

# THE WEEK AT A GLANCE

**ECONVIEWS**  
ECONOMÍA Y FINANZAS

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Recalculating: **GDP**  
**Would Fall Less Than**  
**11% in 2020**

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## **Editorial: Recalculating: GDP Would Fall Less Than 11% in 2020**

**Economic activity grew 13.2% q/q in the third quarter, a better recovery than expected.** September's numbers were in line with our forecast, but INDEC made a significant backward revision of the pandemic months, worsening Q2 and improving Q3.

**We do not expect September's 1.9% monthly rise to continue in Q4.** For October, our model estimates a much more moderate growth, around half a point, and November and December will not be much better. Considering this, we have improved the performance of 2020 by almost one point, from -11.6% to -10.7%. One of the effects of INDEC's revisions is that this year will leave a carry-over effect of around 4 points for 2021. Thus, we consider that the 6% growth forecast is still valid. After Peru, Argentina would have the worst performance of the region if we put 2020 and 2021 together. Brazil would fall scarcely 4.5% this year to recover 3.3% in 2021, according to the CB's latest survey.

**What can alter our projection?** On the side of supply, the economy will still be restricted until December, so any additional opening service wise will create growth. More movement of people, actual school attendance, corporate events, tourism, culture, and entertainment are all sectors that have a long way to go. **On the other hand, climate expectations are not good, and the 2021 harvest could be worse than the 2020 one.**

**On the demand side, we foresee an adjustment in 2021.** Pensions and wages will almost certainly lose purchasing power, the IFE (Emergency Family Income) will probably disappear alongside the ATP (Emergency Assistance Program to Labor and Production) that helped pay for corporate wages, or it will stay but in a diminished way. It is unclear how the rise in public utilities will impact, but it will clearly cause a shock in some homes and SMBs. It is quite likely that part of this adjustment will be countered with "electoral spending." The Government is planning to increase public works with what will probably be low-productivity and high-employment small projects. Pothole and housing works are on the list of almost every mayor and governor that needs some visibility and a boost to a labor market that will still be down.

**We do not foresee a recovery of investment apart from construction.** In this sector, activity started to strongly rebound because the FX spread is favorable. The combination of plans such as "Ahora 12" for materials and the high level of informality help a "Phoenix" effect. But with the recent increases in taxes, the business climate is still not good despite some efforts of Minister Guzmán. In addition, there is a complicated institutional outlook in labor and judicial terms. The macro situation is not favorable either: we still consider that inflation will reach 57% in 2021.

**Why are we not so optimistic regarding Q4?** Short-term data are varied. On the positive side, we clearly have construction data. Cement shipments in October are already 18% higher than February's. In the steel sector, the fall dropped to less than 8% compared to February. In other sectors, the data were less convincing. In October, the uprise of retail trade halted and the CAME index is 28% worse than in February. Food, which had been performing well through thick and thin, has ceased to grow. In October, both the poultry and beef industries dropped m/m and dairy production remained stable. As for hydrocarbons, October's data were stable, but both gas and oil are over 10% below February's data, seasonally adjusted. In the financial sector, which acts as a beacon on many occasions, the situation started to slow down. In October, loans grew in real terms, but almost exclusively due to the refinancing effect of credit cards. Commercial loans declined.

There are two other data which are not good for the activity level: exports have not been performing well and, on the other hand, the Argentine economy is quite short of supplies, something that can be seen both in consumption and in raw materials for production.

## What's Coming Up this Week...

- ✓ On **Wednesday 2** November's **tax revenues** will be revealed. It is expected to be positive in real terms, due to the effect of deferred payments and increases in rates or new taxes. This year, revenues are growing over 2 points of GDP.
- ✓ On **Wednesday 2**, another **Treasury auction** will take place with 4 bills and bonds on sale.
- ✓ On **December 4**, SIPA's complete **data of the formal labor market** will be released, including the public sector, independent workers, and formal workers.
- ✓ On **December 4**, the CB will publish the **REM (Market Expectations Survey)** with estimations on inflation, interest rates, exchange rate, growth, and primary deficit for this year and the next one.

### Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	Last data vs previous quarter	
Industrial production - INDEC	Sep-20	4.3%	21.7%	4.5%	●
Automobile production - ADEFA	Oct-20	-11.2%	72.5%	4.5%	●
Steel production- Chamber of steel	Oct-20	8.1%	33.1%	14.3%	●
Poultry production - Min. of Agriculture	Oct-20	-10.0%	2.6%	-2.3%	●
Dairy production - Min. of Agriculture	Oct-20	0.8%	-3.3%	-1.2%	●
Beef production - Min. of Agriculture	Oct-20	-6.1%	-3.3%	-4.5%	●
Real Estate transactions City of BA	Oct-20	4.8%	108.5%	58.4%	●
Flour Production - Min. Of Economy	Sep-20	2.2%	0.3%	-2.0%	●
Oil production - Min. of Production	Oct-20	0.4%	-0.3%	-0.6%	●
Gas production - Min. of Production	Oct-20	-1.4%	-2.5%	-1.8%	●
Cement production - AFCEP	Oct-20	1.7%	16.4%	11.5%	●
Construction activity - INDEC	Sep-20	4.0%	58.7%	5.4%	●
Retail sales - CAME	Oct-20	-2.8%	24.1%	4.6%	●
Gas sales - Min. of Economy	Sep-20	6.1%	33.6%	6.5%	●
Motorcycle licenses - ACARA	Oct-20	-4.0%	13.5%	4.1%	●
Use of electricity - CAMMESA	Oct-20	1.9%	7.6%	2.9%	●
Subway rides - City of Buenos Aires	Oct-20	-0.6%	26.4%	26.5%	●
Imports CIF - INDEC	Oct-20	-1.8%	15.2%	9.1%	●
Exports FOB - INDEC	Oct-20	-1.0%	0.5%	-2.3%	●
Loans in ARS to private sector (real) - BCRA	Oct-20	1.6%	5.0%	3.0%	●
VAT-DGI Revenues - AFIP	Oct-20	4.0%	11.2%	8.4%	●
Formal private jobs - SIPA	Aug-20	0.0%	-1.2%	-0.3%	●
Formal private jobs - Min. of Labor	Sep-20	-0.2%	-0.3%	-0.2%	●
Consumer confidence - UTDT	Nov-20	5.3%	0.9%	1.8%	●
Government confidence - UTDT	Nov-20	1.4%	-18.2%	-8.7%	●

Note: stoplight color depends on last data vs previous quarter

## The FX Spread Is Noxious

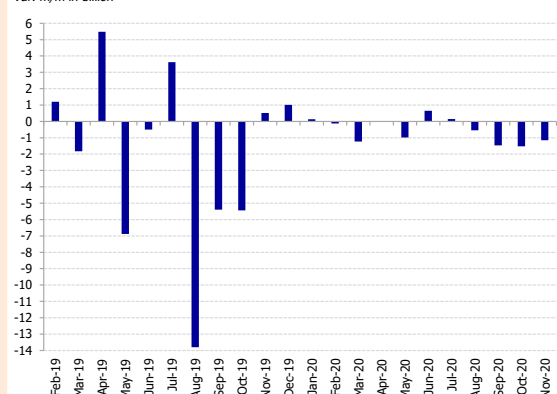
- Although it is stable, the FX spread is high, and it strongly distorts foreign trade: export inflows dilated again, and imports were sped up in October
- The balance of trade in the FX market during the first ten months of the year is USD 7.0 billion less than the records of Customs
- On Friday, international reserves closed 1.1 billion below the last day of October, and accumulated a USD 6.0 billion fall so far this year; liquid reserves are already at zero
- The private sector's deposits in dollars halted their fall in November and have accumulated a USD 13 million rise so far this month

Despite the high global liquidity with interest rates close to zero globally, and the price of soybean at its peak since 2016, **the CB cannot manage to change the trend and is still losing international reserves. And one of the culprits is the FX spread.** The good news is that it did not rocket again and is still far from its mid-October levels. The bad news is that it is still at extremely elevated levels and this strongly distorts foreign trade, one of the main currency sources for Argentina. Another good news is that after the great falls in September and October, deposits in dollars halted their decline in November. The bad news is that there is still quite a considerable risk of a greater tension in the FX market and a new acceleration of the outflow pace.

