

## ECONOMIC ANALYSIS

## In Brazil, credit conditions give little support for private consumption

Chile Unit / Colombia Unit / Latin America Unit / Mexico Unit / Peru Unit

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*Credit conditions in Brazil point to a scenario with little support for private consumption from the credit markets. In Chile the traders' survey revealed expectations of a pause in the MPR at the next meeting and two further cuts this year.*

### Brazil – Credit conditions deteriorated in May

In an environment marked by tighter monetary conditions, weaker domestic demand and a relatively high level of household indebtedness, credit conditions continued to weaken in May. Average lending rates increased from 18.1% in May 2013 to 21.4% (the highest for two years) and the average loan tenure declined from 98.8 to 93.4 months in the same period. Non-performing loans (NPLs) increased slightly to 3.1% of the total in May after remaining unchanged at 3.0% for five months. However, NPLs remain relatively low and below the figure recorded a year ago (3.6%). Total credit growth eased to only 12.7% YoY in May, the slowest pace in ten years, completing the picture of a scenario of relatively weak support for private consumption from the credit markets.

### Chile – Traders expect a pause in policy rates at the next meeting, but two further cuts this year

The traders' survey for the second half of June came out with inflation estimates for the current month at around +0.2% MoM (BBVAe: +0.0/+0.1% MoM). Results also revealed expectations of another pause in the policy rate at 4.0% at the next meeting, but, in line with central bank's latest policy report, two further cuts during the year, taking the policy rate to 3.5% in January 2015 (BBVAe: 3.25%). Long-term inflation expectations remained well-anchored to the central bank's target of 3%. Lastly, traders forecast the currency will reach USDCLP 565 at the end of the year, in line with our expectations.

## What to watch today

### Brazil – Inflation Report (2Q14, 07:30hrs NYT)

We expect 2Q14 figures to highlight the downward risks regarding domestic activity and pave the way for maintaining the Selic rate at 11.0% for several months, even though we anticipate that the central bank's forecasts will contemplate inflation remaining at its current levels.

### Colombia – GDP components (1Q14, 12:00hrs NYT)

We expect consumption to be confirmed as one of the drivers of growth, with the highest YoY expansion since the end of 2011. Furthermore, fixed investment should have grown faster than GDP due to dynamic construction spending. In stark contrast, we anticipate that exports and non-residential private investment will post dismal growth during 1Q14 and we expect them only to recover during the latter part of the year.

### Colombia – Imports and trade balance (April, 17:00hrs NYT)

We expect imports to have dropped 6.2% YoY in April, despite the strong momentum of fuel imports. Consumer goods imports may have moderated due to higher domestic supply, as the local industrial

sector shows somewhat better results. We expect April's balance of trade to remain with a deficit of USD542mn, as exports were still subdued during the month due to supply shocks.

## Calendar: Indicators

<b>Brazil</b>	<b>Date</b>	<b>Period</b>	<b>Cons ens us</b>	<b>BBVAe</b>	<b>Actual</b>	<b>Prior</b>
FGV CPI IPC-S	23 Jun	Jun	0.31%	--	0.34%	0.36%
Tax Collections	27 Jun	May	90,100M	--	--	105,884M
Formal Job Creation Total	24 Jun	May	95,000	--	58,836	105,384
Current Account Balance	24 Jun	May	-\$6,600M	-\$7,000M	-\$6,635M	-\$8,291M
Foreign Investment	24 Jun	May	\$5,100M	\$5,000M	\$5,963M	\$5,233M
Outstanding Loans MoM	25 Jun	May	--	--	1.0%	0.6%
FGV Consumer Confidence	26 Jun	Jun	--	--	--	102.8
Central Bank's Inflation Report	26 Jun	--	--	--	--	--
Unemployment Rate	26 Jun	May	5.0%	5.10%	--	4.9%
FGV Inflation IGPM MoM	27 Jun	Jun	-0.58%	--	--	-0.13%
CNI Consumer Confidence	27 Jun	Jun	--	--	--	107.6
<b>Chile</b>						
Central Bank's Traders Survey	25 Jun	--	--	--	--	--
Central Bank Meeting Minutes	27 Jun	--	--	--	--	--
<b>Colombia</b>						
Outstanding Loans YoY	25 Jun	Apr	--	--	14.8%	14.6%
Vehicle Sales	26 Jun	May	--	--	--	--
Industrial Confidence	26 Jun	May	--	--	--	4.1
Retail Confidence	26 Jun	May	--	--	--	26.2
Trade Balance	26 Jun	Apr	-\$500.0M	\$542.4M	--	-\$276.2M
Current Account Balance	26 Jun	1Q	-\$4,200M	--	--	-\$3,396M
National Unemployment Rate	27 Jun	May	--	--	--	9.0%
Budget Balance	27 Jun	May	--	--	--	-\$1,969B
<b>Mexico</b>						
Unemployment Rate SA	23 Jun	May	4.84%	--	5.00%	4.90%
Economic Activity IGAE YoY	24 Jun	Apr	0.35%	--	0.50%	3.24%
Bi-Weekly CPI	24 Jun	Jun	0.10%	0.03%	0.08%	0.15%
Bi-Weekly Core CPI	24 Jun	Jun	0.09%	0.06%	0.12%	0.15%
Trade Balance	27 Jun	May	\$492.0M	--	--	\$509.6M

## Most recent Latam reports

Date	Description
06.24.2014	<a href="#">Chile Economic Watch: Stagflation in Chile, more of a myth than a reality</a>
06.24.2014	<a href="#">Mexico Flash: IGAE shows a robust increase in April, mainly driven by Services and Industry</a>
06.24.2014	<a href="#">Mexico Banking Flash: Credit to the private sector grew by 8.5% in April (in Spanish)</a>
06.23.2014	<a href="#">Pacific Alliance Flash: Mexico announces its entry in MILA effective from 4Q14 (in Spanish)</a>

- 06.23.2014 [Chile Flash: We forecast monthly GDP between 2.3% and 2.8% YoY \(in Spanish\)](#)
- 06.23.2014 [Chile Economic Watch: The 10 questions about fiscal policy that investors should have in mind](#)
- 06.20.2014 [Mexico Economic Watch: After 20 years of NAFTA, the balance for Mexico in the automotive sector is very positive \(in Spanish\)](#)
- 06.20.2014 [Banxico Flash: Rate cut decision made by simple majority](#)
- 06.19.2014 [Colombia Flash: An outstanding performance of Colombia's economy in 1Q14](#)
- 06.18.2014 [Economic Watch Mexico: Decisive factors for financial inclusion in Mexico according to the 2012 ENIF \(in Spanish\)](#)
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