

# Latam Daily Flash

## 1 February 2013 Economic Analysis

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Yesterday in Brazil we saw the government once again unwinding one of the measures implemented when the pressure from capital inflows was very strong there. This time it reduced to zero the tax on foreign investment in real estate funds, to favor dollar inflows, stem the depreciation of the Real and take some of the pressure off inflation. Unemployment rates in Brazil and Chile continued to fall in December but Colombia's showed a slight increase relative to the previous month. Today, attention will focus mostly on the monetary policy minutes in Mexico - to assess the rationale behind a possible rate cut - and on industrial production in Brazil.

### Brazil - Government cuts tax on capital flows into real estate funds

The government reduced from 6% to 0% the IOF tax on foreign investment in real estate funds. The measure follows BCB's dollar sales observed in the past few days and other similar measures to favor dollar inflows adopted in previous months. These actions have been seen as an offensive to take some of the pressure off inflation, in spite of recent comments by Minister of Finance Guido Mantega, who remarked that exchange rates are not a tool to control domestic prices and highlighting the importance of a weaker currency for exporters.

### Brazil - The labor market remained supportive at the end of 2012

The unemployment rate averaged 5.5% in 2012, below the 6.0% average recorded in 2011. In December, the rate reached 4.6% (slightly higher than expected, but still the lowest figure ever), in comparison to 4.7% in December 2011. In spite of some downward correction in December, real wages expanded 3.2% in 2012. We expect the labor market to continue being one of the main drivers of economic activity this year.

### Chile - Unemployment rate ends 2012 at 6.1%

The unemployment rate reached 6.1% at the end of 2012, above our expectation but 0.1pp below the November print. Employment increased 0.3% QoQ and the labor force expanded 0.2% QoQ. In annual terms, employment converges to a growth rate of 1.8% YoY, while the labor force increased 1.2% YoY, both well below 2011 figures, which is coherent with a situation of virtually full employment. Thus, the unemployment rate decreased to an average of 6.4% in 2012, below the 7.1% of 2011 (see our Chile Flash for details).

### Chile - Nominal credit growth reached 12.5% YoY in December 2012

Overall nominal credit grew 14.6% YoY in December 2012, based on increases in commercial loans and household loans of 15.2% YoY and 13.5% YoY respectively. This data reveals a stabilization in the annual growth rate in the latter part of the year for overall and commercial credits, while household loans show a slight deceleration. The latter is explained by some slowdown in mortgage loans in 2H12.

### Colombia - Urban unemployment rate reached 10.2% in December

Urban unemployment rate stood at 10.2%, 0.2% lower than a year ago but slightly above both consensus expectations and the figure for November (both at 10.0%). The November figure was anticipating that both labor supply and occupation rates would grow further in December (as in previous months), but they remained unchanged on a YoY basis. Our activity forecasts assume dynamic household consumption, which we expect to be supported by more dynamic employment growth over the coming months.

## What to watch today

### Brazil - Industrial production (December, 06:00hrs, NYT)

In our view, industrial production will have declined slightly in monthly terms in December, revealing that it is still undermining the recovery in economic activity.

### Chile - CB meeting minutes (January, 6:30 hrs, NYT)

We expect the minutes to reveal that the CB is maintaining its neutral stance for the monetary policy rate. This position would be in response to downside risks from the external sector that offset risks of a more dynamic than expected domestic sector, and in addition that long-term inflation expectations continue to be well-anchored.

### Mexico - Monetary policy meeting minutes (18 January meeting, 10:00 hrs, NYT)

As the tone of the statement after the last meeting was more dovish than expected, we expect the board to highlight the fall in YE12 inflation and the outlook for its downward trend during 2013. We will be looking for the rationale behind the mention of a possible rate cut to adjust the economy to a "situation of lower economic growth and lower inflation".

### Mexico - Remittances (December, 10:00 hrs, NYT)

We expect remittance flows to reach USD22.5bn at YE12e, which implies a smooth fall of -1.4%e YoY. Remittances have been decelerating since 2Q12, which is partially explained by the immigrant labor situation.

### Peru - Consumer prices (January, 11:00 hrs NYT)

We are forecasting an increase of 0.05% MoM in consumer prices (2.8% YoY), and for the coming months we anticipate that annual inflation will remain within the target range with no major pressures from supply or demand.

## 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%	4.60%	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
<b>Chile</b>						
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%	6.10%	6.20%
Central Bank Meeting Minutes	01-Feb	--	--	--	--	--
<b>Colombia</b>						
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%	10.20%	9.80%
Producer Price Index (MoM)	02-05 Feb	Jan	--	--	--	-0.74%
<b>Mexico</b>						
Budget Balance (Year to date)	30-Jan	Dec	--	--	-403.6B	-204.50B
Central Bank Monetary Policy Minutes	01-Feb	--	--	--	--	--
<b>Peru</b>						
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
31-1-2013	<a href="#">➤ Working Paper: Expanding Credit and Savings in Peru</a>
31-1-2013	<a href="#">➤ Brazil Economic Watch: "The macro mix in Brazil: a new fiscal regime, to a new monetary policy"</a>
31-1-2013	<a href="#">➤ Chile Flash: Unemployment rate ends 2012 at 6.1%</a>
30-1-2013	<a href="#">➤ Chile Flash: Manufacturing production and mining fall, while retail sales remain strong</a>
28-1-2013	<a href="#">➤ Colombia Flash: BanRep cut policy rate by 25bps to 4.0% and enhanced FX intervention</a>
24-1-2013	<a href="#">➤ Mexico Inflation Flash: January biweekly inflation: Inflation Drops Again as Non-Core Prices Surprise Downwards</a>
24-1-2013	<a href="#">➤ Brazil Flash: Monetary policy minutes: a more hawkish tone, still in line with the stability of monetary conditions</a>
23-1-2013	<a href="#">➤ Mexico Real Estate Outlook - January 2013</a>
21-1-2013	<a href="#">➤ Paraguay Flash: Paraguay returns to the international bonds market with a 10-year bond</a>
18-1-2013	<a href="#">➤ Mexico Flash. No change in fondo rate. Inflation slump leads to a dovish tone</a>

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