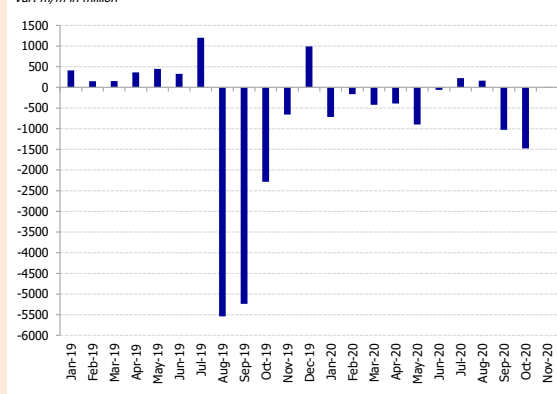
**International reserves closed last week at USD 38.7 billion, USD 1.1 billion below the last day of October, and have accumulated a USD 6.0 billion fall so far this year.** A third of November's fall was the result of the CB's intervention in the FX market. **Liquid reserves are already at zero.** We do not have to go a long way back to find the worst two months of the year for international reserves, which coincide with the months of greatest exchange uncertainty and wear in expectations: in September and October the falls reached USD 1.4 and USD 1.5 billion respectively. Despite the banks having enough liquidity in foreign currency, equal to over 85% of deposits in dollars, the tightening of FX controls and the great instability fed by the rocketing of dollar rates in parallel markets, led **dollar placements of the private sector to fall USD 1.0 billion in September and USD 1.4 billion in October.**

But with a greater FX calm and spreads again below 100%, it is not surprising that **the private sector's deposits in dollars put an end to their fall in November.** In fact, **they have been accumulating a USD 13 million rise so far this month,** with data up to the 25th. However, so long as the spread stands at its current levels and reserves do not recover, **we expect another drainage of dollar deposits in December, which would end the year at about USD 14.5 billion.** The strong restrictions on access to the official dollar, which avoid a greater fall of reserves, also set a (quite low) ceiling for the rise of deposits. In

**International Reserves**  
Var. m/m in billion



**Private sector deposits in USD**  
Var. m/m in million

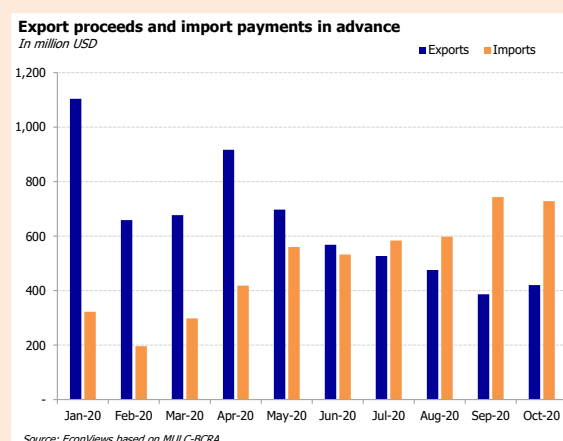
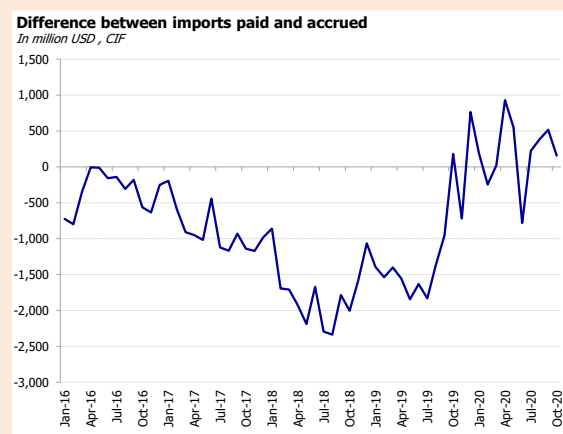
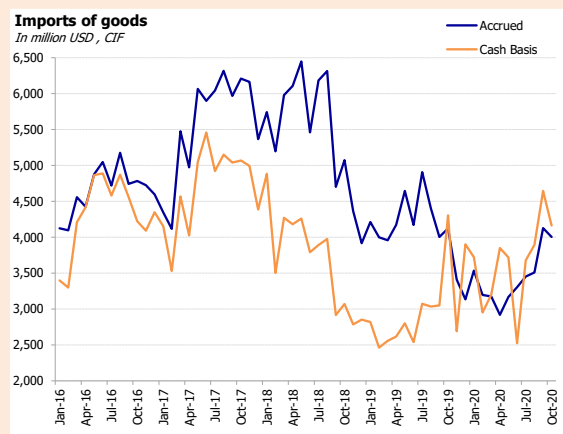


