

# Latam Daily Flash

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Economic Analysis

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*On Friday, inflation figures in Brazil and Mexico came out slightly higher than expected. However, in Mexico unemployment figures also surprised to the upside, supporting our view of a rate cut at the next Banxico meeting in April. In Colombia, as expected, BanRep also cut rates due to sluggish activity data and positive inflation surprises, but with no signs of further cuts in future. Today will be a quiet day in Latam, with just current account data for 4Q12 in Mexico.*

## Brazil – Inflation continues under pressure

IPCA-15 consumer inflation came in at 0.68% MoM in February, slightly above our estimate (0.60% MoM). Annual inflation rose to 6.18%, from 6.02% in January's IPCA-15, which reinforces our view that inflationary pressures will persist at least throughout the first half of 2013e in spite of the significant cut in electricity tariffs.

## Brazil – Current account balance in January is a record deficit

The BCB released the current account balance for January, hitting an unprecedented deficit of USD11.4bn, well above the market's expectations of USD9.5bn, and reflecting an atypical balance of trade, with a deficit of USD4bn. With this, the cumulative deficit for the last 12 months reached USD58.6bn, around 2.58% of GDP according to BCB estimates. Meanwhile, the financial account included revenues of USD12.2bn, which led to an overall balance of payments surplus of USD1.4bn.

## Mexico – Inflation was higher than expected in mid-February but in line with Banxico's view

Bi-weekly CPI inflation was 0.24% (vs. BBVAe 0.2% and 0.17% consensus) and core inflation was 0.24% (vs. BBVAe 0.06% and 0.18% consensus). The most significant upward pressures were seen in agricultural products (0.94%), tariffs set by the government (0.57%), and services other than housing and education (0.6%) mainly mobile phone services (8.44%, up for the second month in a row). Annual inflation increased from 3.25% at end-January to 3.47% in mid-February, but in line with Banxico's view (see our [Mexico Flash](#) for details).

## Mexico – Unemployment rate increased in January

Unemployment rate increased more than expected to 5.42% (vs. 4.9% one year before and the highest in 16 months), while the participation rate decreased to 57.7% (vs. 58.3% on January 2012). In seasonally adjusted series, unemployment rate was 0.25pp higher than the previous month (current print 5.27%). The latest prints have confirmed a downward bias in economic activity (s.a. retail sales, unemployment rate and GDP 4Q12), which we think suggests a rate cut in April (-50bp to 4.0%).

## Colombia – BanRep cut policy rate by 25bp with no sign of further cuts in the coming months

BanRep cut once more its policy rate by 25bp to 3.75%, in line with our call. The extra stimulus was in response to sluggish activity data (mainly in the industrial sector), also supported by Banrep's need to maintain its inflation targeting mandate and anchor medium-term inflation expectations. After this cut we anticipate stability until 2Q14e as we expect the recent stimulus to have a further impact on economic activity, and we forecast that 4Q12 GDP growth (to be released before the next policy meeting) will be in line with expectations (BBVAe: 3.0% YoY, BanRep: between 2.0% and 3.5%). For more information read our [Colombia Flash](#).

## Colombia – Industrial production confirms delay in industrial recovery. Retail sales signal room for increased household spending

In December, industrial production fell for the second month in a row (-3.0% YoY), although above November's number (-4.1% YoY). In aggregate, industrial production remained static in 2012 compared to 2011 (growth 0.0%). By sectors, the best performers were the most dependent on domestic consumption and exporting to LatAm. Meanwhile, retail sales confirmed the expected rebound in household consumption, which should consolidate in 1Q13e. Retail sales grew 3.3% YoY in December and 3.0% in FY12.

## Peru – GDP maintained robust growth in 4Q12

GDP grew 5.9% (YoY) in 4Q12 supported by the strength of domestic demand. This result is lower than the previous reading (6.8% in 3Q12) due to a reduction in inventories, which is a volatile component of spending. Going forward, we anticipate a renewed acceleration of GDP growth in 1Q13e, in line with the available indicators which suggest a good pace of expansion for investment (private and public) and consumption..

## What to watch today

### Mexico – Current account balance (4Q12, 10:00 hrs, NYT)

4Q12's current account deficit could be higher than the consensus forecast (USD4,175mn vs. the previous USD3,662mn) because of a positive growth gap between Mexico and its main trade partners. However, we expect the current account deficit to close 2012 at c.0.7% of the GDP.

