

Latam Daily Flash

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Economic Analysis

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Yesterday the Peruvian central bank increased reserve requirements in an effort to reduce the impact of capital inflows on credit growth and FX appreciation. We also had fiscal budget reports for Chile, Brazil and Mexico. As expected, all of them showed that targets for 2012 were met. However, in Brazil deficit targets were met due to the use of non-recurrent revenues which, together with weak growth and lower interest payments, could trigger an easing of fiscal targets going forward. Today sees the publication of indicators on the evolution of labor markets in Brazil, Chile and Colombia, where we expect unemployment rates to continue to decline.

Peru – Central bank raises reserve requirements again

BCR raised the average reserve requirements in USD by 1.0pp (this is the sixth increase since May 2012). It also raised the reserve requirement from 20% to 25% for foreign loans of the banking system and long-term bonds issued by banks that exceed a limit of 2.2 times the equity of these institutions (previously this limit was 2.5 times). BCR also established a reserve requirement deduction equivalent to 25% of investments and deposits abroad of local financial institutions in respect of the balance at 31 December, 2012. The aim of these measures, which will take effect from tomorrow, is to moderate the impact of foreign capital inflows on credit growth and the appreciation of the PEN.

Chile – Manufacturing production and mining contract in December

Manufacturing production and mining fell 2.5% YoY and 2.6% YoY in December, respectively, both below our expectations. Meanwhile, retail sales increased 11% YoY, above our estimate and confirming the strength of domestic demand. Thus, the contrast between slowing supply and strong demand continues. Based on available information, we expect next week's release of the monthly Economic Activity Index (Imacec) for December to come in at 3.5% YoY, taking GDP growth to 5.5% YoY in 2012 (see our [Chile Flash](#) for details).

Chile – 2012 fiscal surplus reached 0.6% of GDP

The latest budget balance report released yesterday showed an estimated surplus of 0.6% of GDP in 2012, slightly above our forecast of 0.2% of GDP. This print includes real expenditure growth of 4.7% YoY, below the preliminary figures, and an increase in real revenues of 1.3% YoY.

Brazil – Fiscal deficit declined slightly in 2012 as lower interest payments offset a weaker primary surplus

The fiscal deficit fell to 2.5% of GDP in 2012 from 2.6% in 2011, as the deterioration in the primary surplus, which reached 2.4% vs. 3.1% in 2011, was offset by a drop in interest payments from 5.7% to 4.8%. The adjusted primary surplus target, which excludes main public investment projects from the 3.1% official target, was met, but to do so the government had to rely on non-recurrent revenues. The continuous decline in public debt (which reached 35.1% of GDP in 2012), the room created by lower interests and the need to support growth could soon trigger a formal easing of fiscal policy.

Mexico – Budget report in line with target, GDP growth at 4% YoY in 2012

The fiscal deficit, excluding PEMEX's investment, was 0.6% of GDP in 2012 (including PEMEX, the deficit was 2.6%), which was in line with the Congress target. Revenues increased 3.3% YoY in real terms due to higher oil income (3.7%), while non-oil tax revenues increased only 1.4%. Total expenditure increased by 3.8% YoY, highlighting expenditure on public health, education and social security. According to the Treasury, the Mexican economy grew 4% YoY in 2012 and Federal public net debt reached 32.6% of GDP.

What to watch today

Brazil - Unemployment rate (December, 06:00hrs, NYT)

We expect the unemployment rate to have reached 4.5% in December, the lowest figure ever. The labor market remained tight, supporting private consumption and growth in general at the end of 2012. We expect this support to remain in place over 2013e.

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

We expect the unemployment rate to decline to 5.9% in December on a moving quarterly average basis, confirming the tightness of the labor market. The expected decrease is based on employment growth of 2% YoY and a labor force increase slightly above 1% YoY.

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

We anticipate the urban unemployment rate will remain at 10%, although 4bp lower than the 2011 number and in line with the YoY declines in recent months. The urban employment rate should increase faster than labor supply, in line with our 4Q12 forecasts that anticipate a rebound in economic activity.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FIPE CPI - Weekly	28-Jan	Jan 23	1.02%		1.04%	0.96%
Trade Balance (FOB) - Weekly	28-Jan	Jan 27	--		-\$1723M	-\$1723M
FGV Inflation IGP-M (MoM)	30-Jan	Jan	0.33%		0.34%	0.68%
Nominal Budget Balance	30-Jan	Dec	17B		3.2B	-21.8B
Net Debt % GDP	30-Jan	Dec	35.10%	35.60%	35.10%	35.00%
Unemployment Rate	31-Jan	Dec	4.50%	4.50%	--	4.90%
FGV CPI IPC-S	01-Feb	Jan 31	1.12%		--	1.03%
Industrial Production sa (MoM)	01-Feb	Dec	-0.30%	-0.10%	--	-0.60%
PMI Manufacturing	01-Feb	Jan	--		--	51.10
Trade Balance (FOB) - Monthly	01-Feb	Jan	-\$3000M	-\$3000M	--	\$2250M
Chile						
Manufacture Production (YoY)	30-Jan	Dec	1.00%	-0.70%	-2.50%	0.80%
Retail Sales (YoY)	30-Jan	Dec	8.35%	8.40%	11.00%	10.70%
Mining production (YoY)	30-Jan	Dec	--	2.00%	--	2.30%
Unemployment Rate	31-Jan	Dec	6.00%	5.90%	--	6.20%
Central Bank Meeting Minutes	01-Feb	--	--	--	--	--
Colombia						
Overnight Lending Rate	28-Jan	Jan 28	4.00%	4.00%	4.00%	4.25%
Urban Unemployment Rate	31-Jan	Dec	10.00%	10.00%	--	9.80%
Producer Price Index (MoM)	02-05 Feb	Jan	--	--	--	-0.74%
Peru						
Budget Balance (Year to date)	30-Jan	Dec	--	--	-403.6B	-204.50B
Central Bank Monetary Policy Minutes	01-Feb	--	--	--	--	--
Mexico						
Consumer Price Index (MoM)	01-Feb	Jan	0.24%	0.05%	--	0.26%
Wholesale Prices (MoM)	01-Feb	Jan	--		--	-0.12%
Primary Sector Production (YoY)	01-Feb	Dec	--	--	--	0.66%

Most recent Latam reports

Date	Description
30-1-2013	> Chile Flash: Manufacturing production and mining fall, while retail sales remain strong
28-1-2013	> Colombia Flash: BanRep cut policy rate by 25bps to 4.0% and enhanced FX intervention
24-1-2013	> Mexico Inflation Flash: January biweekly inflation: Inflation Drops Again as Non-Core Prices Surprise Downwards
24-1-2013	> Brazil Flash: Monetary policy minutes: a more hawkish tone, still in line with the stability of monetary conditions
23-1-2013	> Mexico Real Estate Outlook - January 2013
21-1-2013	> Paraguay Flash: Paraguay returns to the international bonds market with a 10-year bond
18-1-2013	> Mexico Flash. No change in fondeo rate. Inflation slump leads to a dovish tone
17-1-2013	> Chile Flash: Central Bank kept the monetary policy rate at 5%
17-1-2013	> Banxico Watch: The significant improvement in the inflation balance of risks leads to a neutral tone and supports the monetary pause
17-1-2013	> Brazil Flash: Stability of monetary conditions amid higher inflation and lower growth

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