THE WEEK AT A GLANCE

ECONVIEWS
ECONOMÍA Y FINANZAS

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Editorial: Open for Business

"High-Beta" is one of the most used analogies to describe the Argentine economy. There is a mathematical reason for that. Argentina is not the economy with the worst performance in a medium-term perspective compared to a large sample of developed and emerging countries. But it does hold the gold medal in volatility: that is, the standard deviation of economic growth, which in finance is equal to a high-risk bet.

Many times, it is explained that this occurs because when governments are changed, none of the previous policies continue and there are a 180-degree change. That is true, but often it also occurs within the same administration. The defeat in the primary generated in the government a total change of focus in the fight against Covid-19. After having had one of the longest quarantines in the world and having practically closed the airports to prevent the population from the arrival of the Delta, the government changes the logic and re-opens everything.

People return to the soccer matches, there is no more quarantine for those who return from abroad, the pubs and nightclubs fully reopen their doors (many were already open, but informally) and many other things. It is not that we disagree with the measures, but with remark the lack of consistency. **It seems that the danger of the delta is inversely correlated with the need to reverse an adverse electoral result.**

What will be the impact on the economic activity? Perhaps the re-openings end up reviving the economy more than the mountain of pesos that will fall on it in the coming weeks. Our vision is that in a very undersupplied economy with a cap on imports and rising inflation, it is not obvious that there will be a real demand-push cycle, at least on the goods side. Maybe in terms of services, opening more activities will enhance the use of public transport and many more expenses related to recreation, culture, and tourism.

The improvement in the supply of services will find a steroid-based reinvigorated demand because of the many measures announced or to be announced by the government. Increase in the minimum wage, a rise in the amount of the social and labor cash-transfers programs, early retirement program for the unemployed, new increase in the non-taxable threshold of the income tax, a new moratorium and tax amnesty, and income tax relief for some financial instruments. There is also talk of an exceptional bonus for retirees and beneficiaries of the Universal Child Allowance.

It remains to be seen what the impact in terms of FX market pressures is. The reopening of borders will be key for some cities and border posts that depend on tourism, but it is also logical that there are more people looking to flight abroad. In normal times and beyond FX fluctuations, the tourism balance in the Current Account is negative.

Moreover, we must count for the purely monetary effect on the FX market. With more money on the street, it is not written anywhere that people will not buy dollars with the extra disposable income that will has in the week ahead. In other words, the demand for dollars is more likely than a reinvigorated economy in this scenario.

With growing demand and a supply that is cap, there are many caveats. The dynamics of the reserves for the coming weeks suggests that when the summer arrives, the CB will have to count the gold bars to start selling them. The only positive thing about this situation is that it should raise little doubt about the benefits of seeking a deal with the International Monetary Fund. Without a program, the FX rate correction that will inevitable come would lack of anchors to avoid a destabilizing over-shooting.

LAST WEEK IN REVIEW

✓ Like the Consumer Price Index, **the cost of construction showed a deceleration in the month of August, increasing 2.1%.** Within this index we see that the highest increase was in materials (3.3%), followed by general expenses (3%) and labor (0.6%). In this way, in interannual terms, the increase reached 66.2%, and in the accumulated of the year, it scaled to 33.2%.

✓ The **wholesale price index rose 2.5% in August and 60.5% year-on-year.** Domestic products increased 2.6%, while the low rate of exchange rate depreciation seems to have affected imported products since they only rose 1.3%.

✓ According to the latest bank report, **in July, financial entities obtained profits for ARS 11,410 million,** an amount lower than the two previous months and even lower compared to the monthly average of previous years. Additionally, net interest income accumulates 13 months in a row in negative territory.

NEXT WEEK'S HIGHLIGHTS

✓ Today the INDEC will publish information on **sales of supermarkets and wholesale self-services.**

✓ Today, the data of **sales in shopping centers** will also come out.

✓ On **Tuesday 28** the information on the **activity level** for July will be published. We expect a poor level.

✓ On **Tuesday 28** the INDEC will publish the **income distribution** data for the second quarter.

✓ On **Tuesday 28,** the Ministry of Economy organizes the **last bond auction** for the third quarter. On the 30th there are maturities for 192,195 million pesos.

✓ On **Thursday 30,** the Universidad Torcuato di Tella will publish the data on the **consumer confidence index** for September.

✓ On **Thursday 30** the always sensitive **data on poverty** will be available.

✓ On **Thursday 30** the **salary index** for July will be published.

✓ On **Friday, October 1,** we will know the **tax revenues** for September, the first indicator of the month.

Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	98.7	0.2%	1.1%	30.1%	▲
Blue Chip Swap	174.0	0.9%	2.9%	20.2%	▲
Blue Chip Swap "SENEBI"	195.5	6.8%	10.5%	-	▲
Parallel	185.0	1.4%	2.5%	29.4%	▲
CB reserves (USD million)	43,131	-2204	-3187	+1013	▼
Policy rate (Leliq)	38.0%	0 p.p.	0 p.p.	0 p.p.	=
Badlar rate (private banks)	34.3%	0 p.p.	+0.13 p.p.	+4.69 p.p.	=
Merval (in ARS)	75,611	2.3%	3.3%	79.7%	▲
Country Risk (spread in %)	1,635	3.7%	6.3%	22.0%	▲
Official exchange rate BRL/USD	5.38	1.0%	3.4%	-3.4%	▲
Soybean (USD/ton)	473.1	2.0%	-5.3%	28.4%	▲
Oil - Brent (USD/barrel)	78.9	7.3%	8.3%	93.1%	▲

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q	
Industrial production	*Jul-21*	-2.6%	0.4%	2.2%	🟢
Automobile production	*Aug-21*	-10.5%	6.9%	-13.5%	🔴
Steel production	*Aug-21*	-5.7%	3.3%	-5.6%	🔴
Poultry production	*Jul-21*	-5.5%	-4.9%	-2.2%	🔴
Dairy production	*Jul-21*	-0.2%	1.7%	0.4%	🟡
Beef production	*Jul-21*	-4.2%	-9.0%	-1.6%	🔴
Real Estate transactions (CABA)	*Jul-21*	-8.8%	1.3%	2.0%	🟢
Flour Production	*Jul-21*	-0.5%	-0.5%	1.7%	🟢
Oil production	*Jul-21*	0.7%	3.5%	1.8%	🟢
Gas production	*Jul-21*	1.2%	5.3%	3.6%	🟢
Cement production	*Aug-21*	-3.0%	-0.2%	-2.0%	🔴
Construction activity	*Jul-21*	2.1%	0.3%	6.1%	🟢
Retail sales	*Aug-21*	2.5%	11.1%	8.5%	🟢
Gas sales	*Jul-21*	6.5%	-4.3%	9.1%	🟢
Motorcycle licenses	*Aug-21*	-3.1%	20.7%	4.5%	🟢
Use of electricity	*Aug-21*	-3.0%	-1.5%	-5.4%	🔴
Subway rides (CABA)	*Aug-21*	16.5%	58.1%	48.8%	🟢
Imports CIF	*Aug-21*	-0.5%	7.6%	1.6%	🟡
Exports FOB	*Aug-21*	11.6%	15.2%	15.0%	🟢
Loans in ARS to private sector	*Aug-21*	0.8%	-4.1%	0.0%	🟡
VAT-DGI Revenues	*Aug-21*	0.1%	-1.0%	2.5%	🟢
Formal private jobs (SIPA)	*Jun-21*	0.1%	1.0%	0.3%	🟢
Formal private jobs (EIL)	*Jul-21*	0.0%	0.0%	-0.1%	🟡
Consumer confidence	*Aug-21*	5.0%	3.0%	10.5%	🟢
Government confidence	*Sep-21*	-14.7%	-4.4%	-9.7%	🔴

Note: stoplight color depends on monthly variation

Selling the Crown's Jewells

- *The situation in terms of the macro fundamentals for the last quarter of 2021 did not change drastically with the result of the primary. We only found out that the ruling coalition is a bad loser.*

- *The CB's dollar cash is bottoming out, which should motivate a quick agreement with the IMF in the first months of 2022. A drought on the horizon?*

- *The government does not save creativity to regain the favor of its constituents to the general election, which is ephemeral in the short term but costly in the long term.*

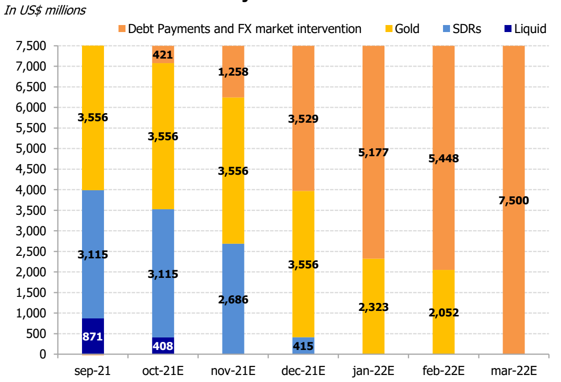
Twelve days have passed since the result of the primaries marked the start of a political storm that at times threatened to become an institutional hurricane. Meanwhile, in our point of view neither the macroeconomic situation has changed substantially, nor do we think it will change in the future with respect to the scenario that we contemplated a couple of months ago.

