

Latam Daily: Two Recoveries in Argentina Fuel Demand, Mexico Rebound Slowing

- **Argentina:** Oil-product demand tells a tale of two recoveries
- **Mexico:** Investment recovery slowed in July, demand for services lagging goods consumption; September auto data mixed

ARGENTINA: OIL-PRODUCT DEMAND TELLS A TALE OF TWO RECOVERIES

In fuel-demand data for August from Argentina's Energy Secretariat, compiled by Bloomberg on Tuesday, October 6, the contrast between the advancing industrial re-opening and ongoing household lockdowns, is made clear (chart 1). While sales of diesel (ex. farm) are now at 108% of pre-pandemic levels, gasoline sales are at only 62% of pre-quarantine numbers. Diesel sales in August were up 5.7% m/m, which put them down in annual terms only -2.1% y/y, while gasoline sales, which rose 2.4% m/m, a fourth month of gains, were still off -34% y/y. Jet fuel sales continue to reflect the controls on international flights and the near collapse in domestic plane travel, and remain down -93% y/y.

The fuels sales data foreshadow some further gains—but likely at a slowing sequential pace—in August industrial production and construction activity data due for publication at 15:00 today.

—Brett House

MEXICO: INVESTMENT RECOVERY SLOWED IN JULY, DEMAND FOR SERVICES LAGGING GOODS CONSUMPTION; SEPTEMBER AUTO DATA MIXED

I. Investment recovery slowed in July

On Tuesday, October 6, INEGI published July's gross fixed investment (GFI) data that showed a 4.4% m/m sa gain, a marked slowing from June's 20.1% m/m sa rebound. Still, in the annual comparison, this produced a small lift from -24.1% y/y in June to -21.2% y/y (chart 2), better than the consensus expectation of -22.4% y/y. Weak capital goods imports and ongoing uncertainty imply that investment growth—which was already soft prior to the pandemic—should remain on only a slow upward trend through the end of 2020. In the details:

- **Investment in machinery and equipment** was down in annual terms for an 18th month in a row, albeit a bit less than in June, going from -21.5% y/y to -18.0% y/y. National components were down -23.1% y/y and imported elements were off -14.6% y/y; and
- **Construction spending** softened its annual decline from -26.0% y/y to -23.7% y/y, with both its major components recording slightly smaller annual contractions: the residential sub-index went from -23.9% y/y in June to -21.7% y/y July, and non-residential construction solidified a touch, rising from -28.0% y/y in June to -25.8% y/y in July.

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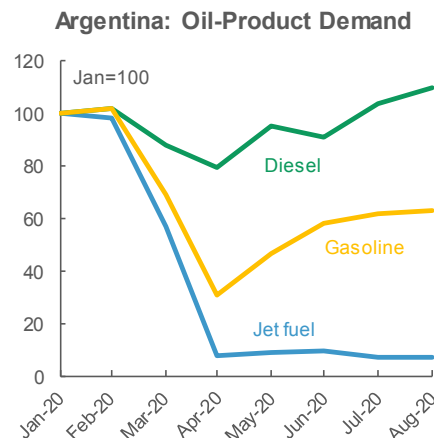
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Chart 1



Sources: Scotiabank Economics, Argentina's Energy Secretariat, Bloomberg.

II. July private consumption data point to ongoing lag in services recovery

INEGI also released data for July on domestic private consumption, which showed an ongoing lag in services versus goods demand, likely reflecting physical distancing measures (chart 3). Total private consumption was still down -15.1% y/y in July, despite a 5.2% m/m sa gain. In annual terms, consumption of domestic goods, down -14.3% y/y, fared better than imported goods, still off by -22.7% y/y. The preference for domestic versus imported goods was likely induced by both price effects, owing to the MXN's depreciation, and the effects of lower aggregate household incomes.

We continue to expect weak domestic private consumption growth for the rest of the year, in light of a highly uncertain economic environment and greater caution amongst consumers.

III. September auto data mixed

Finally, INEGI also published on Tuesday new September data for the auto sector, which painted a mixed picture for the industry.

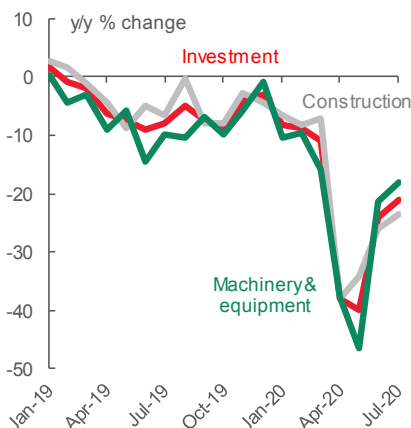
- Light auto production growth was 2.7% m/m in September, up from -0.5% m/m in August; this softened the annual contraction in vehicle output from -13.2% y/y to -5.5% y/y. From January to September, 2,062,533 units were assembled, down -29.6% y/y compared to the same period YTD in 2019 (chart 4).
- Growth of domestic sales of new vehicles slowed from 5.8% m/m in August to 0.9% m/m in September, reflecting broader moderation in the recovery; still, this eased the annual contraction from -28.7% y/y to -22.8% y/y. During the first nine months of the year, 664,194 units were sold, which represented a reduction of -30.5% y/y with respect to the same period YTD in 2019.
- Exports of vehicles slowed from 0.6% m/m in August to -4.1% m/m in September, which took annual growth down from -8.6% y/y to -13.1% y/y in September. From January to September, 1,779,253 units were exported, which represented a decrease of -31.1% y/y YTD compared to a year earlier (chart 4, again).

Domestic vehicle sales growth in September reflected both some catch-up from months of stricter shutdowns and ongoing weakness in the domestic economy, despite the resumption of many activities. Similarly, the pullback in exports growth was tied directly to the late-summer slowing in the rebound in the US and Canada.

—Paulina Villaneuva

Chart 2

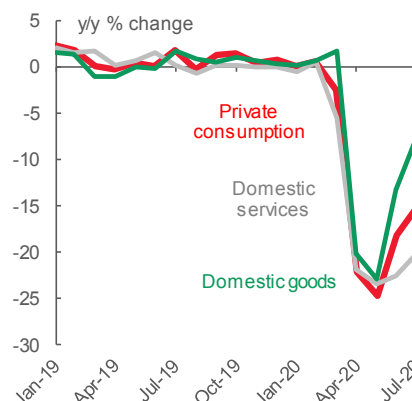
Mexico: Gross Fixed Investment



Sources: Scotiabank Economics, INEGI.

Chart 3

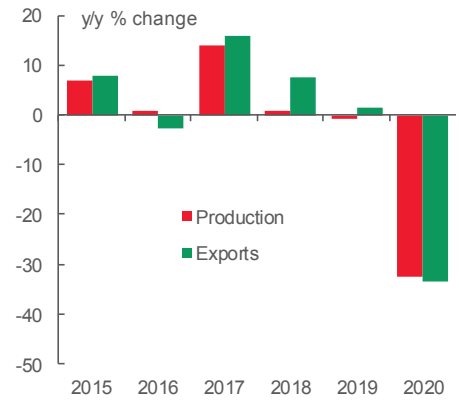
Mexico: Domestic Private Consumption



Sources: Scotiabank Economics, INEGI.

Chart 4

Mexico: Auto-Sector Growth, Jan-Sep



Sources: Scotiabank Economics, INEGI.

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