8% (August-18 was 9.2%), while urban unemployment (13 cities) came in at 11.4% (August-18, 10.1%). Labour force participation fell to 62.9% (August-18, 64.1%) for nationwide and fell to 65.3% from 65.7% for urban reference.

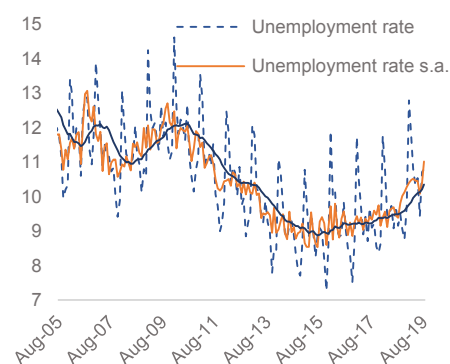
Seasonally adjusted series showed a negative behaviour, 11.0% vs 10.4% in July 2019 for nationwide, and 11.7% vs 10.4% in July 2019 for urban. Although we have seen an improvement in previous months, August was particularly not a good month for employment, especially for urban series that showed the worst monthly deterioration since 2001, and its highest level since mid-2012.

The employed population decreased in the national figure (-1.2% y/y) ; rural employment was the most affected, especially in industry, agriculture, and transport activities; mainly, unskilled employment was the employment that decreased the most. On the other hand, although urban employment fell, some activities, such as, construction and commerce continued to create employment, which could be associated with regional pre-election period.

Having said that, although employment growth was -1.2% y/y, it is interesting that wage employment continues with robust growth (1.9 % y/y in August) while informal employment (self-employment) is falling at a 4.9% y/y pace. Formal employment dynamics throughout the year are positive news and let us anticipate an improvement in labour quality. Having said that, rural employment, which usually is not formal, it is a big concern for the nationwide employment data.

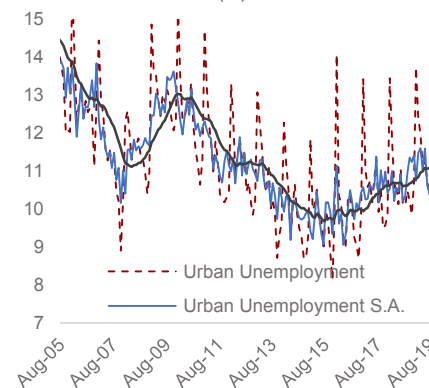
On monetary policy, employment data support our call that BanRep will not hike the monetary policy rate (MPR) in 2019 to boost economic activity, and will wait for more economic activity information while keeping its neutral-dovish tone with a slightly expansionary policy rate.

Colombia: Nationwide Unemployment (%)



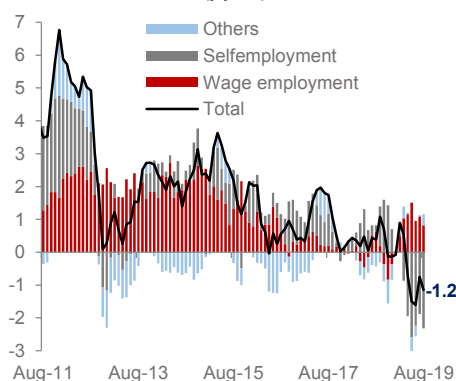
Sources: DANE, Scotiabank.

Colombia: Urban Unemployment (%)



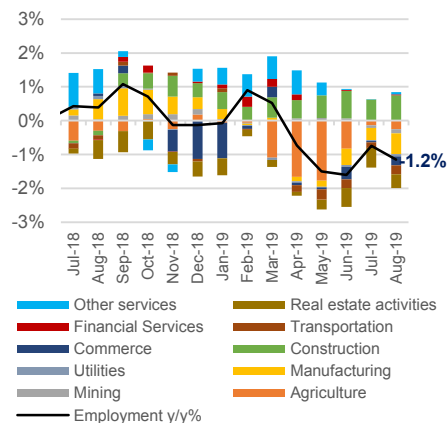
Sources: DANE, Scotiabank.

Colombia: Employment Growth (y/y, %)



Sources: DANE, Scotiabank.

Colombia: Employment y/y % Contributions by sector



Sources: DANE, Scotiabank.