The pesos that will be issued to finance more (electoral) public expenditure was going to be issued the same, the dollars that will be lost to sustain the FX market and pay debt were going to lose the same, and the BCS that will overheat as we reach a summer with definitions was going to overheat anyway. Something that we do notice is the fragility, at least apparent, of the ruling coalition in the face of an adverse result. **A low resistance to an important defeat and a level of net international reserves that is worrying can be an explosive cocktail for the day after the elections.**

Our calculation of net international reserves is made up of a) liquid net reserves, which are the dollars used to sustain the official FX and the parallel one; b) Special Drawing Rights (SDRs), which will be used for the payment of principal and interest maturities to the IMF; and c) Gold, the price of which varies. **With the latest information available, the amount of net international reserves held by the CB is around US$ 7.5 billion, US$ 3,100 in SDRs, US$ 3,600 in gold and US$ 900 in liquidity.** From now on until December, the sum of debt payments with the IMF, with other international organizations and the projected FX market intervention is up to US$ 3,571 million. Which means that by the first days of January we would be starting to sell gold to support the exchange market, if not earlier. **And this does not contemplate the political turbulence that could occur in the face of a similar or worse electoral result for the ruling party.** In practice you can use reserve dollars or enlarge the loan with the BIS, but in essence it is like selling the gold on account.

Our FX market indicators indicates that conditions are deteriorating as we enter to the last quarter of the year, in which we already know that there will be more monetary financing, more inflation and, therefore, less incentive to hold on local currency related assets. The restrictions on entering and leaving

Net International Reserves Projection
In US$ millions



Memo item: Net Reserves = Gross Reserves - USD reserve requirements - SDRs - China Swap - BIS & Repos
Source: Econviews based on BCRA

Net and Liquid International Reserves
In billion USD

Gross reserves	**43.2**
Reserve requirements in USD	11.8
Swap with China	20.1
BIS & Repos	3.8
Net reserves	**7.5**
Gold	3.6
Treasury SDRs position	3.1
Liquid net reserves	**0.9**

Source: Own estimates based on BCRA and IMF
Up to Sep-24

the country appear to be loosening more and more, and with them the tourism balance in the Current Account should worsen. The price of soybeans is falling, from China comes news of a financial crisis that may worsen and, with it, the fear that the price of the "gold-bean" will reverse the strength it showed since the end of last year. Recall that exactly one year ago the price of commodities began an upward cycle that led them to be at levels like those of a decade ago. Thus, soybeans in some days exceeded US$ 600 per ton and gave the government air and extraordinary resources.

FX market Indicators

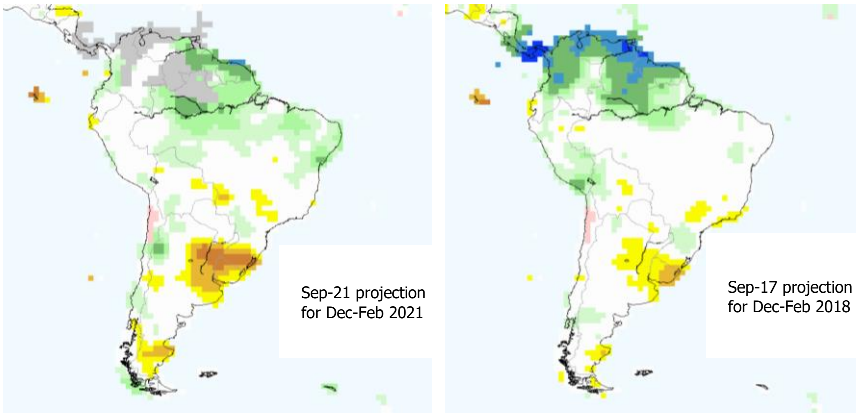
	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21**
CB's Intervention (US$ millions)	-1,618	-1,090	-327	608	157	633	1,476	1,373	2,089	727	714	1	-697
Monetary Financing (ARS millions)	193,500	-95,780	150,000	254,982	0	0	135,000	55,000	50,000	90,000	180,000	200,000	200,000
Tourism Balance (US$ millions, cash basis)	-182	-143	-151	-168	-140	-119	-137	-113	-142	-212	-195	-	-
Implicit devaluation forward ROFEX* (eop)	53.7%	94.1%	82.3%	72.3%	57.6%	48.9%	41.4%	52.6%	49.8%	45.8%	50.4%	50.4%	48.1%
BCS spread (eop)	91.8%	90.1%	81.6%	66.8%	72.5%	61.7%	60.1%	66.1%	75.2%	73.3%	87.9%	80.2%	92.7%
Soybean price US$/ton. (eop)	376.1	388.2	429.4	483.3	503.4	516.3	527.9	577.2	562.4	532.8	514.8	477.2	471.3

*nearest contract
**last data available
Source: Econviews

Furthermore, it is already beginning to be pointed out that the probabilities of "La Niña", a climatic phenomenon that causes droughts, have increased considerably in recent weeks for our region. In comparison with the forecast of September 2017 for 2018, a year of severe drought, that of now looks even more adverse. From now on, our scenario contemplates that the dollars would not be enough to sustain the current level of intervention in the exchange market until the next harvest, but if this situation is confirmed (we would have to wait for the beginning of the 2022 harvest to do so), the level of the RER it would be greater than we expected previously.

Climate Forecast

Green-bluish tones indicate situations with higher than average rainfall, while yellow-reddish situations with lower than average rainfall.



