

# Latam Daily Flash

3 January 2014  
Economic Analysis

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*In addition to some news on the inflation front, in the last few days we have also learned of some activity indicators showing that private consumption was strong and manufacturing production was less positive in November in Chile and Colombia, while it did not improve as expected in Mexico. Recent data also revealed that 2013 fiscal targets were reached in Colombia and probably also in Brazil, where concerns regarding fiscal policy continue as the primary surplus has been boosted by one-off revenues and not by expenditure control.*

## Peru – Annual inflation closed 2013 within the target range

The consumer price index rose 0.17% MoM in December, below expectations (BBVAe: 0.25%, consensus: 0.22%) due to a more pronounced reduction in the prices of some foods, which was offset by a seasonal increase in transportation costs due to the end of the year holidays. With this result, annual inflation reached 2.9% at the end of 2013, and in the coming months we expect it to fluctuate around the upper limit of the central bank's target range (2%, +/- 1pp) and begin to fall gradually from the second quarter of the year, in a context in which activity will continue to grow around its potential level and assuming the absence of supply shocks. Thus, the expected favourable scenario for inflation in 2014 should eventually give the central bank room to ease its stance on monetary policy if needed (see our [Peru Flash](#) for details).

## Mexico – Higher than expected core inflation in the first fortnight of December

During the holidays, the main indicators released in Mexico were inflation in the first fortnight of December and December's IMEF manufacturing index. Regarding inflation, headline CPI increased 0.40% FoF in the first fortnight of December, a touch above our above-consensus expectation (BBVAe: 0.38%, consensus: 0.37%). The upside surprise was mainly driven by a stronger than expected core inflation print, which accelerated 0.30% FoF, driven higher by the services component which posted a 0.32% FoF increase on the back of strong price increases in tourism services and airfares (13.2% and 21.2% FoF respectively). The core goods component also registered a stronger than expected increase (0.28% FoF). In annual terms, core inflation rose from 2.7% in the second fortnight of November to 2.75%. Headline inflation is likely to reach 3.9% at year-end, while core inflation should end the year close to 2.8%. Meanwhile, December's IMEF manufacturing index data did not show the expected improvement but remained above the 50 threshold, reaching 50.3 in sa terms. Going forward, we still expect improvement driven by the recent strengthening of the US industrial sector.

## Chile – Activity data by sector anticipates Imacec at 2.9% YoY in November

Retail sales expanded 9.2% YoY (BBVAe: 8.5%; consensus 9.1%) still driven by durable goods, while mining output increased 6.7% YoY in November (BBVAe: 6%). In contrast, manufacturing production declined 1.1% YoY (BBVAe: -0.8%; consensus -1.5%) affected by reductions in metal processing. In terms of the labour market, the unemployment rate declined to 5.7% in November (from 5.8% in the previous month), with job-creation increasing by 0.5% MoM (+2.0% YoY) driven by agriculture, construction and commerce, and a labour force that expanded 0.4% MoM (+1.5% YoY). With these figures, we forecast that the monthly activity index (Imacec) will expand 2.9% YoY in November (0.4% MoM sa), which remains consistent with our GDP growth forecast of 4.2% for 2013e. All in all, incoming data points to a stable policy rate at 4.5% in January.

### Colombia - Trade confidence and employment will boost private consumption in 4Q13 and 1Q14; fiscal balance met the target

Industrial and trade confidence for November anticipate an uneven recovery of the manufacturing and retail sectors, with a higher growth rate in the latter. In November, the urban unemployment rate stood at 9.3%, -0.5pp below the **rate** a year ago. Underlying job-creation for November (1.7% YoY) was in line with our outlook and most of the jobs were in the formal sector. These data imply a good performance in private consumption, from both the better results in the labour market and good household expenditure. On other issues, last week the government announced that the central government's fiscal balance for 2013 was 2.4% of GDP, meeting the target set for the year. The government also said that during 2014 there will be less public debt issuance since it pre-financed about USD1,000mn in 2013.

### Brazil - Atypically high primary surplus in November; 2013 trade balance posts a very small surplus

During the holidays, the main indicators released in Brazil were November's fiscal report and December's trade figures. Regarding the former, one-off revenues related to both the Libra oil field auction and the Refis tax amnesty programme were behind the exceptionally high public-sector primary surplus in November of BRL29.8bn (vs. BRL6.2bn in October and -BRL5.5bn one year ago). In the year to November, the primary surplus was 1.9% of GDP, but the overall fiscal result was -3.3% thanks to expenses of 5.1% on interest payments. We expect the primary surplus to close the year at 1.8% and the federal government to meet its (lowered) primary surplus targets. However, uncertainty about a less expansive fiscal policy is likely to continue. With respect to the trade data, exports surpassed imports by USD2.7bn in December, allowing the annual trade surplus to close 2013 in positive territory at USD2.6bn, which is significantly lower than the 2012 result (USD19.4bn) as imports expanded 7.4% while exports remained practically unchanged (-0.2%).

