LATAM Market Update

- **Peru: The fiscal deficit rose mildly to 2.0% of GDP in January**
- **Colombia: Retail sales still strong and industrial production surprised upwards pointing to a strong domestic demand start in 2020**
- **Mexico: Industrial activity contracts for fourth month in a row in January**

PERU: THE FISCAL DEFICIT ROSE MILDLY TO 2.0% OF GDP IN JANUARY

This 12-month moving fiscal deficit rose in January to 2.0% of GDP, from 1.7%. This is a bit higher than we would have expected, but broadly within a normal range. Most of the deterioration came from a 9.1% increase in government spending, led by a 37% increment in public investment. This is a good thing, given the need in the country for fiscal stimulus. However, the only 3.8% increase in fiscal revenue is of some concern, especially considering that the sales tax, which is linked to consumption, fell 1.5%. The broad picture mixes moderately good with mildly bad components. On balance, the result seems a tad high compared to our forecasts of 1.6% deficit for full-year 2020.

The government took yet another dramatic step to combat the advance of COVID-19, by suspending all incoming flights from Europe and Asia. This is likely to finish off any hope for the 2020 tourist season. It also adds yet another element of uncertainty to GDP growth this year.

—Guillermo Arbe

COLOMBIA: RETAIL SALES STILL STRONG AND INDUSTRIAL PRODUCTION SURPRISED UPWARDS POINTING TO A STRONG DOMESTIC DEMAND START IN 2020

DANE released January-2020 manufacturing and retail sales data. Retail sales came in at 7.5% y/y, close to market expectations (7.6% y/y). Manufacturing grew 3.7% y/y, well above market expectations (1.4% y/y). Retail sales started 2020 at the same pace as last year. On the other side, manufacturing surprised to the upside despite that January hadn't any effect of additional business days, which usually accounts by around 3.0 pp of extra y/y growth.

In January 2020, all 19 items in the RS survey showed y/y increases. The monthly result was stronger on the back of the other merchandise item (bicycles, toys, sports equipment, etc.), which grew 24.7% y/y and added 1.3pp to annual headline expansion. Foodstuff retail sales expanded 6.2% y/y and added 1.3pp to total y/y RS growth. Vehicles' retail sales grew by 11.1% y/y. Retail sales results continued to point out that domestic demand is still strong and will continue leading domestic demand growth. In 2020, we expect private consumption indicators to continue to show strong behavior, although at a slower and more sustainable pace. In the coming months, retail sales indicators will be key to measure the coronavirus' impact on the Colombian economy.

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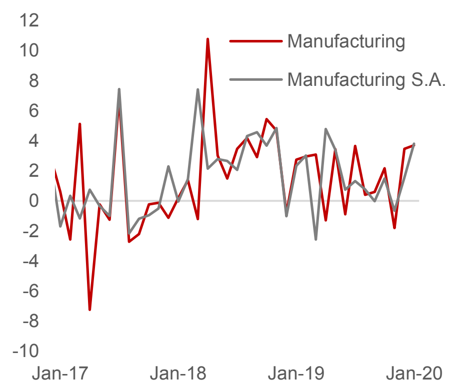
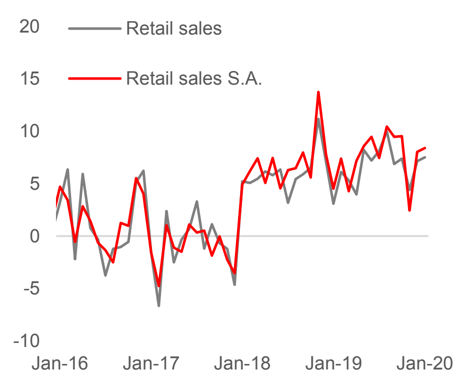
Colombia: Manufacturing
(y/y, %)



Sources: DANE, Scotiabank.

Colombia: Retail Sales
(y/y, %)



Sources: DANE, Scotiabank.

On the manufacturing side, y/y expansion came in above market expectations (+3.7% y/y vs +1.5% y/y expected). The best piece of news is that good manufacturing results in January wasn't related to any statistical effect, which makes us expect better behavior of manufacturing this year. In fact, seasonally adjusted data suggest the strongest expansion in almost nine months (+2.57% m/m SA). It is worth nothing that in January, twenty-three subsectors, out of thirty-nine, showed y/y positive variation, something similar to the previous month.

All in all, January's coincident indicators posted positive results for domestic demand, which supports our perspective of economic activity growth forecast for 2020 (3.3% y/y), which was revised downwards recently due to the coronavirus and oil prices shocks (our base case scenario is considering stability in economic growth compared with 2019). In terms of monetary policy, we think that the Board will keep the MPR at 4.25% in the coming months, the probability of a rate hike in 2020 has reduced due to international uncertainty.

—Sergio Olarte & Jackeline Piraján

MEXICO: INDUSTRIAL ACTIVITY CONTRACTS FOR FOURTH MONTH IN A ROW IN JANUARY

Industrial production started the year with poor results, as its n.s.a. annual variation sharpened its drop in January and its manufacturing component decreased for the fourth time in a row. Broadly, the recent supply chain disruptions by the COVID-19 have impaired the global industrial sector's outlook.

In January 2020, n.s.a. industrial production accentuated its fall from -1.0% to -1.6% y/y in real terms (vs. -0.8% a year earlier), figures were below market consensus (-1.4%) and added fifteen months in negative ground. This weak industrial activity is mainly explained by a stronger decline in manufacturing, from -0.5% to -0.9% y/y (vs. 1.3% in January 2019), as well as a decrease in construction, from -4.5% to -8.6 % y/y (vs. 1.7% in the same month of 2019) and a slowdown in utilities, from 6.5% to 0.4% y/y (vs. -0.6% in January 2019); those results contrasted with the rise in mining, from 0.4% to 5.8% y/y (vs. -10.5% a year earlier).

—Daniel Mendoza