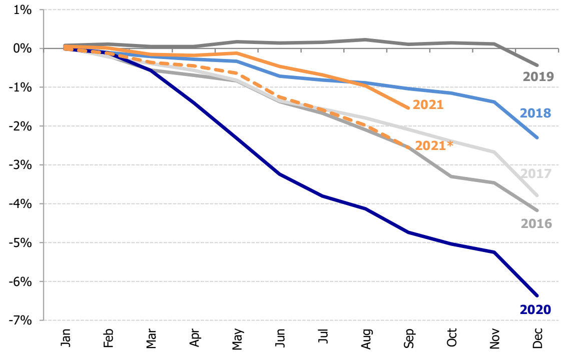
Source: Econviews based on International Research Institute for Climate and Society

Regarding the number of pesos that will be issued between now and December, the monetary financing that we have projected is AR$ 700 (AR $ 1.6%) billion, practically the entire primary deficit that we expect for the third quarter (1.9 %). The remaining gap would be financed with debt. In the limit, if the refinancing that the Ministry of Finance must get becomes impossible to fulfill, the remainder will also have to be financed with more issuance. All the above is assuming that the primary deficit is 3.5% of GDP, although in the budget the economy minister set out 4% for the end of 2021. **We think that there is little technical margin to achieve that figure. All in all, the issuance that would require a negative scenario, with low refinancing and more deficit, would be AR$ 1 trillion.**

Fiscal Primary Balance: two faces of the same coin

Cumulated as % of GDP - Central Government

2021 net of extraordinary revenues*



Source: Econviews based on Mecon

Electoral Meassures

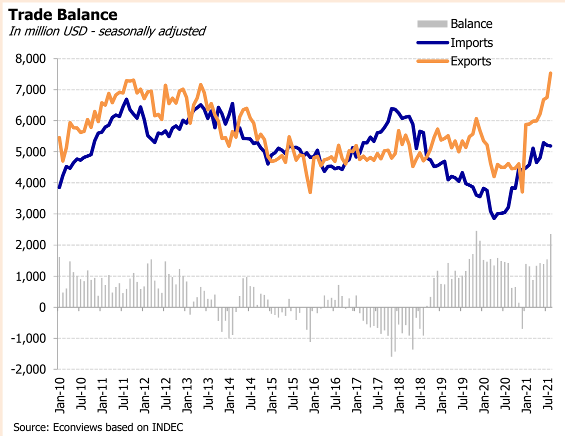
- Minimum Wage Increase (in December it reaches 55% YoY)
- Raise of the non-taxable threshold of the Income Tax, from AR$ 150,000 to AR$ 175,000
- Tax and Retirement amnesty
- REPRO extension (payment of salaries for company employees)
- Early retirement for the unemployed
- Exceptional bonus for retirees and beneficiaries of the UCA (AUH)?

Source: Econviews based on Ministry of Labour and ANSES

For now, the announcements that were given are in line with expectations (expenditures with a limited budgetary impact in the short, although expensive in the long term) and do not drastically change the scenario we expect for December: a deficit financed entirely with money printing, a CB that would begin to sell gold to support the actual level of the FX rate and the need to correct the macroeconomic imbalances before closing an agreement with the IMF.

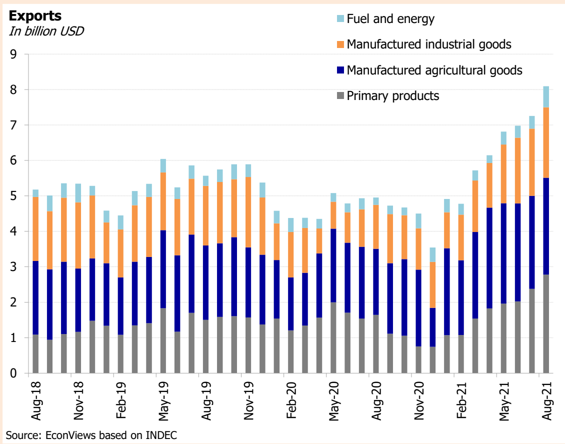
The Biggest Trade Surplus of the Year, but All That Glitters Is Not Gold

- *Exports performed very well with an increase of 63% measured in dollars and 25.7% in volume. Sales from the primary sector and Brazil helped.*
- *Imports fell for the second consecutive month in the monthly comparison. Net of energy, they fell further. The energy deficit is already at USD 672 million and will soon pass USD 1 billion.*
- *Given the low level of reserves, it is highly probable that obstacles to imports will continue or increase, but if the FX spread increases, exports will also slow down.*



The trade balance in August showed a surplus that was above all expectations. With exports that reached USD 8,093 million and imports for USD 5,764 million, the trade surplus was USD 2,339 million, the highest value since November 2019. Given this, **the trade balance already accumulates 36 months of surplus: on the surface it does not appear that we are in the presence of the famous "external restriction".** The problem of the lack of dollars is not due to the exchange rate for the trade of goods, but to the profound instability of the Argentine macroeconomy. And the capital controls, although in the short run help to stop the drain of dollars a bit, also imply that the door is closed to the entry of foreign currency. In this scenario, the current (official) exchange rate is insufficient. Additionally, as imports are limited, the trade balance number does not represent genuine market trends.

