THE WEEK AT A GLANCE

ECONVIEWS
ECONOMÍA Y FINANZAS

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Editorial: Cash, Ideology and the Golden Geese

The government made three decisions in recent days that in the short term won't change anyone's life, much less the urban middle class, but that can have potentially negative effects in the medium term. The Paraná Waterway was nationalized for a year, the concessions of the freight trains that today are in the hands of national and foreign groups were not renewed, and a new project for biofuels, at minimum controversial, will without a doubt be approved by the Senate and become a law very soon.

The most worrying news is that of the Waterway, since a very significant part of the Argentine harvest and its derivatives leave from the Paraná River's ports. Argentina is the world's leading exporter of soybean oil and flour. In the short term this may mean extra resources for the state, but the fear is that it does not have the capacities to dredge rivers with the required professionalism. Experts point out that the Paraná has a lot of sediment and without adequate maintenance, large ships cannot enter the canal. Without these ships, the logistics costs of the sector will be higher and Argentina will lose competitiveness. For example, the cost per ton exported could increase by 7 to 10 dollars without proper dredging. It is said that the management of the state will be for only one year, but there is a group within the government that makes the state management a flag. There is always the possibility that it will be concessioned again later on or that the state will do an efficient job at managing it, but recent history does not play in its favor.

In the case of the biofuel law, the project appears designed to favor the oil companies and that goes against the local industry, which invested to give added value to soybeans and corn. By reducing the mandatory fuel cut (the percentage of gasoline or diesel that must have biofuels) demand will fall. Furthermore, it appears to be a step backwards in the fight against climate change. The government won the support of a few opposition deputies from the northwest because biofuel based on sugar cane will not suffer cuts in the mix. It is understandable that the lawmakers should defend their provinces' interests, but without an integral vision it is also difficult to plan for the medium term in Argentina.

These initiatives combine short-term cash needs, ideological issues that were perhaps in vogue 50 years ago, and a pre-electoral discourse that may be attractive to some government voters, today somewhat dissatisfied.

The problem is that they continue to send negative signals for investment and the most competitive sector of the Argentine economy continues to be offset. These are not legal issues since the Waterway concession had already expired and the train contracts were about to expire. The issue is more about the organization of the economy. The government closes flights because it is not capable of following 2,000 passengers per day, but maintains that it can efficiently handle a complex operation such as the dredging of the Paraná or freight trains carrying inputs such as grain and cement. It doesn't seem very consistent.

Our base scenario is that there will be an agreement with the IMF and with that severe macroeconomic imbalances can be avoided. But even when the deficit is more moderate and inflation is kept under control, it will be necessary for Argentina to invest more in order to grow and generate the resources to pay its debts, including the one owed to the IMF, but also in terms of infrastructure. All these measures go in the opposite direction. We know that there is a sector in the government that is not so comfortable with these decisions. But so far that group has lost many more battles than it has won, and the cost for society can be high.

LAST WEEK IN REVIEW

✓ **The Treasury obtained ARS 174 billion in the last auction of June,** reaching a financing of ARS 403 billion throughout the month. In this way it achieved a roll-over of 165%.

✓ **The wage index for April showed a monthly growth of 3.2%.** For the registered sector, the increase was 3.5% for the registered sector while the informal sector wages increased only 1.5%. Compared to a year ago, the total index increased 36.7%, while in the first four months of the year it accumulated a rise of 16.8%. These records were below inflation: in April, prices increased 4.1% m/m, 46.3% y/y, and accumulated 17.6% along the year.

✓ In the first quarter of 2021, **the average individual income was ARS 42,394.** For men, this figure was ARS 48,570, while women, on average, earned ARS 36,123. This yields a gender gap close to 35%. On the other hand, **the Gini coefficient of per capita family income was 0.445,** practically the same level as a year ago (0.444).

✓ According to the latest bank report, in April **the financial system had an increase in the total irregular portfolio,** reaching 4.4% (in March it was 4.1%).

✓ **In June, 37,621 vehicles were patented,** which implies an increase of 64.1% compared to May. In this comparison, it must be considered that a part of the month was affected by strict lockdown. **The year-on-year variation was 0.9%,** with cars falling more than 10% and commercial vehicles in positive territory.

NEXT WEEK'S HIGHLIGHTS

✓ On **Tuesday 6** the Treasury will organize the **first bond auction** of the 3 that will take place in July.

