3. Argentina: the pace of economic recovery strengthens

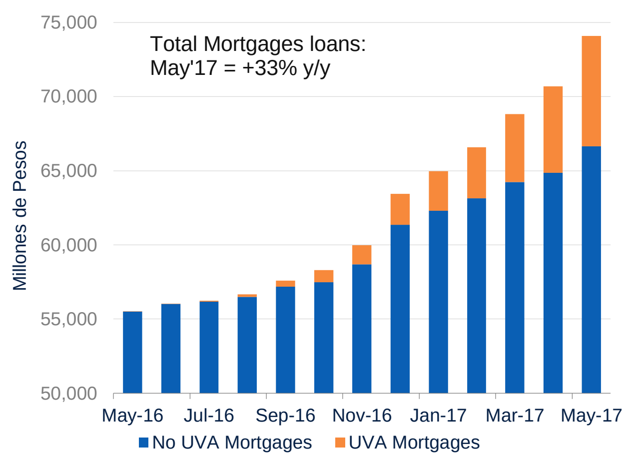
At this rate of quarterly increase, the economy will grow 2.8% in 2017

The economy is continuing to affirm the pace of expansion, with an increase in GDP of 1.1% QoQ, in seasonally adjusted terms, and 0.1% YoY in the first quarter of 2017. This growth was higher than expected (BBVAe: 0.6% QoQ), but since the partial data for 2Q17 indicate somewhat weaker growth than expected, we are maintaining our estimate for the year. The April EMAE monthly activity indicator registered an increase of 0.6% YoY, while construction (ISAC) increased 10.4% YoY in April-May, and industry (EMI) although recovering in May only averaged 0.9% YoY growth in the two months. On the basis of this differing behaviour, where some sectors have not yet taken off, we revised our growth forecast for 2Q17 slightly downwards to 1% QoQ seasonally adjusted. We believe that the economy will maintain a similar rate of growth in 3Q17 and 4Q17, to close the year with an increase in GDP of 2.8%.

With regard to aggregate composition, in line with our expectations, all components of domestic demand rose quarter-over-quarter, reversing the negative behaviour of the majority in 4Q16 in which only exports grew significantly. In the first quarter of 2017, due to stronger investment (1.7% QoQ), growth began to take hold more firmly and private consumption also recovered (+1.4% QoQ). Both construction activity and investment in machinery and equipment contributed positively to capital formation in 1Q17. We believe that this trend will continue over the rest of the year, being driven by public works and to a lesser extent residential construction, which we expect will begin to take off along aided by the appearance of mortgage credit in indexed units of purchasing power (UVA) (Figure 3.1). In this sense, we also maintain our view on the relative performance of the components of aggregate demand (Figure 3.2) for 2017, with a slight downward revision of the increase in exports given their performance in 1H17, offset by somewhat more dynamism in domestic consumption.

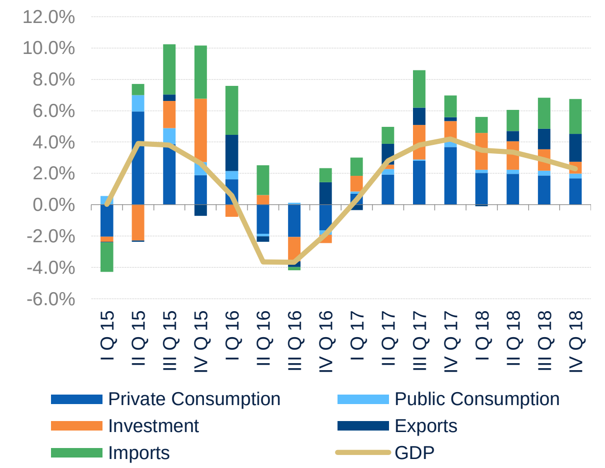
Registered employment shows signs of improvement, with an accumulated increase of 1.1% YoY to April driven basically by employment in the public sector and in the self-employed because employment in the formal private sector contracted by just 0.1% during this period. With agreements having been reached in more than half the sectors of the collective bargaining process and considering the statistical carryforward of the 2H16 increases, we believe that wages in the formal sector will grow at around 28.8% on average and the wage bill will increase by about 2-3 pp in real terms, without recovering 2016’s loss of purchasing power. Despite these improvements in the labour market, indicators of actual sales in supermarkets and shopping centres continue to fall YoY, possibly reflecting in part changes in consumer habits with regards to points of sale and also a greater propensity of higher-income sectors to save encouraged by the change in monetary policy.