What was behind this impressive result? Exports jumped 11.6% monthly without seasonality and recorded their highest value in more than 8 years. It meant a year-on-year increase of 63.3% that, unlike previous months, was explained evenly by quantities (25.7%) and prices (30.0%).



Exports rose in all their categories, although the main contribution came from the side of primary products, which jumped 69.2% y/y. Although the gross harvest months ended, soybean exports reached USD 770 million, while a month ago they totaled about 412 million (and in August 2020 they were 334 million). The reason is that a part of the soybeans is destined for milling, and in view of the rise in the local price of grains, the quantities exported increased to a greater extent than those destined for milling. On the other hand, corn in grain was the main export of the month, which with USD 1,138 million contributed an additional 414 million in relation to a year ago.

Among the manufactures of agricultural origin (46.8% y/y), soybean oil stood out, which grew 116.7% year-on-year, although in absolute values, soybean meal and pellets were on the podium, with exports of 986 million. On the other hand, **on the side of manufactures of industrial origin (60.4%)**, the greatest contribution came from vehicles for the transport of goods - which are mainly destined for Brazil- with an interannual growth of 104.0%. And although in absolute values energy-related exports are lower, biodiesel (which is included in the MIO) jumped by 319.4%, **while exports in the**

category of fuels and energy soared 182.4%, with crude oil from petroleum standing out (172.6% y/y).

The recovery of our trading partners is essential for Argentine exports, and especially Brazil. In fact, the neighboring country remained the country's main trading partner, importing almost USD 1.2 billion of Argentine products. It was the highest value for a month since October 2014, when the harsh recession of 2015-16 was just beginning. In monthly terms, exports to Brazil grew 15.7% s.a. In addition, the balance was positive for Argentina at USD 44 million, after several months in the red zone. Sales to China also rose, at USD 1,047 million after averaging just over 600 million in the previous three months. The United States completed the podium at USD 516 million. Combined, India, Vietnam and Chile contributed USD 1,072 million to the total exported.

Exports by main product
August 2021

		Millions of USD	Y/y variation
Corn	Primary	1,138	57.2%
Soybean flour	Agroind.	986	50.4%
Soybeans	Primary	770	130.2%
Soybean oil	Agroind.	564	116.7%
Automobiles*	Industrial	395	104.0%
Total exports		**8,093**	**63.3%**

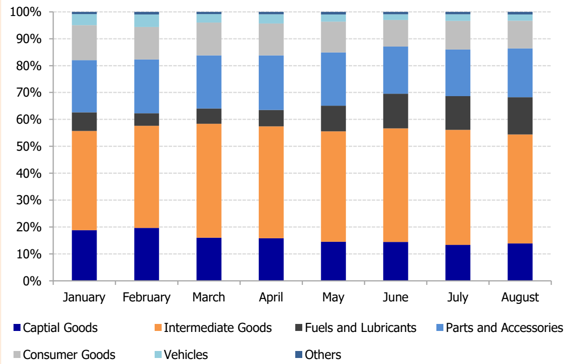
*for transporting goods
Source: Econviews based on INDEC

<u>**Imports, a different story**</u>

Imports did not have a good August and fell 0.5% monthly without seasonality, in line with the moderation in the level of activity, but also with the greater difficulties to import. In this way, they totaled USD 5.754 million, which implied an interannual increase of 64%, explained by a rise of 33.4% in quantities and 22.8% in prices.

Analyzing the August results, two facts appear that deserve closer attention. First, energy imports increased their share. Of the total imported in the last month, 13.8% corresponded to "fuels and lubricants", well above the average of the last 5 years (8.5%) and even more than the average since January 2020 (7.4%). **In other words, imports net of energy fell even more!**

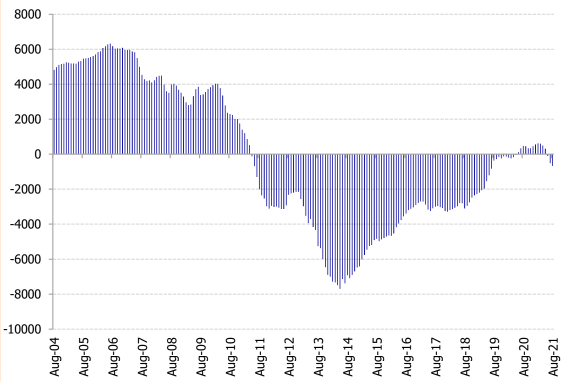
Imports by Economic Use- 2021
Percentage share of the total



Source: Econviews based on INDEC

The highest imports of the month corresponded to liquefied natural gas (USD 340 million) and diesel (USD 237 million). Part of this impressive jump in energy imports is due to the rise in the international price of oil, but **it also responds to the policy of maintaining flat rates: with an artificially low price, demand far exceeds supply, and the excess must be covered with imports.** Prices of imports of fuels and lubricants jumped 79.2%, but the quantities even more, at 80.1% YoY. The energy deficit of the last 12 months reaches 672 million dollars, the worst in 25 months. It should not take long to reach 1,000 million, far from the USD 7,700 million deficit of 2014, but it is a number that begins to take a toll on the macroeconomy.

