

Latam Daily Flash

3 March 2014 Economic Analysis

Madrid
Juan Ruiz
Chief Economist, South America
juan.ruiz@bbva.com
+34 91 3745887

Enestor dos Santos
Principal Economist, Latam
enestor.dossantos@bbva.com
+34 639827211

Cecilia Posadas
Economist, Latam
c.posadas@bbva.com
+34 91 3746279

Pablo Urbiola
pablo.urbiola@bbva.com
+34 91 8072457

With contributions from the BBVA
Research Latam Team:

Lima
Hugo Perea
Chief Economist, Peru
hugo.perea@bbva.com
+51 1 2112042

Bogota
Juana Tellez
Chief Economist, Colombia
juana.tellez@bbva.com
+571 3471600

Santiago
Jorge Selaive
Chief Economist, Chile
jselaive@bbva.com
+56 2 2939 10 92

Mexico City
Carlos Serrano
Chief Economist, Mexico
carlos.serrano@bbva.com
+5255 5621 4354

Javier Amador
Principal Economist, Mexico
javier.amador@bbva.com
+5255 5621 3095

Inflation in Peru surprised to the upside in February, but we expect it to gradually converge towards the target range in the following months. In Colombia we expect the first hike of the MPR to occur in June. Activity data in Chile was affected by strikes that took place at the main ports in January, but is in line with a MPR cut at March's meeting. Colombian job creation showed more balanced sources than last year's figures, while unemployment in Chile was slightly higher than expected.

Peru - Central bank lowered reserve requirements for deposits in domestic currency

The reserve requirements for deposits in the domestic currency were cut by 0.5pp, to 12.5%, effective from March. The central bank has already lowered this requirement eight times since June last year, although this latest cut was smaller than the previous ones (1pp in December, January and February). The measure is intended to drive credit growth in an orderly fashion, and is in line with our view that any relaxation of the monetary policy will be made using this instrument, leaving the interest rate unaltered.

Peru - Inflation surprised to the upside in February and remained outside the target range

Headline inflation was 0.6% MoM in February, above market expectations (BBVAe and consensus: 0.3%). Changes in the CPI were mainly driven by increases in electricity tariffs and some food products last month. With this result, annual inflation reached 3.8% and increased its deviation from the target range (2% +/- 1pp). However, we expect it to gradually converge towards this range in the following months, as we anticipate that GDP will continue to grow around its potential, international food prices will maintain a downward bias and the exchange rate will be somewhat more stable than last year.

Colombia - BanRep decided unanimously to keep its policy rate unchanged at 3.25%

The central bank maintained its optimism about economic activity in 2013 and 2014, and decided unanimously to keep its policy rate unchanged at 3.25%. Global growth has improved slightly, in particular for developed economies and Colombia's main trading partners as well. The continued optimistic tone of the central bank, the unanimous decision and low inflation rate together rule out rate changes until the second quarter of 2014. We expect the first rate hike to occur in June, to the extent that inflation converges towards the long-term target and the economy approaches potential growth (see our [Colombia Flash](#) for details).

Colombia - Unemployment rate stood at 12.3% in January

In January the urban unemployment rate stood at 12.3%, a -0.8pp (YoY) decrease. Job creation was 196,000 (YoY), the same average level as during the last semester of 2013. Employment in January was still primarily linked to the public sector, but since December 2013 other sectors such as transport, commerce and construction have become more important. All in all, job creation was more balanced by sector in January.

Chile - Activity data by sector anticipates Imacec at 1.8% YoY in January

Retail sales expanded 6.8% YoY in January, below our expectations (BBVAe: 7.8% YoY), and showing less dynamic consumption of durable goods. Meanwhile, supply-side related sectors posted significant declines. In particular, manufacturing decreased by 1.4% YoY, in line with our expectations, while mining production surprised to the downside after falling 2.7% YoY. All in all, we forecast that the monthly activity index (Imacec) grew 1.8% YoY in January (-0.8% MoM sa), the lowest figure since the earthquake on 27 February 2010. Nonetheless, we expect that the Imacec figures will show some improvement in the coming months, given the transitory effects of strikes that took place at the main ports during January. Finally, as a result of these figures we expect another rate cut of 25bp at March's monetary policy meeting, but this is conditional on both our forecast of inflation at +0.3% MoM in February and exchange rate depreciations contained to a level no higher than CLP580 per USD (see our [Chile Flash](#) for details).

