

Latam Daily Flash

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Economic Analysis

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In Brazil, investment continued to support GDP growth more than private consumption. In Chile, the unemployment rate surprised to the downside. In Colombia the Central Bank kept its policy rate unchanged but struck a more dovish than anticipated tone, while in Mexico the public finances report did not suggest an improvement in economic activity at the start of 3Q13.

Brazil - GDP surprised to the upside: 1.5% QoQ. Investment continued to support GDP growth more than private consumption

Growth in 2Q13 was the fastest in three years, well above expectations (BBVAe 0.6%; consensus: 0.8% QoQ, 3.3% YoY). On the demand side, the highlight was investment with a third consecutive quarter of positive growth (avg. QoQ: 2.9%, last five quarters avg. -1.1%). Export dynamics (6.9% QoQ) partially offset the 1Q decline (-6.4% QoQ), while the decline in imports was particularly marked (0.6% QoQ vs. 6.3% QoQ in 1Q13). In our view the good GDP figure increases the probability that the BCB will maintain the pace of rate hikes at its next meeting (with 50bp), and even opens the door to an extension of the tightening cycle.

Colombia - Central Bank kept the policy rate at 3.25% by a majority vote, surprising after considering a rate cut

BanRep kept its policy rate at 3.25%, surprising with a more expansive tone compared to that of previous months. The decision was in line with market expectations, but surprised by stating that the Board had studied the possibility of a rate cut. BanRep said that although it reiterated its growth forecast, downside risks have increased. Under our baseline scenario we do not expect the expansionary tone to materialise in a rate cut, but given the tone of the statement and the division among Board members, a more expansive stance could depend on the outcome of 2Q13 GDP, the continued rise of external and local long-term financing, the dynamics of industrial production and developments in the current strike at one of the largest coal companies.

Peru - Inflation surprised to the upside

Monthly inflation in August was 0.54%, above market expectations (BBVAe: 0.30%; consensus: 0.39%). The outcome was mainly explained by supply shocks on food prices and the increases in fuel prices and utilities tariffs (electricity). As a result, YoY inflation accelerated from 3.24% to 3.28%, but we expect it to return within the Central Bank's target range (2% +/- 1 percentage point) due to the reversal of the supply shocks that have had an impact on the food prices during the previous month.

Colombia - Urban unemployment rate in July surprised to the downside at 10%

Urban unemployment rate reached 10%, a reduction of 1pp compared to a year ago and 1pp lower than consensus. The rate was explained by a reduction in the participation rate of -0.6pp YoY and an increase in the occupation rate of 0.5pp YoY. Although annual job-creation numbers were slightly higher than expected, they were in line with our forecast. The surprise was the reduction in the participation rate, explained in part by a base effect. For 2H13 we still expect a slight increase in job-creation, in line with the acceleration of activity.

Chile - Unemployment rate decreased to 5.7% in July despite job-destruction

The unemployment rate reached 5.7% in July (from 6.2% in June), below both our and market expectations (6.4% and 6.3%, respectively). Employment decreased by 0.2% MoM (+2.5% YoY), mainly driven by seasonal job-destruction in agriculture and real estate that were partially offset by job-creation in education, commerce, and manufacturing. In this context, the main driver for the surprising drop in the jobless rate was the labour force (-0.6% MoM, +1.6% YoY), with a significant proportion of women (-1.1% MoM) giving reasons for permanent inactivity, such as "discouragement", "studies" and "permanent family reasons". Based on this information, the jobless rate could remain low for the rest of the year and adds to the reasons for the Central Bank to maintain the policy rate unchanged in the very short term.

Mexico - Public finances do not yet suggest an improvement in economic activity at the start of 3Q13

In the January-July period public-sector revenues were 0.1% higher in real terms over the same period of 2012 on the back of 5.8% growth in tax revenues, with the latter continuing to be driven by a better ISR tax revenue performance (+16.6 real YoY % change in July). This result shows the effect of the tax regularization campaign ("Ponte al Corriente", "Keep up to date"). In contrast, VAT revenues remain weak (-6.9% real YoY % change in July). All in all, the revenue side of the report still does not point to an upturn in economic activity at the start of 3Q13. In a similar fashion, neither projected spending nor non-project expenditure point to an upturn in public expenditure at the start of the third quarter. The former contracted at a real annual rate of 4.6% in July, while the pace of recovery of the latter increased 2.0% real YoY in July. Public expenditure figures do not yet suggest a turning point.

What to watch today

Mexico - IMEF Manufacturing Index (August, 13:00hrs NYT)

The IMEF manufacturing producers indicator came in at 48.5 points in July, below the expansion threshold (50) for the third month in a row. We expect to see some recovery in August based on the better performance of the US manufacturing sector, particularly the recent upturn seen in the US ISM Manufacturing Index.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Trade Balance Monthly	02 Sep	Aug	--	--	--	-\$1897M
Exports Total	02 Sep	Aug	--	--	--	\$20807M
Imports Total	02 Sep	Aug	--	--	--	\$22704M
Trade Balance Weekly	02 Sep	2-sep	--	--	--	\$880M
Vehicle Sales Fenabrave	02-04 SEP	Aug	--	--	--	342280
Industrial Production MoM	03 Sep	Jul	-1.20%	--	--	1.90%
Industrial Production YoY	03 Sep	Jul	2.60%	--	--	3.10%
IBGE Inflation IPCA MoM	06 Sep	Aug	0.26%	--	--	0.03%
Chile						
Economic Activity YoY	05 Sep	Jul	5.80%	6.10%	--	4.20%
CPI MoM	06 Sep	Aug	0.30%	0.30%	--	0.30%
Colombia						
PPI MoM	04 Sep	Aug	--	--	--	0.00%
Vehicle Sales	05-10 SEP	Aug	--	--	--	25301
CPI MoM	06 Sep	Aug	0.12%	0.16%	--	0.04%
Mexico						
Remittances Total	02 Sep	Jul	--	--	--	1945.3M
IMEF Manufacturing Index NSA	02 Sep	Aug	--	--	--	48.5
IMEF Non-Manufacturing Index NSA	02 Sep	Aug	--	--	--	51.1
International Reserves Weekly	03 Sep	Aug 30	--	--	--	\$169870 M
Consumer Confidence Index	04 Sep	Aug	--	--	--	98
Overnight Rate	06 Sep	2-sep	4.0%	--	--	4.00%

Most recent Latam reports

Date	Description
30-08-2013	Flash Colombia: BanRep kept by majority policy rate at 3.25% surprising after considering a rate cut
29-08-2013	Flash Chile: Imacec sobre 6,0% a/a en julio dejaría en jaque recorte de la TPM en el muy corto plazo
26-08-2013	Chile Economic Outlook 3Q13
22-08-2013	Mexico Inflation Flash: August's biweekly inflation: there are no signs of demand-side inflation pressures
21-08-2013	Mexico GDP Flash: The GDP growth estimate for this year is revised to 1.4% and the scenario for 2014 remains without relevant changes in 3.1%
20-08-2013	Mexico GDP Flash: GDP surprises to the downside with a reduction of -0.7% q/q. This mainly as a result of the strong decline in the industrial output
20-08-2013	Latam Economic Outlook 3Q13
19-08-2013	Mexico Real Estate Flash: Stark contrasts continue in mortgage activity
19-08-2013	Brazil Economic Outlook 3Q13 (In Spanish)
19-08-2013	Flash Chile: GDP growth reached 4.1% YoY in 2Q13

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