Energy Balance
In million USD - 12 moths moving average



Source: Econviews based on INDEC

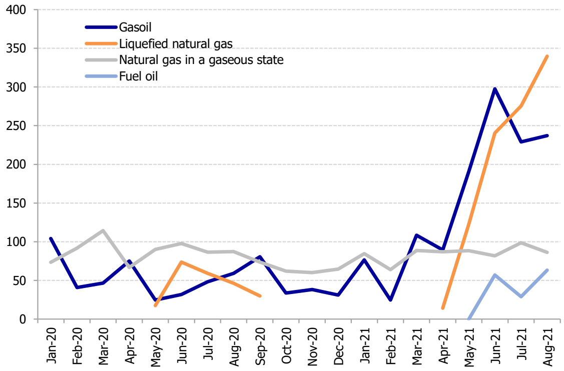
The second fact to highlight is the decrease in the participation of vehicle imports. In this case, the situation is the reverse of that of fuels: in August they represented 2.4% of the total, while on average between 2016-2021 this number was 6.3%. This lower entry of imported vehicles is noted in the dealerships, which demand greater permits to avoid shortages and delays. And the government warned that it could put greater obstacles to imports of the automotive complex, particularly auto parts, the ones with the highest deficit. This policy that seeks to take care of foreign currency reserves ends up amputating the collection of VAT, car tax, patenting and other tax revenues.

However, the automobile sector was not the only sector where there were shortages. The range of products that are experiencing delays in delivery or lack of supply goes from glass bottles to supplies to make footwear and even tennis balls. Shortages of covers for vehicles, agrochemicals and agricultural machinery components were also reported. These shortages not only generate complications in production (if they are inputs) or in the normal development of economic activities, but they will also be a source of inflationary pressure.

What can we expect for the next few months? A possible answer to this question can be found in the stock of reserves of the Central Bank. Currently, net reserves are USD 7.5 billion, while liquid reserves are below USD 1 billion. A part of this amount will be necessary to sustain the FX policy, which requires intervention in both the official market and the blue chip swap market to keep both prices at bay.

In this way, we see very likely that the government will continue to put a brake on the entry of imported products, but this will also imply putting a ceiling on the level of recovery. In this context, **our expectation is that a high trade surplus will be maintained, but the result of last August will hardly be repeated**: the FX spread with the free BCS reached 90%, generating incentives to delay exports and advance imports.

Main Energy Imports
In million USD



Source: Econviews based on INDEC

Unemployment Fell to Under 10%, but Corrected for Activity It Would Be 13%

- *Open unemployment is at 9.6%, but that occurs because there are fewer people in the labor market. Unemployment corrected for the activity rate would be 13%. In the GBA unemployment would have risen to 16.7%. Women were the big losers from the pandemic.*
- *Public employment prevented the drop in employment from being greater, but there are still 154,000 fewer workers than in the second quarter of 2019.*
- *GDP fell 1.4% in the second quarter of the year against the first, a loss that was slightly smaller than the 1.6% that was implicit in the monthly indicator of activity. We continue to think that there will be a 7.4% recovery in the year.*

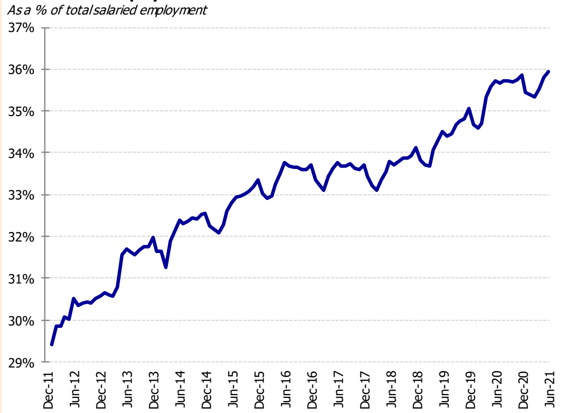
Labor market indicators
In percentage points

	Activity rate	Employment rate	Unemployment rate	Unemployment corrected for Covid effects
Q1-2019	47.0	42.3	10.1	10.1
Q2-2019	47.7	42.6	10.6	10.6
Q3-2019	47.2	42.6	9.7	9.7
Q4-2019	47.2	43.0	8.9	8.9
Q1-2020	47.1	42.2	10.4	10.4
Q2-2020	38.4	33.4	13.1	30.0
Q3-2020	42.3	37.4	11.7	20.8
Q4-2020	45.0	40.1	11.0	15.0
Q1-2021	46.3	41.6	10.2	11.7
Q2-2021	**45.9**	**41.5**	**9.6**	**13.0**