✓ On **Wednesday 7** the INDEC will publish the **industrial production index** for May. We expect activity to have remained relatively stable compared to April.

✓ On **Wednesday 7** the **construction activity index** for May will be released. It is highly probable that it will show a drop compared to April.

✓ On **Wednesday 7** the Ministry of Labor will publish data on the **universe of the labor market** for April and the **survey of labor indicators** for May.

✓ On **Thursday 8** a new edition of **REM,** the survey of economic data organized by the Central Bank, will be published.

Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	95.8	0.2%	1.1%	35.7%	▲
Blue Chip Swap	166.3	1.0%	-0.4%	51.9%	▲
CB reserves (USD million)	42,654	+235	+588	-549	▲
Policy rate (Leliq)	38.0%	0 p.p.	0 p.p.	0 p.p.	=
Badlar rate (private banks)	34.1%	+0.06 p.p.	-0.06 p.p.	+4.56 p.p.	▲
Merval (in ARS)	63,315	-2.8%	1.0%	60.3%	▼
Country Risk (spread in %)	1,588	1.0%	7.3%	-36.7%	▲
Official exchange rate BRL/USD	5.05	2.4%	-0.4%	-5.7%	▲
Soybean (USD/ton)	533.4	9.2%	-7.1%	62.7%	▲
Oil - Brent (USD/barrel)	78.8	1.9%	12.7%	80.4%	▲

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q
Industrial production	*Apr-21*	0.3%	0.8%	0.4%
Automobile production	*May-21*	8.7%	1.8%	11.0%
Steel production	*May-21*	11.2%	-1.3%	4.0%
Poultry production	*May-21*	-6.9%	5.5%	-8.5%
Dairy production	*May-21*	1.9%	-0.1%	1.7%
Beef production	*May-21*	-13.9%	-0.5%	-15.1%
Real Estate transactions (CABA)	*May-21*	-13.0%	9.3%	-16.6%
Flour Production	*Apr-21*	-3.8%	6.2%	-1.7%
Oil production	*May-21*	1.0%	4.1%	2.4%
Gas production	*May-21*	3.9%	1.0%	4.0%
Cement production	*May-21*	-7.3%	1.6%	-3.4%
Construction activity	*Apr-21*	-2.2%	-2.0%	-4.4%
Retail sales	*May-21*	5.8%	-24.8%	-4.7%
Gas sales	*May-21*	-11.8%	1.6%	-12.5%
Motorcycle licenses	*May-21*	-23.6%	11.8%	-22.5%
Use of electricity	*May-21*	1.5%	6.8%	4.8%
Subway rides (CABA)	*Apr-21*	-11.2%	41.6%	3.8%
Imports CIF	*May-21*	3.2%	8.0%	0.2%
Exports FOB	*May-21*	5.4%	13.7%	3.5%
Loans in ARS to private sector	*May-21*	-3.0%	-6.7%	-5.8%
VAT-DGI Revenues	*Jun-21*	-2.4%	2.1%	-3.9%
Formal private jobs (SIPA)	*Mar-21*	0.3%	0.4%	0.5%
Formal private jobs (EIL)	*Apr-21*	0.2%	0.2%	0.3%
Consumer confidence	*Jun-21*	-2.3%	-7.8%	-4.6%
Government confidence	*Jun-21*	-11.8%	-2.2%	-6.3%

Note: stoplight color depends on monthly variation

How many dollars will the Central Bank sell in the second semester?

In some aspects, the first half of 2021 was a blessing for the Central Bank after a stormy second semester in 2020. Although inflation rose, what keeps the authorities from batting an eye is not preserving the value of the Peso but running out of dollars. As was seen last year, when the FX spread crosses a certain threshold, the economy falls out of order and confidence evaporates. The second semester will be very different and the Central Bank could be forced to give up 1.5 billion dollars.

So far the rise in the prices of soybeans and corn have worked miracles. In the first semester, the Central Bank bought almost 6.4 billion dollars in the market, part of which in turn was sold to the Treasury for other payments, using almost 1 billion to keep the FX spread under control. Even so, it swelled its reserves by more than 3 billion. And that occurred in a scenario in which the dollar rose less than inflation. The CB could have bought even more. Inflation was 24.9% and the dollar only moved 13.7% in the (official) wholesale market. Soybeans in Chicago averaged USD 530 in 2021 against 349 last year, up 52%. This also helped improve confidence, and some of the foreign currency that had left the system came back: around 600 million dollars, but everything helps in a country which thinks in greenbacks. On top of this, the Brazilian Real’s appreciation completed a positive external scenario for the Government.