## Calendar: Indicators

| Brazil                          | Date   | Period | Consensus | BBVAe   | Actual | Prior     |
|---------------------------------|--------|--------|-----------|---------|--------|-----------|
| FIPE CPI - Weekly               | 25-Feb | 2-feb  | 0.63%     | --      | 0.52   | 0.83%     |
| FGV CPI IPC-S                   | 25-Feb | 2-feb  | 0.28%     | --      | --     | 0.55%     |
| FGV Consumer Confidence         | 26-Feb | Feb    | --        | --      | --     | 117.9     |
| Unemployment Rate               | 26-Feb | Jan    | 5.30%     | 5.30%   | --     | 4.60%     |
| Central Govt Budget             | 26-Feb | Jan    | 21.1B     | --      | --     | 28.3B     |
| FGV Inflation IGP-M (YoY)       | 27-Feb | Feb    | 8.34%     | --      | --     | 7.91%     |
| Primary Budget Balance          | 27-Feb | Jan    | 22.00B    | --      | --     | 22.3B     |
| Manufacturing PPI (YoY)         | 28-Feb | Jan    | --        | --      | --     | 7.16%     |
| FGV CPI IPC-S                   | 01-Mar | 2-feb  | 0.28%     | --      | --     | --        |
| GDP (IBGE) QoQ                  | 01-Mar | 4Q     | 0.80%     | 0.60%   | --     | 0.60%     |
| PMI Manufacturing               | 01-Mar | Feb    | --        | --      | --     | 53.20     |
| Trade Balance (FOB) - Monthly   | 01-Mar | Feb    | -\$800M   | --      | --     | -\$4035M  |
| <b>Chile</b>                    |        |        |           |         |        |           |
| Manufacturing Index             | 28-Feb | Jan    | 3.45%     | --      | --     | -2.50%    |
| Retail Sales (YoY)              | 28-Feb | Jan    | 10.20%    | --      | --     | 11.00%    |
| Copper Production Total         | 28-Feb | Jan    | --        | --      | --     | 513344.00 |
| Unemployment Rate               | 28-Feb | Jan    | 6.20%     | --      | --     | 6.10%     |
| Central Bank Meeting Minutes    | --     | --     | --        | --      | --     | --        |
| <b>Colombia</b>                 |        |        |           |         |        |           |
| National Unemployment Rate      | 28-Feb | Jan    | --        | --      | --     | 9.60%     |
| Urban Unemployment Rate         | 28-Feb | Jan    | 13.00%    | 12.90%  | --     | 10.20%    |
| <b>Mexico</b>                   |        |        |           |         |        |           |
| GDP Current \$ YoY              | 25-Feb | 4Q     | --        | 7.50%   | --     | 8.20%     |
| Current Account Balance         | 25-Feb | 4Q     | -\$4175M  | \$4335M | --     | -\$3662M  |
| Trade Balance                   | 26-Feb | Jan P  | 961.7M    | --      | --     | 961.7M    |
| Budget Balance (Year to date)   | 01-Mar | Jan    | --        | --      | --     | -403.60B  |
| <b>Peru</b>                     |        |        |           |         |        |           |
| Consumer Price Index (YoY)      | 01-Mar | Feb    | 2.69%     | --      | --     | 2.87%     |
| Wholesale Prices (MoM)          | 01-Mar | Feb    | --        | --      | --     | -0.78%    |
| Primary Sector Production (YoY) | 01-Mar | Jan    | --        | --      | --     | 1.14%     |

## Most recent Latam reports

| Date      | Description                                                                                                                                              |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 22-2-2013 | <a href="#">➤ Colombia Flash: Industrial production confirms delay of industrial recovery. Retail sales signal room for increased household spending</a> |
| 22-2-2013 | <a href="#">➤ Colombia Flash: BanRep cut policy rate by 25bps to 3.75%, in line with expectations</a>                                                    |
| 22-2-2013 | <a href="#">➤ Mexico Flash: February's biweekly inflation: inflation increases as mobile phone fees rise again</a>                                       |
| 20-2-2013 | <a href="#">➤ Mexico Banking Flash. Bank deposits: continue to grow</a>                                                                                  |
| 20-2-2013 | <a href="#">➤ Chile Economic Outlook 1Q13</a>                                                                                                            |
| 20-2-2013 | <a href="#">➤ Peru Economic Outlook - First Quarter 2013 (in Spanish)</a>                                                                                |
| 19-2-2013 | <a href="#">➤ Latam Economic Outlook. First Quarter 2013 (in spanish)</a>                                                                                |
| 19-2-2013 | <a href="#">➤ Mexico Economic Outlook: First Quarter 2013 (in spanish)</a>                                                                               |
| 18-2-2013 | <a href="#">➤ Mexico GDP Flash. In line with estimates, GDP grew 3.9% yoy in 2012</a>                                                                    |
| 15-2-2013 | <a href="#">➤ Mexico Weekly Flash. GDP in 4Q12 set to see a similar growth rate to 3Q</a>                                                                |

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