Souce: Econviews based on INDEC

The political repercussions on the labor market numbers have been pretty quiet and that's okay. Some official politicians could have celebrated that unemployment fell to 9.6%, against 10.2% in the previous quarter or 13.1% a year ago, the peak of the quarantine. It is even a point lower than in the second quarter of 2019. **This is where economists come in with a few technical details that mean that the numbers should not be so easily comparable.**

Government employment
As a % of total salaried employment



First, it is clear that the pandemic, at least in the second quarter, was still alive and well. **The number of people looking for work or working was 45.9% of the population when two years ago it was 47.7%**. If those people who are not in the market had looked for work, unemployment would have been exactly 12.98%. If the higher supply had generated some more employment that is not precarious, the unemployment rate would be close to 12% using some assumptions.

The other way of thinking about it was to look at the employment rate, that is, what is the proportion of the population that works, regardless of the quality of their work (formal, informal, part time, etc). That number was 41.5%, when in 2019 it was 42.6%. **In absolute values the population is 866,000 people larger than two years ago, but only 56,000 more people work**. In 24 months, 285,000 private formal jobs were lost, but 95,000 public jobs were added, 197,000 unregistered and 49,000 independent or special regimes such as social *monotributo* (single-tax payers) or family home employees.

Labor market
In thousands

	Q2-2019	Q2-2020	Q2-2021	vs. 2020	vs. 2019
Population	44,946	45,382	**45,807**	425	861
Labor participation	21,435	17,424	**21,027**	3,603	-408
Employed	19,155	15,145	**19,008**	3,863	-147
Unemployed	2,281	2,279	**2,018**	-261	-263
Underemployed	2,816	1,672	**2,609**	937	-207
Formal private jobs	6,098	5,800	**5,873**	73	-225
Government jobs	3,181	3,199	**3,268**	69	87
Informal salaried jobs	7,046	3,360	**7,022**	3,662	-24
Independent workers and special regimes	2,830	2,786	**2,845**	59	15

Souce: Econviews based on INDEC

For the next few months we see some trends that are important to highlight. The reopening of services is extremely important to the labor market because while industry and raw material production are capital intensive, services are very labor intensive. Hotels, restaurants, sporting, social and cultural events all require labor. Only at the formal employment level, the hotels and restaurants sector lost 60,000 people since the beginning of the pandemic, probably more than 100,000 counting the informal ones. On the other hand, it is to be expected that people who are outside the market will return, so that this probable improvement in employment will not be seen in the unemployment rate. Third, it is unlikely that those new jobs be mostly registered ones. Formal recruitment requires not only robust growth expectations but also credibility, two elements that are difficult to find in the short term.

Some characteristics of the pandemic labor market allow us to conclude that women suffered from this market much more than men. The effect of closed schools has not been minor. On the positive side, the strong recovery in construction meant that men could be reintegrated faster after the quarantine. In concrete numbers, women came to represent 44.2% of those employed in pre-pandemic times and now they are only 42.7%.

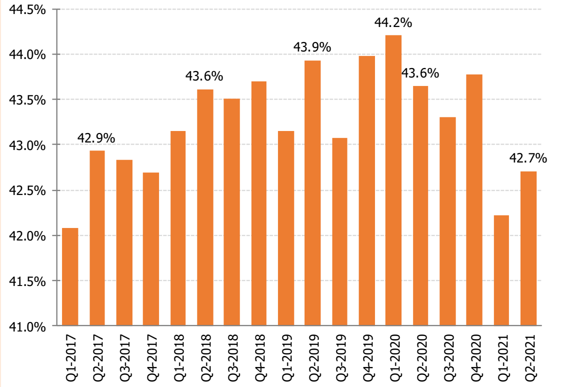
The regional issue is also important. Employment data shows that the pandemic hit very unevenly across regions. **While in Greater Buenos Aires the labor participation plummeted, in the Cuyo and Northeast regions, there are more people in the labor market than two years ago. Is it a demographic or an economic phenomenon?** We do not know, but it is something that companies and the government should take note of. If we correct unemployment for labor participation in Greater Buenos Aires it goes from 10.2 to 16.7%. This is equally serious in the City of Buenos Aires and the GBA parties. Something similar happens in places like Rosario, Mar del Plata and Bahía Blanca, but not in Córdoba.

In the regional ranking, the unemployment champion is Santa Rosa with 13.3%, followed by Tucumán and Córdoba with 12.4%. Then comes Rosario with 11.8% and Mar del Plata with 11.3%. The comparison with 3 years ago can be useful for two reasons: it is the beginning of the recession in Argentina and unemployment was exactly the same: 9.6% (beyond the problem of adjustment for participation, which is not minor). There it can be seen that the unemployment rate rose 4 points in Neuquén, 3.8 percentage points in Rosario, 3.6 in Tucumán, 3.4 in Mar del Plata and 3.1% in Usuahia. In Greater Buenos Aires it fell. But as we explained, the employment rate also fell so there is nothing to celebrate.