Figure 3.1 Mortgage market: total and indexed credit



Source: BBVA Research based on BCRA data

Figure 3.2 Contribution to growth by sector of aggregate demand



Source: BBVA Research based on INDEC data

The growth path we estimate for 2017 leaves a positive statistical carryforward of 1.6% for 2018 that will help to support the GDP increase of 3% next year. Our forecasts envisage a slowdown in quarterly growth to an average of 0.6% QoQ after the strong expansion of infrastructure investment in 2017 following the sharp drop in 2016. However, if after the elections, uncertainty falls strongly and private investment in both infrastructure and other sectors is strengthened, the slowdown could be lower than the current estimate and lead to higher growth in 2018.

Slight upward bias in 2018 growth forecasts, if private investment takes off after the elections.

The result of the October 2017 parliamentary elections will undoubtedly impact on the confidence of both consumers and businessmen and, therefore, affect economic policy decisions. Our base scenario for 2018 assumes that there will be no major changes in economic policy, rather that the combination of relatively loose fiscal policy and relatively tight monetary policy will be pursued, while moving forward with structural reforms but without radically breaking with what has been observed up to the present. However, the reduction of electoral uncertainty and the fall in inflation will drive growth in investment and employment in the coming years.

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.

This report has been produced by the Argentina Unit:

Economista Jefe de Argentina
Gloria Sorensen
gsorensen@bbva.com

Marcos Dal Bianco
marcos.dalbianco@bbva.com

Juan Manuel Manias
juan.manias@bbva.com

María Celeste González
celeste.gonzalez@bbva.com

Andrea Savignone
asavignone@bbva.com

Adriana Haring
aharing@bbva.com

Jorge Lamela
jorge.lamela@bbva.com

BBVA Research

Group Chief Economist
Jorge Sicilia Serrano

Macroeconomic Analysis
Rafael Doménech
r.domenech@bbva.com

Global Economic Situations
Miguel Jiménez
mjimenezg@bbva.com

Global Financial Markets
Sonsoles Castillo
s.castillo@bbva.com

Long term Global Modelling and Analysis
J. Julián Cubero
juan.cubero@bbva.com

Innovation and Processes
Oscar de las Peñas
oscar.delaspenas@bbva.com

Financial Systems And Regulation
Santiago Fernández de Lis
sfernandezdelis@bbva.com

International Coordination
Olga Cerqueira
olga.gouveia@bbva.com

Digital Regulation
Álvaro Martín
alvaro.martin@bbva.com

Regulation
María Abascal
maria.abascal@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Spain and Portugal
Miguel Cardoso
miguel.cardoso@bbva.com

United States
Nathaniel Karp
Nathaniel.Karp@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

Middle East. Asia and Geopolitical
Álvaro Ortiz
Alvaro.ortiz@bbva.com

Turkey
Álvaro Ortiz
alvaro.ortiz@bbva.com

Asia
Le Xia
le.xia@bbva.com

South America
Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@bbva.com

Venezuela
Julio Pineda
juliocesar.pineda@bbva.com

CONTACT DETAILS: BBVA Research - BBVA Banco Francés: Reconquista 199, 1st floor. C1003ABC - Buenos Aires (Argentina).
Tel.: (+54) 11 4346 4000 / Fax: (+54) 11 4346 4416 - bbvaresearch@bbva.com www.bbvaresearch.com