Chile - Unemployment rate increases to 6.1% in January

The unemployment rate increased to 6.1% in January (from 5.7% in the previous month), above both our and consensus estimates (BBVAe: 5.8%). This print was a consequence of 2.2% YoY growth in job-creation and a faster increase in the labour force that reached 2.4% YoY in the period. Also, in this context, the main contributions to job creation came from retail and wholesale commerce, real-estate and education. Finally, the figures still point to changes in the composition of employment from salaried to self-employed, increasing 0.5% YoY and 7.5% YoY respectively. For this reason, we anticipate further increases in the jobless rate in the coming months.

What to watch today

Colombia - Exports (January, 16:00hrs NYT)

We expect stability in the value of exports for January 2014, compared with the January 2013 figure. Despite economic recovery in the United States and other developed countries, low commodity prices would imply a ceiling for the value of Colombian shipments.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Trade Balance Monthly	5 Mar	Feb	-\$3000M	-\$2800M	--	-\$4057M
Vehicle Sales Fenabrave	5 Mar	Feb	--	--	--	312619
FGV CPI IPC-S	6 Mar	Feb	0.60%	--	--	0.69%
COPOM Monetary Policy Meeting Minutes	6 Mar	--	--	--	--	--
FIPE CPI - Monthly	7 Mar	Feb	0.49%	--	--	0.94%
PMI Services	7 Mar	Feb	--	--	--	49.6
Chile						
Economic Activity YoY	5 Mar	Jan	1.90%	1.80%	--	2.63%
Central Bank Meeting Minutes	5 Mar	Feb	--	--	--	--
Real Wage MoM	6 Mar	Jan	--	--	--	0.60%
CPI MoM	7 Mar	Feb	0.25%	0.30%	--	0.18%
Trade Balance	7 Mar	Feb	\$650.0	\$949	--	-\$268.0
Copper Exports	7 Mar	Feb	--	\$3551	--	\$2303.0
Vehicle Sales Total	7 Mar	Feb	--	--	--	34224
Colombia						
Exports FOB	3 Mar	Jan	\$4966.6	\$4850	--	\$5272.1
CPI MoM	6 Mar	Feb	0.57%	0.64%	--	0.49%
CPI Core MoM	6 Mar	Feb	--	0.80%	--	0.36%
Mexico						
Remittances Total	3 Mar	Jan	1524.3M	--	--	1798.5M
IMEF Manufacturing Index SA	3 Mar	Feb	50.0	--	--	49.7
Consumer Confidence Index	5 Mar	Feb	85.0	82.2*	--	84.5
CPI MoM	7 Mar	Feb	0.23%	0.25%	--	0.89%
Bi-Weekly CPI	7 Mar	Feb	0.08%	0.14%	--	0.12%

*Seasonally-adjusted figure

Most recent Latam reports

Date	Description
28-02-2014	➤ Chile Flash: Activity data by sector anticipates Imacec at 1.8% YoY in January
28-02-2014	➤ Chile Flash: The year begins with a significant increase in public expenditure of 12% YoY (in Spanish)
28-02-2014	➤ Colombia Flash: BanRep decided unanimously to keep its policy rate unchanged at 3.25%
27-02-2014	➤ Presentation: Latam and Uruguay outlook: growth and differentiation (in Spanish)
27-02-2014	➤ Colombia Economic Outlook: First Quarter 2014
27-02-2014	➤ Mexico Real Estate Flash: In 2013, mortgage banking grew, at a rate of 14%
26-02-2014	➤ Chile Economic Watch: The inflationary impact of exchange rate depreciation (in Spanish)
25-02-2014	➤ Chile Flash: We expect February CPI at 0.3% MoM and March CPI heading to 0.7% MoM (in Spanish)
25-02-2014	➤ Mexico Real Estate Flash: In 2013, only banking credit grew, at a rate of 14% (in Spanish)
24-02-2014	➤ Brazil Economic Outlook: another bumpy year ahead

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