Activity: somewhat better than estimated

The final activity numbers for the second quarter of the year showed that the economy grew 17.9% compared to the second quarter of last year and fell 1.4% compared to the first quarter of the year without seasonality. **The numbers that emerged from the information already published by the INDEC in the monthly indicators had an implicit fall of 1.6%, so that this indicator (more robust than the monthly one) marks good news**. Private consumption improved 21.9% against last year and even improved 1.1% against last quarter, despite the drop in GDP. Investment was stagnant against the previous quarter, exports grew 5.7% q/q, imports 5.4% and public consumption 0.5%. How could the economy have fallen then? Much stock was consumed, including in the agricultural sector.

Labor market: women were hit harder by the pandemic
% of women out of total employed



Unemployment by main urban areas

	Unemployment rate	Labor participation rate	Employment rate
Santa Rosa - Toay	13.3%	45.9%	39.8%
Greater Córdoba	12.4%	48.8%	42.7%
Greater Tucumán	12.4%	43.2%	37.8%
Greater Rosario	11.8%	49.9%	44.0%
Mar del Plata	11.6%	43.7%	38.6%
Rawson-Trelew	10.7%	43.9%	39.2%
Salta	10.4%	46.8%	41.9%
Greater Buenos Aires	**10.2%**	**46.0%**	**41.3%**
Ushuaia-Río Grande	9.9%	47.1%	42.4%
Concordia	9.6%	40.8%	36.9%
City of Buenos Aires	9.0%	51.9%	47.3%
Greater Santa Fe	8.9%	45.8%	41.8%
Greater Mendoza	8.5%	51.6%	47.2%
Greater La Plata	7.9%	46.7%	43.0%
Greater Resistencia	7.7%	42.7%	39.4%
Greater San Luis	2.4%	44.1%	43.0%
Total 31 main cities	**9.6%**	**45.9%**	**41.5%**

Source: Econviews based on INDEC

Variation over the last three years
Urban areas with the most and least variation

	Labor participation rate	Employment rate	Unemployment rate
Most	Mendoza, Santa Fe, Santa Rosa	Mendoza, Santa Fe, Santiago	Catamarca, Greater BA, Viedma
Least	San Nicolas, Rawson, Neuquén	Neuquén, Mar del Plata, Rio Gallegos	Neuquén, Rosario Tucumán

Source: Econviews based on INDEC

Demand-side GDP
Year-on-year variation

	Q1-21	Q2-21	2021E
Imports	4.9%	36.6%	25.7%
Consumption	-1.7%	21.9%	8.0%
Government	-0.1%	8.2%	4.0%
Exports	-9.9%	6.3%	7.5%
Investment	38.7%	76.6%	24.6%
Gross Domestic Product	**2.9%**	**17.9%**	**7.4%**

Source: Econviews based on INDEC and own estimations

There are some numbers that attracted attention. The GDP deflator (that is, the inflation index implicit in the macro figures) was 63.5%, well above the inflation rate for the period, which was 48%. This brings the nominal GDP of 46.6 trillion pesos or a GDP of 495,000 million dollars. We do not rule out corrections in successive quarters. Investment represented only 15.6% of GDP measured at current prices and 18.8% at constant prices. Although there is recovery from the hells of last year, they are too low values to grow seriously.

At the sector level, year-on-year comparisons show impressive indicators in sectors that were fully closed last year. Domestic work grows 114%, hotels and restaurants more than 90% and construction 84.2%. The only sector with a negative performance was the agriculture and livestock sector, with a fall of 3.9% as a result of a decline in the agriculture subsector. Meanwhile, the financial intermediation sector improved its level of activity by 0.8%, given that deposits, loans and insurance did not stop in the pandemic.

The activity numbers do not make us change our outlook for the rest of the year. We are at 7.4%, slightly above the market consensus (7.2%), but below the 8% indicated in the budget. On Tuesday we will see the data for July (we do not expect growth) and based on that we will see if it is necessary to adjust our estimate.

Sectoral evolution

Accumulated % variation - 1° half

	1H-21 vs 1H-20	1H-21 vs 1H-19
Agriculture and livestock	-1.9%	-10.7%
Fishing	11.6%	-9.4%
Mining	2.7%	-5.5%
Industry	25.8%	4.1%
Electricity, gas and water	4.0%	4.6%
Construction	41.2%	-8.3%
Commerce and repair	19.4%	3.0%
Hotels and restaurants	-20.4%	-48.7%
Transport and communication	-0.4%	-13.4%
Banking	2.9%	-2.4%
Real estate, corporate and rental a	10.0%	1.1%
Public administration	0.5%	-4.1%
Education	0.5%	-3.6%
Health	6.0%	-8.5%
Other social services	13.8%	-23.0%
Taxes net of subsidies	11.6%	-1.7%
Activity index	**9.7%**	**-3.9%**

Source: Econviews based on INDEC