## What to watch today

### Colombia - Inflation (December CPI will be released on Saturday, 12:00hrs NYT)

Our inflation forecast for December is 0.24% MoM, bringing annual inflation to 1.91% YoY, below the target range.

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	26 Dec	25 Dec	0.73%	--	0.66%	0.75%
Central Govt Budget Balance	26 Dec	Nov	29,5B	--	28.8B	5.4B
FGV Inflation IGPM YoY	27 Dec	Dec	5.54%	--	5.51%	5.60%
Primary Budget Balance	27 Dec	Nov	32.0B	--	29.7B	6.2B
FGV CPI IPC-S	2 Jan	31 Dec	0.69%	--	0.69%	0.69%
PMI Manufacturing	2 Jan	Dec	--	--	50.5	49.7
Trade Balance Monthly	2 Jan	Dec	\$1500M	\$1000M	\$2654M	\$1740M
Vehicle Sales Fenabrave	3 Jan	Dec	--	--	--	302950
<b>Chile</b>						
Central Bank's Traders Survey	26 Dec	--	--	--	--	--
Manufacturing Index YoY	30 Dec	Nov	-1.50%	-0.80%	--	-3.20%
Retail Sales YoY	30 Dec	Nov	9.10%	8.50%	9.20%	13.40%
Copper Production Total	30 Dec	Nov	--	504865	514889	507694
Unemployment Rate	30 Dec	Nov	5.80%	5.80%	5.70%	5.80%
Central Bank Meeting Minutes	30 Dec	--	--	--	--	--
<b>Colombia</b>						
Industrial Confidence	24 Dec	Nov	--	-2	--	-1.4
Retail Confidence	24 Dec	Nov	--	19	--	17.5
National Unemployment Rate	30 Dec	Nov	--	--	8.50%	7.80%
Urban Unemployment Rate	30 Dec	Nov	8.60%	8.70%	9.30%	8.70%
Budget Balance	31 Dec	Nov	--	--	--	-\$7123B
PPI YoY	2 Jan	Dec	--	--	--	-1.33%
Colombia Monetary Policy Minutes	3 Jan	--	--	--	--	--
CPI MoM	4 Jan	Dec	0.20%	0.24%	--	-0.22%
<b>Mexico</b>						
Bi-Weekly CPI	23 Dec	Dec	0.37%	0.45%	0.40%	0.02%
Trade Balance	26 Dec	Nov	-800M	522.4M	339.1M	-128.9M
Budget Balance YTD	30 Dec	Nov	--	--	-262.9B	-218.1B
Net Outstanding Loans	31 Dec	Nov	--	--	2490B	2449B
IMEF Manufacturing Index NSA	2 Jan	Dec	--	--	49.8	50.7
IMEF Non-Manufacturing Index NSA	2 Jan	Dec	--	--	54.7	51.3
Consumer Confidence Index	23 Dec	Dec	0.37%	0.45%	0.40%	0.02%
Leading Indicators (MoM)	26 Dec	Nov	-800M	522.4M	339.1M	-128.9M
<b>Peru</b>						
CPI MoM	1 Jan	Dec	0.22%	0.30%	0.17%	-0.22%
Wholesale Price Index MoM	1 Jan	Dec	--	--	-0.11%	--

\*Seasonally adjusted figure

## Most recent Latam reports

Date	Description
02-01-2014	<a href="#">➤ Chile Flash: changes in the CPI weights (in Spanish)</a>
02-01-2014	<a href="#">➤ Peru Flash: Annual inflation closed 2013 within the target range</a>
02-01-2014	<a href="#">➤ Chile Flash: Growth of fiscal expenditure could be higher than 5% in real terms in 2014, among the highest in recent years (in Spanish)</a>
30-12-2013	<a href="#">➤ Chile Flash: Activity data by sector anticipates Imacec at 2.9% YoY in November</a>
26-12-2013	<a href="#">➤ Peru 2013 Real Estate Outlook (in Spanish)</a>
23-12-2013	<a href="#">➤ Chile Flash: December CPI should come in at 0.5% m/m (in Spanish)</a>
20-12-2013	<a href="#">➤ Colombia Flash: BanRep decided unanimously to keep its policy rate unchanged at 3.25% and continue on accumulating international reserves</a>
20-12-2013	<a href="#">➤ Mexico Banking Watch: Banxico Financial System Report (in Spanish)</a>
20-12-2013	<a href="#">➤ Colombia Economic Watch: How good are employment data? (in Spanish)</a>
20-12-2013	<a href="#">➤ Chile Economic Watch: Bullish scenario for chilean long-term interest rates (in Spanish)</a>

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