

Latam Daily Flash

12 July 2013 Economic Analysis

Madrid
Juan Ruiz
Chief Economist, South America
juan.ruiz@bbva.com
+34 913745887

Enestor dos Santos
Principal Economist, Latam
enestor.dossantos@bbva.com
+34 639827211

With contributions from the BBVA
Research Latam Team:

Lima
Hugo Perea
Chief Economist, Peru
hugo.perea@bbva.com
+51 1 2112042

Bogota
Juana Tellez
Chief Economist, Colombia
juana.tellez@bbva.com
+571 3471600

Santiago
Jorge Selaive
Chief Economist, Chile
jselaive@bbva.com
+56 2 2939 10 92

Mexico City
Carlos Serrano
Chief Economist, Mexico
carlos.serrano@bbva.com
+ 5255 5621 4354

Javier Amador
Principal Economist
javier.amador@bbva.com
+ 5255 5621 3095

Retail sales in May reinforced our call for weak growth in 2Q13e in Brazil, but in contrast, consumer confidence in Colombia points to a recovery of consumption in 2Q. Meanwhile, the central banks in Peru and Chile kept rates unchanged, and we expect them to remain so for the rest of 2013e, even though in the latter risks of a cut have increased substantially. Today markets will focus on economic activity indicators in Brazil and Mexico as well as the monetary policy decision in Mexico and the minutes of the last monetary policy meeting in Colombia.

Brazil - Retail sales reinforced perceptions of weakness in private consumption

Retail sales remained stable in May (0.0% MoM), in line with expectations (BBVAe: 0.0% MoM; consensus: 0.0% MoM). The broad index declined 0.8% MoM due to a sharp contraction in sales of construction materials (-1.9% MoM) and in spite of the expansion in vehicle sales (0.4% MoM). The data suggest that private consumption remains weak as inflation is still very high, interest rates are increasing and labor and credit markets are losing steam. This supports our view that GDP growth will not be significantly higher in 2Q13e than it was in 1Q13 (0.6% QoQ).

Chile - CB keeps the monetary policy rate at 5%, but delivers an explicitly dovish tone

As we expected the CB kept its policy rate at 5%, but it explicitly changed the neutral bias to a more dovish tone. The Board highlighted the more restrictive financial conditions in emerging economies, and reiterated its concerns regarding the recession in Europe and the lower expected growth in China. On the domestic front once again the CB stated that the slowdown is concentrated in investment, while private consumption, in line with our diagnosis, still only shows strength in the context of a tight labor market. Nonetheless, the Central Bank highlighted that credit conditions and consumer confidence suggests a less dynamic private consumption in the near future. Finally, it emphasized that CPI inflation is close to 2% while core inflation remains around 1%. All in all, risks of a cut have increased substantially, and we think that the first cut, if it were to materialize, would be by October at the latest (see our [Chile Flash](#) for details).

Peru - CB keeps the policy rate on hold, but takes a dovish stance

The policy rate was maintained at 4.25% in July. The press release accompanying the decision highlighted that inflation lies within the target range and output growth is close to potential. However, it also mentioned that the Central Bank might ease reserve requirements in the future. This is in line with our expectation that an eventual easing will be made using this instrument, thus keeping the policy rate unchanged (see our [Peru Flash](#) for details).

Colombia - Consumer confidence confirms a moderate recovery in private consumption in 2Q13

In June, consumer confidence stood at 27.4 (vs. 20.1 in May). Improvement was explained by a higher current and next 12-months economic situation assessments. Moreover, performance in 2Q13 showed a breakthrough in confidence compare to 1Q13, going from 17.6 on average at the beginning of the year to a mean of 23.7 between April and June. This result supports our growth outlook for private consumption, which assumes an acceleration of household spending in 2Q13, in line with a gradual recovery in economic activity.

What to watch today

Brazil – Economic activity indicator (May, 07:30hrs NYT)

We expect the IBC-Br, which works as a monthly proxy for GDP, to have declined 0.8% MoM, erasing the 0.80% MoM growth observed in April. The figure will help analysts to fine tune their 2Q13 GDP forecasts.