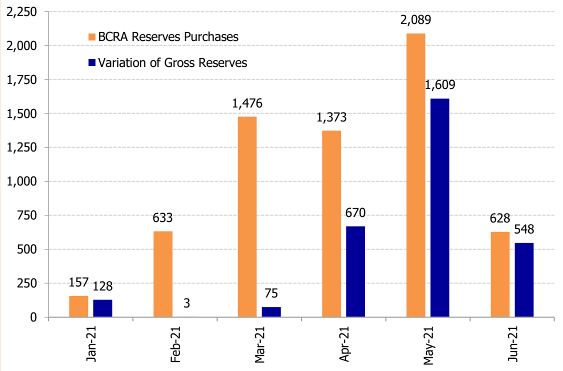
The problem is that this “dreamt world” seems to be coming to an end. Although prices are still good, it is clear that there is a seasonality in exports of grains and derivatives in Argentina. Producers are not selling much physical volume anymore and are taking advantage of prices to sell some of the 2022 harvest, which they have not yet planted. Added to this is an important logistical problem: the historical drought in the Paraná basin means that ships cannot be loaded to their maximum capacity, limiting export volumes.

But the most important thing comes from the fiscal-monetary and political side. This last point is simple: elections are coming and Argentines' appetite for dollars tends to positively correlate with elections, which are also often prolific in speeches that do not generate the confidence that a country with the historical volatility of Argentina needs.

From the fiscal-monetary point of view, the Central bank is going to issue about 1 trillion pesos in this second semester to finance the Treasury. Additionally, the mixed signals that the Government permanently sends out, for example with the new tax bill that taxes investments in pesos and could help reduce the demand for money, just when authorities are about to blow up the supply. Imbalances in the money market in Argentina could lead to demand for dollars and inflation (with some lag).

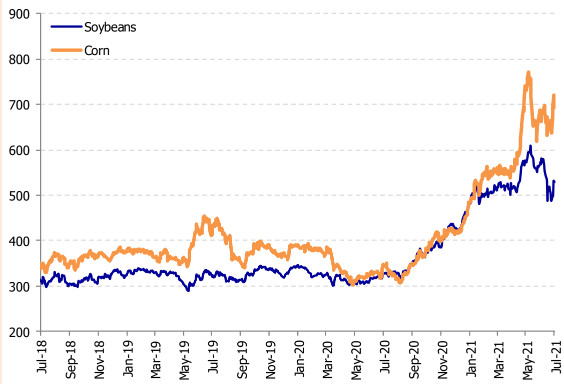
In this scenario, the government's strategy for the dollar to only grow 10-12% in the second semester, that is to say somewhere between 1 and 2% per month, would collide with an exchange market lacking supply and growing demand. The Central Bank has three levers to push. The first would

International Reserves
In millon USD - Up to Jun-28



Source: Econviews based on BCRA

Soybeans and corn
USD/ton (soybeans) and USD/bushel (corn)



Source: Econviews based on Reuters

Exports proceeds
In millon USD

	2020	Last 12 months*	2021E
Cereals & Oilseeds	21,985	25,831	35,433
Food, Beverages & Tobacco	8,168	8,202	8,554
Agriculture & Livestock	2,276	2,287	2,311
Automobiles	4,121	4,127	5,686
Chemistry & Plastics	2,851	2,867	3,047
Mining	2,271	2,470	2,830
Petroleum	3,139	2,963	3,332
Others	5,546	8,163	6,410
Total	**50,357**	**56,910**	**67,603**

* Up to May 2021

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be to devaluate a little faster. The second is to stop imports again. The third is to sell reserves. In our opinion, the monetary authority will use this last option the most. Surely at some point it will also be inclined to temporarily stop imports, but it will hardly be enthusiastic about devaluating faster.

This defines a hierarchy of priorities. Politics requires a subdued dollar in order to generate some wealth effect in voters. Sustaining the level of activity means the import flow cannot be cut off, although the recovery will go more through services than goods. So the remaining alternative is to sell reserves.