October, individuals purchased USD 209 million in dollar bills, which implies a 67% fall compared to the previous month.

Another effect of the spread on reserves comes hand in hand with the distortions in foreign trade. With an FX spread over 90% that feeds devaluing expectations, exporters do not have any incentives to sell at the official exchange rate, while, conversely, importers take advantage of the spread to make purchases in advance or cancel commercial debt. In October, the trade balance still displayed a surplus, though it amounted to scarcely USD 44 million, over the USD 7 million in September but way below the average of the first eight months of the year (USD 883 million). If we adjust imports considering insurance and transportation costs (exactly as INDEC records them), there was a USD 183 million deficit in cash basis in October.

Import payments amounted to USD 3.9 billion in October, their second-greatest value this year, although this was not a result of domestic demand improving, but a fear of greater restrictions and people trying to get ahead of a possible devaluation of the official exchange rate. Exports collections made in advance, which amounted to USD 1.1 billion in January, amounted to scarcely USD 421 million in October. Imports payments made in advance, which were USD 323 million in January, escalated to USD 729 million in October, despite the greater restrictions. Imports according to the FX Market (cash basis) again surpassed the balance recorded in customs (accrued), this time over USD 150 million. So far this year, this difference has risen to USD 1.9 billion. Conversely, exports that went through the FX market were USD 637 lower than the ones declared in customs, and the difference is USD 5.0 billion so far this year. The trade balance in the FX market during the first ten months of the year is USD 7.0 billion lower than the balance in Customs records.

It is hard to think about rebuilding international reserves in the current context of macro-financial uncertainty and devaluation expectations above the clouds, which threaten to feed the volatility of the FX market. The current balance seems feeble, at least while we fail to correct the main macroeconomic imbalances that derived into a strong confidence crisis and continue delaying the negotiation of a new program with the IMF, which represents one of the few possibilities of elaborating a consistent economic plan in the short run.





## Weak Consumption in the Spring's Kick Off

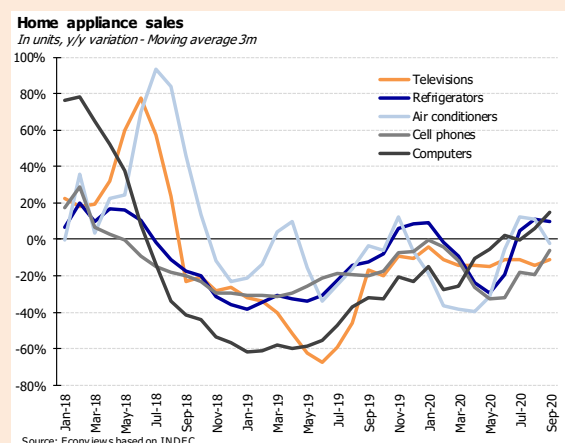
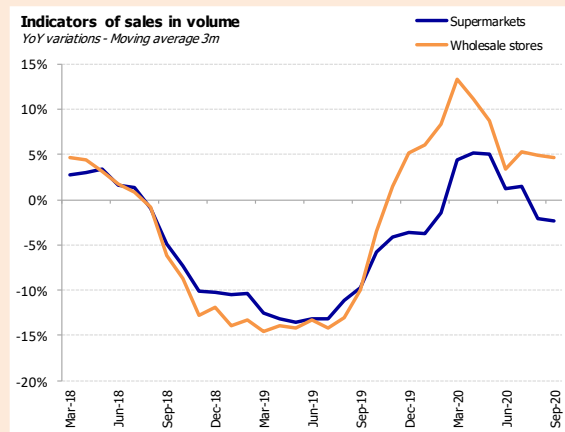
- In September, supermarket sales dropped in real terms compared to last year (-2.3%), while wholesale stores grew 4.9%.
- The consumption of home appliances rebounded in items linked to remote work and in some domestic appliances, but is still down in recreational gear
- Shopping center sales are still critical; in September they deepened their y/y fall in constant prices (-81.4%) for the first time since April