Colombia – Monetary policy minutes (14:00 hrs NYT)

The minutes should reveal the drivers behind BanRep's optimistic outlook for economic activity, and its standpoint on the recent market volatility. We do not anticipate any significant news regarding near-term changes in its monetary policy stance.

Mexico – Banxico monetary policy decision (10:00hrs NYT)

Banxico will keep the reference rate unchanged at 4.0% but the focus of attention will be the tone of the statement. Inflation is now in line with Banxico's forecasts and should decrease further in coming months. Meanwhile, economic activity has been soft. The key will be how the CB views the balance of risks for growth and whether it is sufficiently concerned to consider an additional rate cut given the recent MXN depreciation.

Mexico – Industrial production (May, 09:00hrs NYT)

Following the second biggest monthly drop in industrial output in April since 2009 (-1.7% MoM), we expect an additional drop in May (-0.2% MoM) which would imply the fifth consecutive month with a negative annual rate (-1.3% YoY) and would reinforce the perception of economic softness in 2Q13.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	08 Jul	2-Jul	0.33%	--	0.23%	0.35%
CNI Capacity Utilization (SA)	08 Jul	May	83.00%	--	82.20%	83.30%
SELIC Target - Central Bank	10 Jul	2-Jul	8.50%	8.50%	8.50%	8.00%
Retail Sales (MoM)	11 Jul	May	-0.04%	0.00%	0.00%	0.50%
Economic Activity Indx MoM SA	12 Jul	May	-1.15%	-0.80%	--	0.84%
Chile						
Trade Balance in US\$ Million	08 Jul	Jun	\$900	\$1044	\$608.0	\$639.0
Central Bank's Traders Survey	10 Jul	--	--	--	--	--
Central Bank's Economist Survey	10 Jul	--	--	--	--	--
Nominal Overnight Rate Target	12 Jul	2-Jul	5.00%	5.00%	--	5.00%
Colombia						
Vehicle Sales	12-Jul	Jun	--	--	--	24488
Exports FOB - US\$ million	9 Jul	May	\$5416.6	\$5500	\$5266.8	\$4949.5
Consumer Confidence Index	11 Jul	Jun	22.0	21.8	27.4	20.1
Colombia Monetary Policy Minutes	12 Jul	--	--	--	--	--
Mexico						
Vehicle Production (AMIA)	08 Jul	Jun	--	--	266351	255474
CPI MoM	9 Jul	Jun	-0.02%	-0.05%	-0.06%	-0.33%
Bi-Weekly CPI	9 Jul	2-Jul	0.03%	-0.03%	-0.05%	-0.05%
Gross Fixed Investment	10 Jul	Apr	5.60%	--	5.90%	-5.50%
Trade Balance	10 Jul	May	-308.8M	--	-469.9M	-469.9M
Industrial Production (YoY)	12 Jul	May	0.60%	-1.20%	--	3.30%
Overnight Rate	12 Jul	2-Jul	4.00%	4.00%	--	4.00%
Peru						
Trade Balance (INEI)	10 Jul	May	-\$250M	--	-\$404.3M	-\$378M
Reference Rate	12 Jul	Jul	4.25%	4.25%	--	4.25%

Most recent Latam reports

Date	Description
11-07-2013	➤ Peru Flash: Central Bank somewhat more dovish
11-07-2013	➤ Chile Flash: CB kept the monetary policy rate at 5%, but explicitly delivered a dovish tone
11-07-2013	➤ Mexico Flash: Banxico: Fondeo rate at 4.0%. A dovish tone is expected as domestic activity impairs
11-07-2013	➤ Flash Brazil: The monetary tightening continues, at an unchanged pace
09-07-2013	➤ Mexico Inflation Flash: June's inflation: Inflation Approaches 4% Due To Lower Fruit And Vegetable Prices And Falling Core Inflation
08-07-2013	➤ Inflation jumped to 2.16% YoY in June, consolidating within the inflation target range
08-07-2013	➤ CPI inflation for June 0,6% m/m, in line with our forecast, and impacted by transitory elements
05-07-2013	➤ Brazil Flash: Inflation peaks in June
1-07-2013	➤ Mexico Migration Flash: Remittances to Mexico recorded 11 consecutive months with declines
1-07-2013	➤ Flash Peru: Annual inflation kept upward trend in June

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