At Econviews we estimate the foreign exchange market's numbers line by line (with exports and imports sector by sector) for this second semester. The current account, which rocked a nearly USD 7 billion surplus in the first semester, will only provide 2 billion in the second half of 2021. The financial account closed with a deficit of 4.9 billion in the first semester and will add a red of almost 3 billion in the second half. We are excluding the SDRs received from the International Monetary Fund and the payments to the IMF in September and December from these calculations.

Among the assumptions we make is the fact that the international organizations that made net gains in the first semester return this money in the form of new loans. We also assume that the private sector pays fewer loans than in the first half, although it is still a net payer to the rest of the world. As can be seen in the table, our analysis leads to the Central Bank giving up 1.5 billion dollars. Could it lose more? Sure, you only need to change a few of the assumptions to go to 2 billion or something else as well. However, we believe that after that number the other two "levers" will come into play.

Another key variable that can affect the decision table is how much it will cost the BCRA to continue with the interventions in the BCS bond market operations that maintain the FX spread around 75%, which in our opinion is an absolute priority. **The more dollars used to buy back bonds, the higher the risk that importers receive an "it's over" notification**. And if that doesn't work, the sacred cow of faster devaluation will come into play.

Imports Payments

In millon USD

	2020	Last 12 months*	2021E
Cereals & Oilseeds	2,991	3,506	4,129
Food, Beverages & Tobacco	1,943	2,103	2,208
Commerce	4,637	5,037	5,045
Automobiles	6,451	7,526	9,390
Chemistry & Plastics	7,646	8,125	8,583
Mining	442	323	376
Petroleum	3,054	3,112	3,621
Textiles	1,163	1,257	1,383
Paper	1,026	1,059	1,042
Machinery & Equipment	4,070	4,830	5,057
Others	8,442	9,859	11,714
Total	**41,865**	**46,737**	**52,548**

* Up to May 2021

FX market

In million USD

	January	February	March	April	May	June (est.)	Second semester (est.)
Current account	**417**	**752**	**1,393**	**1,519**	**1,726**	**1,090**	**1,849**
Goods balance	1,051	1,445	1,999	1,933	2,365	1,550	5,436
Services balance	-187	-216	-280	-207	-100	-150	-1,360
Rents balance	-457	-484	-336	-197	-539	-310	-2,277
Transfers	10	7	10	-10	0	0	50
Financial account	**-509**	**-360**	**-1,015**	**-1,238**	**-724**	**-1,092**	**-2,800**
Direct and portfolio investment	66	59	68	43	53	50	500
Net loans	-351	-561	-527	-279	-304	-250	-1,450
Multilaterals	-229	-100	-42	-135	-41	-42	550
Hoarding	222	247	-108	519	-221	-200	-600
Others	-217	-5	-406	-1,386	-210	-650	-1,800
Adjustments	219	-389	-303	388	607	550	-550
Variation of reserves	**127**	**3**	**75**	**669**	**1,609**	**548**	**-1,501**

Source: Econviews based on BCRA

Without the "holy" soybean and the "solidarity contribution" the deficit would nearly triple

Tax revenues registered a 69% y/y growth in June, similar to the accumulated increase in the first semester (68.2% y/y). Both increases were well above the rise in prices (50% y/y in June and 45% y/y in the first 6 months of the year). **These positive dynamics allowed the deficit to reach only 0.5% of GDP in the first half of 2021**. However, if we subtract the effect of the rise in the price of soybeans, which allowed export duties to almost double so far this year, **and the “solidary contribution” made by large fortunes, the deficit would have been 1.4% of GDP**.

At a first glance, total revenue in real terms is already at pre-pandemic levels. However, **if we pay more attention and focus on taxes related to economic activity (VAT, DGI, Credits and Debits and Fuels), these peaked in January and then have been progressively slowing down ever since.** Steering away from this downwards path requires avoiding new restrictions on movement during July. **This is consistent with what is observed in the EMAE activity proxy, which has fallen in seasonally-adjusted terms for three consecutive months**: -0.1%, -0.3% and -1.2% in February, March and April, respectively. May shall likely continue the negative stretch, although some ground will be regained in June.

On the other hand, **contributions to social security are the taxes with the least growth, showing the weakness of the labor market**. Going forward, although we expect an improvement in activity, hand in hand with the vaccination and electoral campaigns, job creation will continue to be limited. **The uncertainty that still reigns threatens capital investment and discourages hiring workers, at least in the case of registered workers**.

