

Latam Daily Flash

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Economic Analysis

Madrid

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The unemployment rate in Brazil was somewhat lower than we expected. Today we are waiting on the announcement of 4Q13 GDP growth in Mexico, and forecast a slow recovery of 0.5% QoQ, with the industrial sector showing a slight fall offset to some extent by strength in the services sector.

Brazil - Primary surplus target is set at 1.9% of GDP

The government announced yesterday that its target is a primary surplus of 1.9% of GDP this year. To do that it has committed to freeze BRL44bn (around 0.9% of GDP) in budgeted spending. A 1.9% primary surplus would be similar to the result delivered in 2013, but well below the figures recorded in the last decade (3.1% on average in the 2003-13 period). We remain skeptical that this target can be met and maintain our forecast for the primary surplus at 1.6% (consensus: 1.5%). We expect a more significant adjustment to be delivered only next year, but not in 2014 ahead of the General Elections to be held in October. A primary surplus of 1.9% should be enough to keep gross and net public debt broadly unchanged, but would not prevent the public sector's total deficit from rising to 3.5% of GDP (vs. 3.2% in 2013 and 3.1% on average in the 2003-12 period).

Brazil - Tighter than expected labor markets

Once again, the labor market report showed that labor markets remain more robust than expected. The unemployment rate increased from 4.3% to 4.8% (BBVAe: 5.1%; consensus: 5.1%). However, this increase in comparison to the previous months was entirely due to seasonal factors (the seasonally adjusted series shows that unemployment declined from 5.1% to 4.9%). In addition to that, real wages expanded 3.6% YoY in January, more than in 2013 (1.9% YoY on average), but still less than in 2012 (4.1% YoY on average). Thus, the strength of the labor markets continues even though positive figures have been to some extent driven by the contraction in the labor force (due to a lower participation rate) and not principally by an increase in job-creation. We continue to expect some moderation ahead.

What to watch today

Mexico - GDP (4Q13, 09:00hrs NYT)

After quarterly growth of 0.84% in 3Q13, we expect the economy to have continued recovering, albeit slowly, as reflected in GDP growth of 0.5% QoQ. On the one hand, industrial output fell in 4Q13, but on the other hand, continued strength in the services sector as demonstrated by the IGAE, greater public spending and the positive trend in the US economy are among the main factors that will support this performance, so the growth rate for 2013 as a whole should come in at about 1.2%.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Formal Job Creation Total	20 Feb	Jan	50327	--	29595	-449444
FGV Inflation IGP-10 MoM	17 Feb	Feb	0.34%	--	0.30%	0.58%
FGV CPI IPC-S	17 Feb	Feb	0.83%	--	0.78%	0.96%
FIPE CPI - Weekly	18 Feb	Feb	0.76%	--	0.73%	0.86%
CNI Industrial Confidence	17 Feb	Feb	--	--	52.4	53.1
IGP-M Inflation 2nd Preview	19 Feb	Feb	0.30%	--	0.24%	0.46%
Unemployment Rate	20 Feb	Jan	5.10%	5.10%	4.80%	4.30%
IBGE Inflation IPCA-15 MoM	21 Feb	Feb	0.68%	0.58%	--	0.67%
Current Account Balance	21 Feb	Jan	-\$11663M	--	--	-\$8678M
Foreign Investment	21 Feb	Jan	\$4000M	--	--	\$6490M
Chile						
Overnight Rate Target	18 Feb	Feb	4.25%	4.25%	4.25%	4.50%
Colombia						
Retail Sales YoY	17 Feb	Dec	5.05%	7.00%	4.10%	5.30%
Industrial Production YoY	17 Feb	Dec	0.80%	0.40%	1.50%	-0.60%
Trade Balance	18 Feb	Dec	\$200	\$832	\$556.6	\$128
Mexico						
Economic Activity IGAE YoY	21 Feb	Dec	1.20%	1.00%	--	-0.04%
GDP SA QoQ	21 Feb	4Q	0.70%	0.50%	--	0.84%
GDP Full Year YoY	21 Feb	2013	--	1.20%	--	--
Peru						
GDP YoY	24 Feb	4Q	5.20%	--	--	4.40%

Most recent Latam reports

Date	Description
19-02-2014	➤ Chile Flash: We expect January Imacec between 1.5 and 2.5% YoY (in Spanish)
19-02-2014	➤ Latam Economic Outlook: First Quarter 2014 (in Spanish)
18-02-2014	➤ Chile Flash: Central bank cut policy rate by 25bp (at 4.25%) and kept dovish bias
17-02-2014	➤ Mexico Economic Outlook: First Quarter 2014 (in Spanish)
14-02-2014	➤ Peru Flash: GDP maintained good momentum in December
13-02-2014	➤ Peru Flash: The policy rate stayed in February at 4,0%, as expected
13-02-2014	➤ Peru Economic Outlook: First Quarter 2014 (in Spanish)
13-02-2014	➤ Colombia Economic Outlook: First Quarter 2014 (in Spanish)
13-02-2014	➤ Brazil Presentation: moderate growth and need for reforms (in Spanish)
12-02-2014	➤ Chile Economic Outlook: First Quarter 2014 (in Spanish)

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