November 12, 2020

Latam Daily: Peru’s Political Plot Thickens; Mexico’s Industrial Recovery Slows

- **Mexico: Recovery in industrial activity slowed in September**
- **Peru: The political plot thickens**

MEXICO: RECOVERY IN INDUSTRIAL ACTIVITY SLOWED IN SEPTEMBER

On Wednesday, November 11, INEGI released data for September industrial production (IP) that showed a significant slowing in the recovery that has been underway since June. IP growth slowed from 3.3% m/m in August to 0.0% m/m in September. According to the INEGI release, the decrease in the monthly industrial output indicator was the result of a drop in construction activity (-5.6% m/m) and a fall in the generation, transmission, and distribution by energy utilities (-3.1% m/m). In contrast, manufacturing activity, the main driver of Mexican exports, rose by 2.4% m/m and the mining sector registered growth of 0.2% m/m compared to August. These results imply that the leading edge of Mexico’s economic recovery is being driven mainly by external demand.

In annual terms, industrial production was down compared with a year prior for an 18th consecutive month, although it continued to climb back toward 2019 levels, going from -8.8% y/y in August to -6.2% y/y in September (chart 1), in line with market expectations (-6.2% y/y). Looking at the details, the annual contraction was determined by the following elements:

- Continued improvement in manufacturing, which softened its decline from August’s -9.3% y/y to -3.1% y/y in September (versus 1.5% y/y a year earlier). This still marked a 12th consecutive month in which manufacturing’s total output was lower than a year ago (chart 1, again);
- Mining also improved a touch from -3.9% y/y in August to -2.8% y/y in September (versus -3.0% y/y in September 2019);
- Construction pulled back, going from -13.7% y/y in August to -16.1% y/y in September (worse than the -8.5% y/y recorded in September 2019);
- Utilities also softened in annual terms on the back of their monthly decline, falling from -4.5% y/y in August to -7.2% y/y in September (compared with 3.2% y/y in September 2019); and
- Thus, in the January–September accumulated YTD figures, industry was down -12.2% y/y (versus -1.5% y/y in the same period of 2019), the worst performance on record for this period.

The September data point to some generalized weakness in domestic demand that could persist for the rest of year. Uncertainty about COVID-19 and the economic outlook, combined with only limited fiscal support to soften the impact of the pandemic, could together slow the pace of Mexico’s recovery from here.

—Paulina Villanueva

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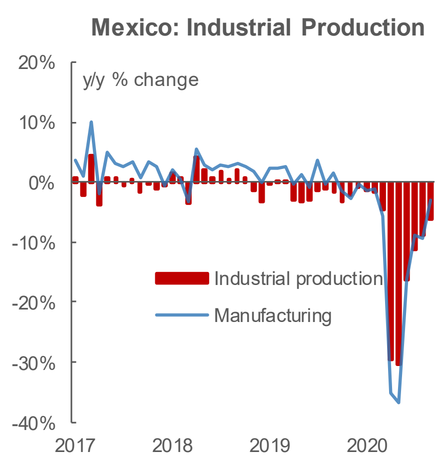
Chart 1



Sources: Scotiabank Economics, INEGI.

PERU: THE POLITICAL PLOT THICKENS

On Wednesday, November 11, Antero Flores-Araóz was appointed to head the cabinet of the new Merino government, a role that is similar to Prime Minister in other countries. Flores-Aráoz is well know in Peruvian politics, although he has not been active recently. He is a lawyer with conservative political views. In the past, he was linked to the rightist Partido Popular Cristiano. He was a member of Congress over five stints between 1990 and 2005. He was also Minister of Defense from 2007 to 2009 during the Alan García government, which was the last time he held public office in Peru. He later formed the Orden party to make an ultimately failed bid for the Presidency in 2016.

No other cabinet members were sworn in with Flores-Araóz, which is unusual and seemed to indicate difficulties in filling the cabinet's various positions. However, Flores-Aráoz announced late Wednesday night that the cabinet would be sworn in today, Thursday, November 12. Meanwhile, protests continued for a third day, with a large march being called for today, Thursday, as well.

In an intriguing turn of events, the Constitutional Court may yet play a determinative role regarding the legitimacy of the Congressional decision to remove former President Vizcarra. Early Wednesday, the Organization of American States (OAS), issued a statement calling for the Constitutional Court to determine the legality and legitimacy of the Congressional decision. At the same time, Congress formally requested that the Constitutional Court table the issue of how to interpret "moral incapacity" as stated in the Constitution as grounds for the removal of the President by Congress. Soon afterward, the Constitutional Court announced that it would rule on the issue on November 18. This begs the question of what will happen if the Court's ruling implies that Congress overstepped its bounds in removing ex-Pres. Vizcarra from office. The OAS statement is interesting in that it seems to suggest that the organization is not ready to recognize Merino as President of Peru. This, coming from an important international institution, is significant.

Fitch Ratings also expressed its concern Wednesday over the "fractious" political situation in Peru and what it might mean in the medium term for deficit and debt management. Fitch Ratings did not go so far as making a modification to Peru's rating or outlook, but the statement expressed enough concern to imply that this is under consideration.

—Guillermo Arbe