With the production outlook slowing down since the beginning of the year, what sustained revenues was the “holy soy”. With an average rise of 66% during the first semester, the “weeds” allowed the Treasury to collect the most in export duties during the first semester since 2012, as a percentage of total collection. **Doubling and tripling, in real terms, proceeds from this concept last year and in 2017-2018, respectively**. If we do the math of “netting out” the effect of this exceptional acceleration in prices, we can say that, had export duties’ performance in 2020 been maintained in 2021, the revenues in these first six months would have been almost ARS 200 billion less, 0.47% of the GDP estimated for this year. God, Pope Francis and the “holy soy”.

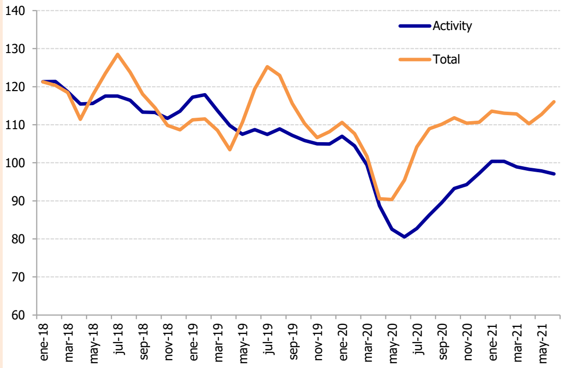
Special mention for a tribute that is not a tribute, for now. The Solidary - and Extraordinary - Contribution for large fortunes generated income, so far this year, for ARS 173 billion. In March it was reported that the total revenues would be ARS 220 billion, and the difference is explained because amounts from the payment facility plans have yet to be entered, the "5 installments" that AFIP offered to gain more adherence. **The Ministry of Economy had not touched the funds collected up until May, the month in which it announced that it was beginning to make use of the funds.** Although they have designed

Tax revenues
Up to May 2021 - Central Government

	In BN ARS up to Jun-21	Accumulated YoY Jun-21	Accumulated YoY Jun-20	y/y 2020
Total	**922.85**	**68.2%**	**26.7%**	**32.1%**
Income	221.26	60.8%	17.3%	33.8%
VAT	261.73	70.4%	21.5%	24.3%
VAT DGI*	155.70	53.4%	15.1%	17.5%
VAT DGA	109.03	103.2%	39.2%	37.6%
Credits and debits	58.80	146.8%	364.5%	29.4%
Personal assets	42.03	-21.5%	-	565.0%
P.A.I.S.	6.86	43.9%	27.6%	-
Social security	172.34	43.9%	27.6%	26.3%
Exports tax	86.24	189.4%	15.1%	-2.7%
Imports tax	31.95	94.3%	31.3%	22.5%
Others	41.66	-	-	-

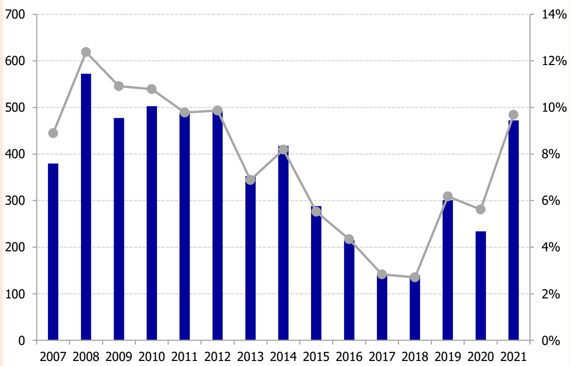
*Gross of refunds
Source: EconViews based on MECON

Total and Activity-related real tax collection
Index, Feb-20=100 - mov. avg. 3 months



Memo Ítems: Activity-related tax are VAT, Credit and Debits and Fuel
Source: Econviews based on AFIP and INDEC

Export tax revenue Jan - Jun
In AR$ billion - adjusted by inflation and as % of total tax revenues



Source: Econviews based on AFIP and INDEC allocations, money is fungible and in practice this accumulated extraordinary income served to reinforce May and, especially, June's accounts. We must necessarily to wait June's fiscal result to be published (on July 20th) to know if the available balance, of more than ARS 90 billion, was effectively used. In short, **this contribution gave the treasury resources equivalent to 0.41% of GDP in the first semester.**