**Q3-20 marked the limit of the recovery of consumption in supermarkets.** After contracting almost 10% throughout 2019, sales recovered 2.9% during the first half of 2020 in y/y terms. Although the hoarding effect influenced the positive records from the first months of the lockdown, wage increases decreed in the summer had strengthened consumption before that. Seasonally adjusted data suggest that sales started to falter toward June, in line with the reheating of inflation, and they fell 2.4% between July and September compared to the same period one year ago. **The root of the issue still lies in the weakness of real wages, which contracted 4.9% y/y according to SIPA during those months, hampering any recovery of consumption.**

**Concretely, supermarket sales in current prices increased 33.1% compared to September 2019, below the general inflation recorded during that period of time (36.6%) and particularly in food and beverage (40.8%). In constant prices, sales fell 2.3%, their second consecutive drop in monthly terms. Wholesale stores stood out again, recording a 37.5% nominal increase in their sales, which translated into a 4.9% real rise.** The wholesale stores sector, which represents a sixth of the sales volume of supermarkets, scored twelve consecutive months of y/y rises, which could indicate a migration of customers from the latter to the former.

**Online sales stopped growing but are still over their pre-pandemic level:** they represented 5.2% of the total in supermarkets, while they had surpassed 6% in July. Restrictions on mobility and the fear of infection encouraged more people to purchase from their homes (the average was 1.7% in 2019), but they did not spur a revolution in consumption habits. Likewise, the use of cash dropped, although it did not drill below the 30% floor of total sales.

**Home appliances consumption is showing varied behaviors, even with the incentive of the high FX spread.** If we compare the units sold in Q3 compared to last year, some items such as refrigerators (+10% y/y in Q3) show a marked recovery. **With home office being widespread, devices that serve as working capital such as computers (14.8%) and printers and scanners (1.8%) saw their demand increase.** Cellphones (-6.1%) cut their fall, but their sales are still lower than 2019's, and recreational goods, such as TVs (-10.9%) or video game consoles (-34.1%) are experiencing a slower recovery. In previous years,



air conditioners were taking the lead, but fans increased their sales (16.5%) during the last three months, surpassing air conditioners (-2.5%).

**Shopping center sales are still extremely low and they deepened their collapse in y/y terms:** after plummeting 79% in August they slumped 81.4% in September in y/y terms. The seasonally adjusted series also shows a shift in trend, and we can see the first monthly drop (-9.5%) since April. We still have to assess the impact of the reopening of shopping centers in the Metropolitan Area of Buenos Aires (AMBA) starting in October, one of the sectors the pandemic struck the hardest.

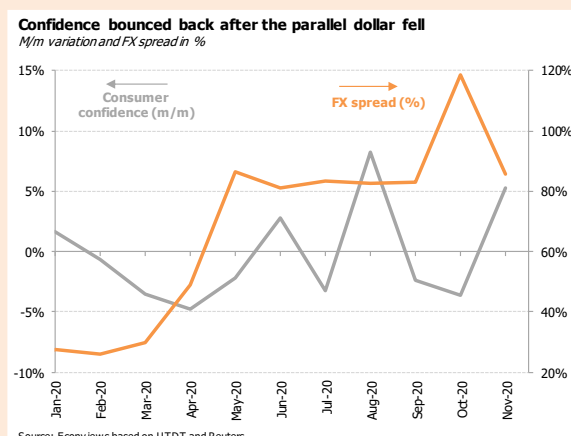
## The FX Truce Boosted Consumer Confidence 5.2%

