

Latam Daily Flash

21 April 2014 Economic Analysis

Madrid

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We expect a 25pb cut in the next monetary policy meeting as additional stimulus is considered necessary but conditional on recent inflation figures. In Brazil inflation data confirmed that inflation pressures continue but they eased in the first half of April compared to March, we consider that the BCB will leave the Selic rate unchanged in the next meeting in May, while on the activity front economic activity was in line with moderate growth in 1Q14.

Chile - Central bank keeps its policy rate at 4% as widely expected by the consensus

The central bank kept policy rates at 4%, in line with market consensus but contrary to our expectation of a 25bp cut. Nonetheless, the board maintained a moderate dovish bias, considering the necessity of further stimulus but conditional on short-term figures. The latter, with a particular sensitivity to CPI inflation figures and second round effects related to CLP depreciation pass-through. We still consider this phenomenon as transitory in a context of a widening output gap. All in all, we expect a 25bp cut in the next monetary policy meeting; with the rate falling to 3.25% during 2014 (see our [Chile Flash](#) for more details).

Chile - Survey of credit conditions in 1Q14 revealed further constraints in both supply as well as in demand

The banking loans survey of 1Q14 revealed more restrictive conditions in credit supply for businesses, especially larger ones. Regarding credit supply to households, the results showed that overall conditions remained relatively constant compared to previous surveys, both in consumer and mortgage segments. Meanwhile, the demand for credit has decreased in larger businesses and both, real estate and construction companies, while the demand for credit for mortgages and from SMEs showed heterogeneous signals with no clear trend. Finally, a weaker demand in consumer loans can be perceived. All in all, results revealed further constraint in both credit supply as well as in demand, that should feedback aggregate activity figures below trend during the coming months.

Brazil - Inflation surprised to the downside at the beginning of April

April's IPCA-15, which measures inflation from mid-March until mid-April, reached 0.78% MoM / 6.19% YoY. These figures are higher than those revealed by the previous IPCA-15 reading (0.73% MoM / 5.90% YoY), however they are lower than expected (BBVA: 0.80% MoM / 6.21% YoY; consensus: 0.85% MoM / 6.26% YoY). The main pressures came from food inflation which reached 1.84% MoM, contributing with 0.45pp. out of 0.78pp. Even though food inflation continued to be the main driver of high inflation, it eased somewhat in comparison to March's (full-month) IPCA when it reached 1.92% MoM. All in all, the IPCA-15 figures confirmed that inflation pressures remain alive but at the same time they brought some positive news that in our view will pave the way for the BCB to leave the Selic unchanged at 11.0% in its next meeting in May.

Brazil - Economic activity expanded mildly in February

The IBC-Br revealed that economic activity grew 0.24% MoM in February, broadly in line with forecasts (BBVA: 0.3% MoM; consensus: 0.2% MoM). More importantly, the January figure was revised upwards to 2.35% MoM from 1.26% MoM. Therefore, if economic activity remained stable (0.0% MoM) in March, the IBC-Br would show a 0.9% QoQ expansion in 1Q14. However, we expect economic activity to decline in March and the BCB's economic indicator to grow around 0.6% QoQ which we believe is consistent with our 0.5% QoQ 1Q14 GDP growth forecast (vs. 0.7% QoQ in 4Q13).

Brazil - Unemployment rate declined to 5.0% in March

The labor data report for March showed that the unemployment rate declined to 5.0% from 5.1% in February and 5.7% one year ago. The figure was also lower than expected (BBVA: 5.3%; consensus: 5.3%). A declining labour force participation is behind the lower than expected unemployment rate in the last few months. Therefore, a still very tight labour market should not necessarily imply that private consumption will remain strong. In fact, we expect consumption to ease somewhat and contribute less to GDP growth in 1Q14. The stability of the level of employment and the signs of moderation in real wages support this view.

What to watch today

No relevant economic news will be published today

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Formal Job Creation Total	21 Apr	Mar	--	--	13117	260823
Tax Collections	21 Apr	Mar	88400M	--	--	83137M
FGV CPI IPC-S	24 Apr	Apr	0.80%	--	--	0.86%
FIPE CPI - Weekly	25 Apr	Apr	0.59%	--	--	0.63%
FGV Consumer Confidence	25 Apr	Apr	--	--	--	107.2
Current Account Balance	25 Apr	Mar	-\$6302M	-\$7800M	--	-\$7445M
Chile						
PPI MoM	24 Apr	Mar	--	--	--	-0.3%
Colombia						
Industrial Confidence	21 Apr	Mar	--	--	--	5.8
Retail Confidence	21 Apr	Mar	--	--	--	21.9
Trade Balance	23 Apr	Feb	-\$72.5	-\$65.0	--	\$157.4
Overnight Lending Rate	25 Apr	Apr	3.25%	3.25%	--	3.25%
Mexico						
Unemployment Rate NSA	22 Apr	Mar	4.43%	4.85%	--	4.65%
Unemployment Rate SA	22 Apr	Mar	4.68%	--	--	4.73%
Retail Sales YoY	23 Apr	Feb	0.4%	0.48%	--	-0.3%
Bi-Weekly CPI	24 Apr	Apr	-0.18%	-0.12%	--	0.05%
Bi-Weekly Core CPI	24 Apr	Apr	0.10%	0.06%	--	0.13%
Bi-Weekly CPI YoY	24 Apr	Apr	3.53%	3.59%	--	3.62%
Economic Activity IGAE YoY	25 Apr	Feb	1.59%	0.86%	--	0.83%
Overnight Rate	25 Apr	Apr	3.50%	3.50%	--	3.50%

Most recent Latam reports

Date	Description
17-04-2014	➤ Chile Flash: Central Bank kept policy rate at 4% as widely expected by consensus
15-04-2014	➤ Argentina Economic Watch: The challenge of competitiveness (in Spanish)
15-04-2014	➤ Chile Economic Watch: Fiscal policy: more expansive than expected (in Spanish)
15-04-2014	➤ Mexico Banking Flash: Bank deposits: uneven behaviour by components
15-04-2014	➤ Peru Flash: Economic activity: output growth surprises on the upside in February
15-04-2014	➤ Chile Flash: We expect activity to have increased between 2.9% and 3.4% YoY in March (in Spanish)
14-04-2014	➤ Brazil Travel Report: Politics starts to take centre stage while pessimism about the performance of the economy continues
14-04-2014	➤ Colombia Economic Watch: Exchange rate pass-through to prices in Colombia (in Spanish)
14-04-2014	➤ Mexico Banking Flash: Bank Deposits: varied performance by components (in Spanish)
14-04-2014	➤ Mexico Economic Watch: Social Security Reform

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