

Latam Daily Flash

31 January 2014 Economic Analysis

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Deceleration in Chile increased in December, particularly in sectors such as mining production, in line with a growth in December at 2.4% (4.0% in 2013). In our view these figures and the inflation forecast justify a further easing in policy rates in the coming month. Today's minutes should give us more information in this context. Also today we expect the monetary policy decision in Mexico and Colombia. We expect no change in either but a less dovish tone and a call for a temporary increase in inflation in the former and a reference to recent financial turbulence and its impact on currency depreciation in the latter.

Brazil - Wages moderated and unemployment reached all-time lows thanks to a shrinking labor force in 2013

The unemployment rate reached 4.3% in December and 5.4% on average in 2013, in both cases the lowest rates since 2002 when this labour survey was launched, although the number of employed people increased by only 0.7% YoY in 2013. However, a reduction in the labour force allowed the number of unemployed people to drop 1.5% last year and drove a decline in the unemployment rate last year (from 5.5% on average in 2012 and 4.6% in December 2012). The reduction in unemployment is thus not a sign of stronger economic activity. The moderation in wages support this view: real average wages grew "only" 1.8% in 2013 (4.1% in 2012), the weakest pace since 2005. All in all, 2013 labour market data are in line with a scenario of structural deceleration in private consumption.

Chile - Activity data by sector anticipates Imacec at 2.4% YoY in December 2013

Retail sales expanded 7.0% YoY in December, a further deceleration vs. previous months, and below both our and market expectations (+8.0% YoY). Meanwhile, supply-side related sectors posted significant declines in seasonally-adjusted terms. In particular, manufacturing posted a mild recovery at 0.2% YoY (BBVAe: +0.5% YoY), while mining production surprised to the downside after increasing by a poor 3.4% YoY. All in all, we forecast that the monthly activity index (Imacec) grew 2.4% YoY in December (+0.5% MoM sa), which would allow GDP to grow in the vicinity of 4.0% in 2013 as depicted in our baseline scenario. With these figures, and considering our forecast of inflation at +0.1% MoM in January, we expect rate cuts of at least 25bp at February's monetary policy meeting (see our [Chile Flash](#) for details).

What to watch today

Chile - Monetary policy minutes (January, 06:30hrs, NYT)

We expect the minutes to reveal the board's concerns regarding a deviation in activity figures respect to the central bank's baseline scenario that justify a further easing of policy rates in the coming month. We note that the dovish bias was explicitly mentioned in the last communique, due to local factors that are playing a major role in monetary policy prospects (deceleration of final goods demand).

Chile - Unemployment rate (December 2013, 07:00hrs, NYT)

We expect the unemployment rate to increase towards 5.9% during the moving quarter October-December 2013 (5.7% previously), due to deceleration in job-creation. All figures should point to a less tight labour market than in previous months.

Brazil – Fiscal report (December, 07:30hrs NYT)

In line with recent official announcements, we expect the public sector's primary surplus to have declined to 1.9% in 2013, the weakest in more than ten years, in spite of significant one-off revenues.

Mexico – Monetary policy decision (09:00hrs NYT)

The monetary policy decision will be announced on Friday. With the increase in headline and core inflation resulting from tax changes and higher agricultural product prices, we expect the tone of the announcement to be less dovish and to focus on sending two messages: that the increase in inflation is temporary and that the central bank will be watchful and will act to curtail potential risks of second-round effects if necessary. These messages are supported by the absence of demand pressures given the considerable slack in the economy, as shown by recent figures highlighting the continuing lag in the construction sector and the fall in same-store sales, to levels even lower than those of 2009.

Colombia – Unemployment rate (December, 11:00hrs NYT)

We are forecasting the urban unemployment rate at 9.7%, similar to last month's figure (seasonally-adjusted). Job-creation figures (YoY) should be downward-biased with respect to last month's since the government increased spending and contract allocations during October and November, before restrictions came into effect due to the reelection of Congress.

Colombia – Monetary policy decision (13:00hrs approx NYT)

Recent emerging market turbulence and the impact of generalised currency depreciation in the region will be among the discussion points considered by the central bank's board. However, low headline (December 2013: 1.9%) and core inflation (December 2013 average: 2.4%), below-potential GDP growth (BBVAe: 4.1% for 2013), improved international reserves and limited foreign currency liabilities will favour an unchanged monetary policy rate of 3.25%. We additionally anticipate no modifications to the international reserves accumulation scheme.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FIPE CPI - Weekly	27 Jan	Jan	0.86%	--	0.86%	0.83%
FGV Construction Costs MoM	28 Jan	Jan	0.59%	--	0.70%	0.22%
Outstanding Loans MoM	29 Jan	Dec	--	--	2.40%	1.50%
FGV Inflation IGPM MoM	30 Jan	Jan	0.49%	--	0.48%	0.60%
PPI Manufacturing MoM	30 Jan	Dec	--	--	0.65%	0.62%
Unemployment Rate	30 Jan	Dec	4.40%	4.30%	4.30%	4.60%
Primary Budget Balance	31 Jan	Dec	11,0B	14.0B	--	29.7B
Chile						
Manufacturing Index YoY	30 Jan	Dec	--	0.50%	0.20%	-1.10%
Retail Sales YoY	30 Jan	Dec	--	8.00%	6.97%	9.20%
Unemployment Rate	31 Jan	Dec	5.70%	5.90%	--	5.70%
Central Bank Meeting Minutes	31 Jan	Jan	--	--	--	--
Colombia						
Industrial Confidence	28 Jan	Dec	--	0	-1.3	-5.2
Retail Confidence	28 Jan	Dec	--	20	22	18.5
Urban Unemployment Rate	31 Jan	Dec	9.30%	9.70%	--	9.30%
Overnight Lending Rate	31 Jan	Jan	3.25%	3.25%	--	3.25%
Budget Balance	31 Jan	Dec	--	--	--	-\$1997B
Mexico						
Economic Activity IGAE YoY	27 Jan	Nov	0.80%	0.10%	0.10%	1.33%
Trade Balance	27 Jan	Dec	819,5M	1101.0M	1657,6M	339.1M
Overnight Rate	31 Jan	--	3.50%	3.50%	--	3.50%
Peru						
CPI MoM	2 Feb	Jan	--	--	--	0.17%

Most recent Latam reports

Date	Description
30-01-2014	➤ Chile Flash: December Imaec should reach 2.4% y/y, consistent with our scenario of 2013 GDP growth around 4.0% (in Spanish)
30-01-2014	➤ Chile Flash: Public expenditure in 2013 was significantly lower than planned (in Spanish)
29-01-2014	➤ Mexico Migration Outlook December 2013
29-01-2014	➤ Mexico Banking Flash. Bank deposits: growth in the second half of the year
29-01-2014	➤ Mining sector in Chile: The challenge is efficiency (in Spanish)
29-01-2014	➤ Mexico Regional Sectorial Outlook: First half 2014 (in Spanish)
29-01-2014	➤ BBVA Brazil Perspectives: Stuck at a bad macro equilibrium
28-01-2014	➤ Chile Flash: We expect January CPI at 0.14% and see a negative bias on our February CPI forecast (in Spanish)
24-01-2014	➤ Mexico Banking Flash: Bank deposits: momentum in the second half of the year (in Spanish)
23-01-2014	➤ Brazil Flash: COPOM sees higher inflation and stable economic activity ahead

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