Solidarity Contribution of the Great Fortunes
In AR$ millions

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-Aug 2021*
Raised by AFIP	-	-	6,064	103,788	38,654	24,771	49,723
Used by Mecon	-	-	-	-	80,234	?	
Available resources			**6,064**	**109,852**	**68,272**	**93,043**	

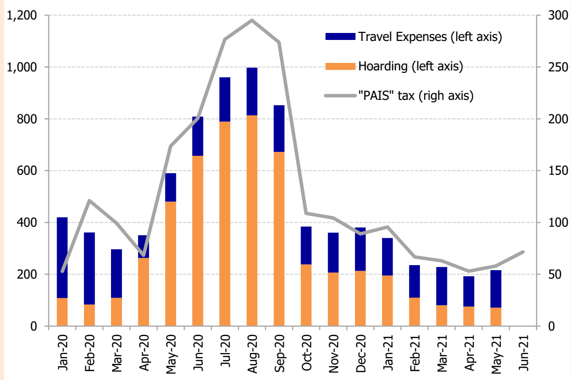
*Memo items: The total raised was reported to be AR $ 223 billion. In other words, AR $ 50 billion remains to be collected through the payment facilities scheme.

Source: Econviews based on AFIP

Therefore, if we subtract 0.47% of GDP that came from the exceptional rise in prices and 0.41% of GDP that came from the extraordinary contribution, the primary deficit for the first semester, which we estimate was 0.52% of GDP, hides a 1.4% "real" deficit, almost triple the observed one. This means ARS 703 billion that the BCRA would have had to finance, ARS 373 billion more than what was finally transferred to the Treasury up to June (ARS 330 billion).

With only ARS 50 billion remaining in the solidarity contribution tank (0.12% of GDP) and with the price of soybeans exhibiting more and more downwards pressure (a sunny external panorama begins to show the odd cloud) we expect these extraordinary sources of income to weigh less in the second semester. **In any case, some "extra pesos" may begin to come from the PAIS tax on expenses abroad, which with the opening of borders in June had had a slight rebound**. But due to the fear of the Delta variant, the government ended up limiting entry to the country to 600 persons daily, so that the income that comes from the surcharge on expenses abroad is likely to be reduced. "Declared" hoarding for now is absent with prior notice: the parallel dollar was below the official dollar (plus taxes) for several months and is just beginning to rebound, which can give incentives to arbitrage between the two, an operation that, in the end, pays taxes.

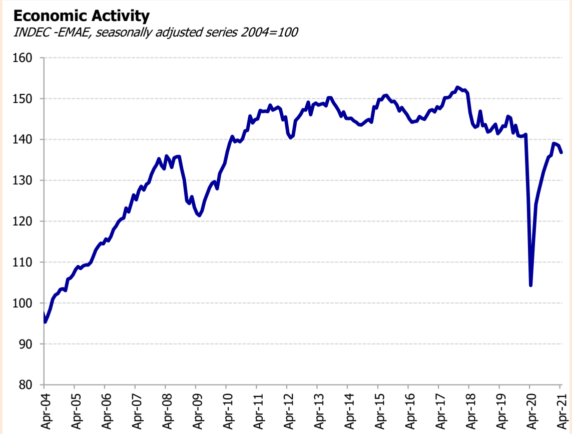
"PAIS" tax, hoarding and travel expenses
In US$ millions



Source: Econviews based on AFIP and BCRA

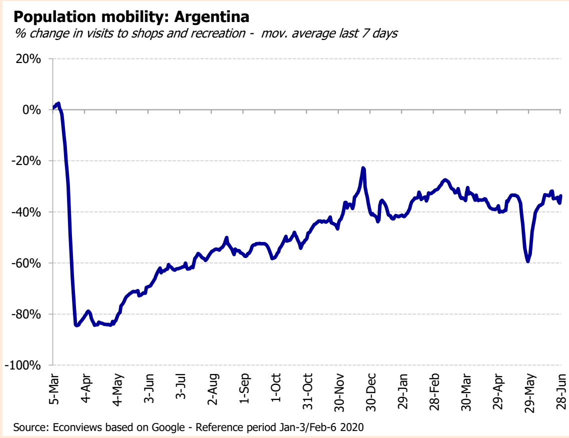
Activity: April and May down, but June picks up

With April's data, economic activity accumulated three consecutive months of decline. In line with our forecasts, the seasonally-adjusted EMAE contracted 1.2% monthly. In year-on-year terms, the 28.3% growth is the product of the comparison against an extremely low base: in April 2020, the month with the strictest quarantine to date, the economy had collapsed 25.4% y/y. **And in May the numbers will show a new drop. The first data for June points towards an improvement compared to May**.