—Jackeline Piraján

MEXICO: AUGUST'S DEMAND DEPOSITS INCREASED, NEUTRALIZING THE SLOWDOWN IN TERM DEPOSITS

For August, the main lending and banking sectors such as consumption, mortgages and small business lending advanced at a greater pace. Non-bank commercial banking deposits rallied from 4.4% to 4.8% y/y (vs. 6.3% in 2018), because a greater dynamism in demand deposit of 3.9% (vs 1.8 in July and 2.7% 2018) that compensated a slower pace in term deposits, from 8.4% July to 6.1% (12.0% in 2018). Total banking to private sector advanced from 4.3% to 5.2% (vs. 5.9% in 2018). On the other hand, current credit account to private sector advance from to 4.7% to 5.7% y/y (vs. 6.0% expected). Conforming to an acceleration in credit to small businesses and individuals with business activity, from 4.9% y/y to 5.8% (vs. 10.1 % in 2018), in line with advances in housing and consumption lending, coming from 6.7% to 7.6% and from 2.4% to 3.2%, respectively.

—Miguel Saldaña

A NEW EPISODE IN PERU'S POLITICAL REALITY SHOW

Today a new episode in Peru's political reality show aired in Congress. In the last episode, the government had announced that it would call for a vote of confidence in Congress over the procedures to designate the members of Peru's high court, the Constitutional Tribunal (CT). The Vizcarra government is seeking to take the designation out of Congressional hands, under the view that Fuerza Popular, the main opposition group, may try to co-opt the Tribunal by designating members that are somehow favourable for the Fujimorista party. On Sunday night, President Vizcarra added a quota of drama by stating that his government would close Congress if it voted on the CT members before, or without regard towards, the vote of confidence. On Monday morning, opposition in Congress opted to defy the President's threat and determined that the floor would vote on the CT members in morning, while scheduling the hearings on the vote of confidence for the afternoon. Just as Congress was preparing to vote on CT members, three things happened. First, members of Congress that were against how Fuerza Popular were managing things in Congress submitted a motion to censure the speaker of Congress, Pedro Olaechea. This required Olaechea to step down and be replaced by César Vásquez as speaker of Congress. However, Vásquez apparently refused to take over, and even disappeared for a period of time. At the same time, the head of the government cabinet, Salvador del Solar, appeared with his cabinet in Congress, apparently demanding to speak on the vote of confidence before the election of CT members. However, he was initially barred from entering the Congressional Hall. The two events left Congress in disarray for a significant period. Eventually, Vásquez reappeared, the motion to censure Olaechea was voted down, and del Solar was allowed to speak. When he did so, he demanded that Congress proceed to debate a vote on the confidence issue "immediately". Congress went ahead with voting on members of the CT, but could only get enough votes to select one, Gonzalo Ortiz de Zevallos, who happens to be speaker Oleachea's cousin, although he is also a prestigious member of the legal community.

Peru's tragicomic political scenario is getting a bit complicated. In order to help sort things out, we've prepared the following guideline on Peru political events:

Main political issues

1. **Political Reform.** The Vizcarra regime submitted a broad political reform agenda in July 2018. Given resistance from Congress, a referendum was held, with a vote favouring the reform. Since then, Congress has approved most political reform item, except for one (lifting of Congressional immunity), but with the caveat that they would apply beginning with the 2021 elections rather than immediately.
2. **Early Elections.** President Vizcarra submitted the proposal to Congress following the July 28, 2019 State Address. Congress voted to reject the government's proposal. Many thought the government would submit a request for a vote of confidence on this issue, rather than on the Constitutional Tribunal designations. It is not clear whether the government is considering to pursue this issue henceforth, although recently the Minister of Justice stated that the government was still looking for options to hold early elections.
3. **Constitutional Tribunal**—the highest court, albeit only on Constitutional issues. The government, through its demand for a vote of confidence, is seeking to modify the criteria for selecting the new members of the Constitutional Tribunal. The fear is that Fuerza Popular (Fujimorista) would be seeking to co-opt the CT. The CT has six members, all of which need to be renewed.

There are currently ten candidates, of which six have had, reportedly, numerous legal accusations made against them, which include, robbery, kidnapping, extortion and money laundering (note that newly appointed Ortiz de Zevallos does not have any legal issues or accusations). The InterAmerican Human Rights Commission recently warned on the risk of the CT losing its independence in Peru.

4. Corruption. New round of names, possibly including members of Congress, is expected to be made known next week when a team of prosecuting attorneys visit Brazil.

One gets the impression that President Vizcarra may have painted himself into a corner in calling for early elections. And then continued to do so even more by calling for a vote of confidence. It was easy for Congress to vote down the call for early elections. It may be just as easy for Congress to avoid a no vote of confidence, and the risk of being closed down, while at the same time, not giving the President what he wants. At this point, it is far from clear how this new round of political conflict will be solved. The election of the remaining members of the CT is very much up in the air. Congress has taken early elections off the table, and it would take something dramatic, such as closing Congress, to put it back on. It is not clear how the Vizcarra regime will now proceed. At the time of this writing, the government had not responded to vote on CT. It is likely to have done so by the time this is published.

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