- *In November, UTDT's indicator ended a twelve-month negative streak and recorded its second greatest monthly rise in 2020, after August's 8.2% following the debt restructuring*
- *Confidence stood 1.2% below its level one year ago has accumulated a 3.5% decline since the beginning of 2020*
- *Confidence in the Government grew again after half a year and recovered 1.5% in November, although it has eroded 13% since the presidential handover*

**Guzmán's plan to deal with the dollar was enough to calm things down and recovered confidence.** Although there are still doubts regarding how long the FX peace will last, and while the negotiations with the IMF move forward and the members of the Government's committee send mixed signals about a new program, the truth is that the blue dollar rate dropped 25% in just a few days. The consumer confidence survey carried out by Di Tella University between November 2 and 13 did not capture the great volatility recorded during the second fortnight of the month. In addition, the official announcement of the end of the preemptive lockdown in AMBA and the hopes of a vaccine for Q1-21 brought some hope to exit the crisis.

**Thus, UTDT's indicator grew 5.2% between October and November, after accumulating a 6% fall in the past two months. However, confidence is still below its pre-pandemic level, declining 4.4% compared to February's record, although this year it did not reach the lows from the summer of 2018-19.**

**The long-term uncertainty was clearly visible in the macroeconomic situation assessment.** With a tranquil dollar, short-term expectations recovered 12.2% during the month. Regarding the future of the economy



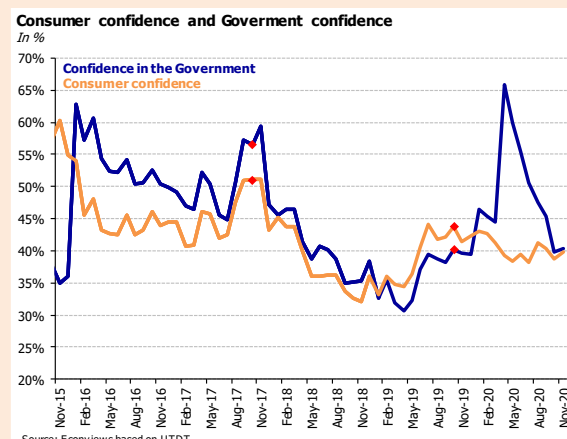
after 2020, long-term expectations are more cautious and they grew scarcely 2.4%. Thus, **the sub index measuring the macroeconomy averaged a 6.1% rise compared to October.**

**Despite inflation heating up toward the end of the year, the surveyed reported a 7.5% monthly improvement in their personal situation.** With the peak in infections behind us, cities such as Rosario or Córdoba resumed the reopening of activities, which affected the 12.1% increase of said sub index in the interior of the country. In the Greater Buenos Aires, it rose 7% while in CABA, where the reactivation process began earlier, it recorded a 0.6% drop.

**The appetite to buy durable goods and real estate popped after several months on the rise, despite the FX spread staying high. The sub-index moved scarcely 0.6% during the month, far from October's 15% rise. Anyhow, the purchasing predisposition is still 51.7% greater for home appliances and 96.7% for automobiles and housing compared to November 2019, figures that reflect purchases of goods tied to the official exchange rate made in advance.**

**November brought a breather after the comings and goings of the dollar sank the Government's image 12% the previous month.** In addition, they could deliver promising news on the health front, with signs that indicate that both Buenos Aires and the interior of the country have already moved past their peaks of infection and they have the chance of beginning a massive vaccination campaign in Q1-21. On the economic front, there were some mixed signals: while minister Guzmán emphasized fiscal moderation, ruling party senators posted a harsh letter regarding the new agreement with the IMF. Considering all these factors, **confidence in the Government had a 1.5% monthly recovery, although it has accumulated a 12.9% decline since Alberto Fernández took office.**

**Since the beginning of 2020, consumer confidence has backed 3.5%,** in a year marked by the pandemic and the economic crisis. The behavior of the indicator will still be tied to the FX front in December, although the holidays could help with a rebound of consumption. For next year, the program with the IMF and the normalization level that the vaccines will allow arise as the great conditioners of confidence in the economy.



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