

Latam Daily Flash

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Economic Analysis

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In Mexico, the IGAE index for August suggested that the economy is gradually recovering while the inflation report confirmed that core prices remain subdued. Meanwhile, unemployment figures in Brazil and Chile were published: in Brazil in spite of a slightly higher rate in August, unemployment remains close to all-time lows, supporting our view that private consumption will be one of the main positive contributors to 3Q13. In Chile, the fall in the unemployment rate was driven by increases in employment and an expansion of the labor force.

Mexico - The IGAE index points to a gradual economic recovery

The economy expanded 0.8% YoY in August, below our above-consensus forecast (BBVAe: 1.2%; consensus 1.0%). However, the monthly growth (0.2% MoM sa) was in line with our expectations and points to a gradual recovery in economic activity. Notably, both secondary (industry) and tertiary (services) activities expanded 0.5% and 0.4% MoM sa, respectively. Up to now, the good services sector performance in August suggested by the IGAE index is the clearest signal of economic recovery in the third quarter.

Mexico - Core inflation remains subdued

Headline inflation came in at 0.40% FoF in the first fortnight of October, slightly above the consensus expectation (consensus: 0.38%) and below our above-consensus forecast (BBVAe: 0.51%). Annual inflation decreased to 3.27% YoY from 3.32% in the second fortnight of September. The downside surprise was mainly driven by an unexpected drop in fruit and vegetable prices which decreased 1.26% FoF, while we were expecting a 2.3% FoF rise. Core inflation was 0.14% FoF, in line with expectations, slightly decreasing in annual terms to 2.46% YoY from 2.50% in the second fortnight of September (see our [Mexico Inflation Flash](#)).

Brazil - The unemployment rate increased, but labor markets remain tight

The unemployment rate reached 5.4% in September, slightly higher than in August (5.3%) and also higher than we expected (BBVAe: 5.2%), but in line with the consensus forecast (5.4%). Even though the unemployment rate increased slightly, it remains very close to all-time lows (this was the lowest rate for the period since 2002). Moreover, real wages expanded firmly in September (1.0% MoM). All in all, labor markets remained tight in September, supporting our view that private consumption will be one of the main positive drivers of 3Q13 GDP (which we nonetheless expect to decline 0.1% QoQ). Looking ahead, we expect labor markets to lose some momentum in the coming months.

Chile - Unemployment in Greater Santiago reached 5.9% in September

University of Chile data for the labor market in Greater Santiago showed that the unemployment rate reached 5.9% in September, below the jobless rate of 6.6% observed in same period of 2012. On this occasion, the decrease was driven by increases in employment of 1.8% YoY and a 1.1% YoY expansion of the labor force. In terms of the components, results showed that payrolls are decreasing by 0.1% YoY, but this decline was offset by a sharp increase in self-employment. Although labor market remains dynamic, the change in the composition of employment are consistent with reduction of both labor market tightness and wage pressures in coming months.

What to watch today

Mexico - Monetary policy meeting (10:00hrs NYT)

We think that Banxico will lower the overnight rate by 25bp to 3.5%, a view that is shared by most analysts. We expect Banxico to retain a dovish tone and leave the wording of tomorrow's monetary policy statement similar to the last statement, thus giving itself room for an additional cut. Nonetheless, we think tomorrow's 3.50% level is likely to be the floor for Mexico's overnight rate given that the economy is showing signs of recovery, while headline inflation should remain above the 3.0% target and is expected to trend upwards in coming months and core inflation is likely to increase in 2014 as the economy recovers.

Colombia - Monetary meeting (announcement time: unspecified)

We expect BanRep to maintain its policy rate unchanged at 3.25%, and reiterate its renewed optimism. The central bank should also publish its revised activity forecasts, after the upward surprise in 2Q13 GDP growth. We do not expect further announcements regarding the ongoing USD purchase programme.

Brazil - Balance of payments (September, 9:30hrs NYT)

We expect the current account deficit, which reached 3.5% of GDP in August after having trended up since the end of 2012 (when it was at 2.2%), to show signs of stabilization from September onwards thanks to an improvement in the trade balance and some correction in the income and service accounts triggered by the exchange rate.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV Consumer Confidence	23 Oct	Oct	--	--	111.7	114.2
FGV CPI IPC-S	23 Oct	2-Oct	0.50%	--	0.49%	0.45%
Unemployment Rate	24 Oct	Sep	5.40%	5.20%	5.40%	5.30%
FIPE CPI - Weekly	25 Oct	2-Oct	0.44%	--	--	0.37%
Current Account Balance	25 Oct	Sep	-\$2300M	--	--	-\$5505M
Chile						
Central Bank's Traders Survey	23 Oct	--	--	--	--	--
Colombia						
Trade Balance	22 Oct	Aug	\$156.1	\$439.3	\$241.5	-\$221.0
Industrial Confidence	22-Oct	Sep	--	0	0.4	-1.8
Retail Confidence	22-Oct	Sep	--	16.2	16.7	12
Overnight Lending Rate	25 Oct	2-Oct	3.25%	3.25%	--	3.25%
Mexico						
Retail Sales YoY	21 Oct	Aug	1.20%	--	-2.20%	1.30%
Economic Activity IGAE YoY	24 Oct	Aug	1.10%	--	0.84%	1.69%
Bi-Weekly CPI	24 Oct	2-Oct	0.34%	--	0.40%	0.01%
Trade Balance	25 Oct	Sep P	-256.6M	--	--	-234.2M
Overnight Rate	25 Oct	2-Oct	3.50%	--	--	3.75%

Most recent Latam reports

Date	Description
24-10-2013	➤ Mexico Inflation Flash: Core inflation remains subdued while non-core inflation was lower than anticipated
17-10-2013	➤ Flash Chile: Central Bank cut the MPR by 25 bp contrary to consensus, but in line with our baseline
17-10-2013	➤ Brazil Flash: COPOM: still no sign of the end of the ongoing tightening cycle3
15-10-2013	➤ Peru Flash: August's GDP in line with market expectations
14-10-2013	➤ Flash Chile: We forecast October's CPI yet at -0.1%,, but towards 0%
11-10-2013	➤ Flash Chile: We forecast Retails Sales in 7.5% YoY in September
10-10-2013	➤ Flash Peru: Unchanged monetary policy stance
10-10-2013	➤ Brazil Flash: COPOM: no surprises; no hints
09-10-2013	➤ Mexico Inflation Flash: September's inflation: came in lower than our below-consensus expectation
09-10-2013	➤ Brazil Flash: Inflation drops below 6% for the first time this year

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