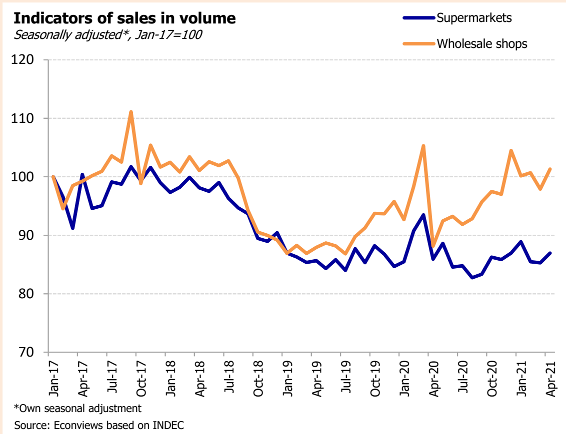


Although the economy cooled down, the statistical carryover remains high. In fact, if the economy were to stagnate at last April's level, **an average growth of 6.67% relative to 2020 would still be recorded**. One of the reasons why the carryover is not smaller is that February's monthly fall was considerably revised: originally it was 1.0% and now it is only 0.1%. The extreme values registered in the most stringent months of quarantine distort the process of seasonal adjustment and, as we have already mentioned, it is still possible that further important backward revisions will take place. **What is important to note is that economic activity remains below pre-pandemic levels: in April it was 3.1% below February 2020.**

Consumption, in the doldrums. The restrictions applied in April and May hit consumption, albeit unevenly. **Population mobility to businesses and recreation places, based on Google data, fell in April and much more in May**. In fact, while in March it was 31% below "normal" levels, in April it averaged -36% and in May -43%, due to the effect of the 9 days of stricter quarantine. **The good news is that mobility recovered quickly in June and has returned to April levels.**



Supermarkets and wholesale shops were not affected by the April restrictions. In fact, volume sales grew 1.9% and 3.5% respectively, without seasonality. **It is possible that this phenomenon was repeated in May**. The quarantine of the last 9 days of May only allowed mobilization to nearby stores to acquire essential goods, such as food and cleaning products. And although many supermarket chains limited sales of "non-essential" products, it is possible that due to proximity effect the net balance has ended up being positive.



In 2020 something similar had happened: sales of supermarkets and wholesale shops soared at the beginning of the quarantine, while retail sales in the rest of the economy plummeted. But much of that rise was driven by precautionary reasons: people did not know what would happen to the provision of basic goods and stocked up just in case. It is a phenomenon that has been observed all over the world. But as the population got used to the "new normal" and it was verified that there would be no major supply problems, the incentive to buy for precautionary reasons disappeared. Therefore, **if there is an increase in May's sales (seasonally adjusted), it will be a very modest one**. The official data will be available within three weeks, and there we can confirm (or reject) our hypothesis.

The rest of the economy has a different story to tell. The tightening of mobility restrictions hit hard those sectors that depend on the influx of people. Shopping malls closed their doors again in mid-April in the City of Buenos Aires and sales fell to half of those in March in real terms (and at the country level, they represented around two-thirds). Movie theaters, which in March were able to see the light for the first time in 11 months, were also shut down again and in the City of BA the number of spectators registered went down by a half. Both shopping malls and cinemas were closed in May. **And retail sales, according to the latest CAME report, were 7% lower in May, compared to April.**

A sectoral look: how is the recovery coming along?

April's data indicated a high level of heterogeneity between economic sectors. Sectors producing goods fell more on average than service providers, but in most of the latter there were monthly decreases, discounting the seasonal effect.

Construction accumulated three consecutive months of falls in April, according to the ISAC index published by INDEC. In December, activity was 11.5% above February 2020, while last April it moderated to 5.1%. The sector cooled down in recent months, but remains at a good level. We expect the year to close with a 20% growth.

Industry, partly affected by the increase in Covid cases in workers and the adaptation of protocols, as of April had not recovered from the fall in February according to the Manufacturing IPI, but **remains above pre-pandemic levels**. The lockdown in May, which hit consumption, did not affect the industry as much, although preliminary data on energy consumption point to lower levels of production than the previous month. **The statistical carryover for 2021, up to April, was 14.6% and we expect the year to close at around 12%.**

In the agricultural sector, the commodity price boom did not translate into a boom in volumes. In fact, in April production retracted compared to March, seasonally-adjusted. The sector is still below February 2020's level, and we expect the year to close with a 2% drop.

On the services side, the "transport and communications" division recorded an important advance in April that we estimate at 7.2%, but which is explained mainly by communications: the restriction measures hit public and private transport in April, and in May the fall will be greater. In fact, commuting on suburban trains plummeted 8.1% and 11.9% in April and May, respectively. After falling 17% in 2020, we expect the sector to close 2021 with 6% growth.

In the opposite direction, the health sector has been hit hard and is particularly affected by an increase in costs that is not in line with the increase in prices. Consumer prices grew, until May, 65.4% from December 2019, but private healthcare prices, at the national level, increased only 26%. We expect the sector to close the year with an 8% drop.

Evolution of the recovery

% variation vs Feb-20 - seasonally adjusted

	Apr-20	Dec-20	Apr-21
Agriculture and livestock	-4.2%	-3.4%	-2.7%
Fishing	-1.0%	-0.5%	-11.0%
Mining	-21.3%	-13.0%	-9.7%
Industry	-32.4%	0.7%	4.2%
Electricity, gas and water	-9.8%	2.9%	1.8%
Construction	-65.2%	11.5%	5.1%
Commerce and repair	-27.2%	5.4%	8.6%
Hotels and restaurants	-83.9%	-50.7%	-45.7%
Transport and communication	-23.4%	-18.5%	-6.3%
Banking	1.7%	9.6%	4.4%
Real estate, corporate and rental activities	-17.0%	-1.3%	3.0%
Public administration	-12.3%	-8.2%	-4.2%
Education	-10.2%	-4.2%	-4.0%
Health	-30.8%	-1.4%	-31.5%
Other social services	-68.0%	-21.9%	-7.2%
Taxes net of subsidies	-21.3%	-2.9%	4.7%
Services	-23.1%	-4.7%	-2.4%
Goods	-26.8%	-0.8%	0.9%
EMAE	-25.7%	-2.9%	-1.8%

*Own seasonal adjustment

Source: Econviews based on INDEC

Economic activity by sector

	Growth 2020	Carryover April 2021	Growth 2021F
Agriculture and livestock	-6.5%	-1.2%	-2.0%
Fishing	-20.9%	16.5%	9.0%
Mining	-10.5%	4.0%	4.5%
Industry	-7.8%	14.6%	12.0%
Electricity, gas and water	1.4%	0.6%	0.0%
Construction	-22.6%	23.6%	20.0%
Commerce and repair	-5.5%	13.3%	11.0%
Hotels and restaurants	-49.1%	2.0%	4.0%
Transport and communication	-17.0%	8.5%	6.0%
Banking	-0.9%	1.7%	0.0%
Real estate, corporate and rental activities	-5.7%	9.2%	7.5%
Public administration	-7.2%	3.0%	2.0%
Education	-4.7%	0.9%	1.5%
Health	-9.6%	-16.7%	-8.0%
Other social services	-38.4%	38.7%	20.0%
Taxes net of subsidies	-9.8%	12.5%	9.0%
Activity index (EMAE)	-9.9%	6.7%	7.0%

Source: Econviews based on INDEC

Our nowcast with the available data for May shows, in a first cut, a monthly fall of 3.5% without seasonality and an increase of 14.3% y/y, explained by base effects from the second month of strict lockdown last year. The monthly decline is based on the assumption that seasonal factors are maintained, but this may change. On the other hand, this first estimate does not include - for availability reasons - data on retail consumption, which was probably not as badly hit as consumption in general. In two weeks we will have more data to review the estimate, which we hope will show a smaller monthly drop.

For June, tax revenues show mixed signals, with a fall in VAT-DGI without seasonality, but a rise in Credits and Debits. However, VAT-DGI collection mainly reflects May's operations, so it is more reliable to analyze the tax on checks' revenue. **In short, in June economic activity will show an improvement after 4 months of consecutive declines. In July it will take the first steps into the midterms campaign. With the impulse to boost consumption via bonuses and salary updates, July will possibly be "juicy" and, like June, positive.**