

## ECONOMIC ANALYSIS

## Brazil: higher inflation, lower growth and stable interest rates

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

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*In Colombia there was an exceptional performance from public demand in 1Q14 and imports data for April confirm the good performance of private consumption.*

### Brazil – The BCB's Inflation Report reinforces our view of unchanged rates ahead

The 2Q14 Inflation Report showed that the BCB's inflation forecasts were revised upwards. In the baseline scenario, the BCB now expects inflation to reach 6.4% YoY at the end of 2014, 5.7% at the end of 2015 and 5.1% YoY at 2Q16. In the alternative market scenario, inflation forecasts were adjusted to 6.4%, 6.0% and 5.0% in the same periods. Even though inflation is expected to remain "persistent", the BCB highlighted that "if monetary conditions are maintained, inflation tends to converge towards the target in the final quarters of the forecast horizon" as "current inflationary pressures... are likely to cool down" and as the output gap "has been moving into disinflationary terrain". As regards the latter, the BCB revised its 2014 GDP forecast to 1.6% from 2.0%. All in all, the 2Q14 Inflation Report supports our view that current inflationary pressures will not trigger an upward adjustment of the Selic rate and that a slowdown economic activity will not prompt a monetary easing, at least in the short-term (i.e. until the end of the year).

### Colombia – 1Q14 GDP boosted by public demand

In 1Q14, GDP growth decomposition showed that public demand grew at more than twice the rate of private demand (13.7% YoY vs. 6.2% YoY). Both public consumption and civil works registered an exceptional performance during the quarter (7.5% and 29.3% YoY, respectively), with the latter mainly being financed by public investment. Nevertheless, the contribution of private demand to GDP (82% of the total variation) was higher than the contribution of public demand (53%) and together they were able to offset the weaker performance of external demand. In the coming quarters we expect a slowdown in private consumption, a more moderate growth in construction investment and a recovery in non-residential investment. All in all, we believe GDP growth should tend to decrease in the coming quarters, albeit in a range between 4%-5% and close to potential.

### Colombia – Imports confirm a good performance of private consumption

In April, imports grew 5.6% YoY boosted by consumption (13.2%) and fuel oil purchases (25.2%). Transportation equipment goods growth (11.4%), both for private and corporate use, was significant and confirms an upward trend in durable goods consumption. Furthermore, the import momentum in April was supported by an appreciation of the exchange rate. The trade balance deficit stood at USD906mn, the largest since 2008 and implies a downward bias to our current account balance for 2014.

## What to watch today

### Chile – Monetary policy minutes (June, 08:30 hrs, NYT)

We expect the minutes to reveal the Board's arguments related to its decision to maintain the MPR in the latest meeting. Moreover, the minutes will include the Board's discussion about the deceleration in activity and domestic demand and their evaluation regarding the high levels of inflation and its relationship with the CLP depreciation process. All in all, in our baseline scenario we expect three more

cuts of 25bp for the rest of the year, although the timing of those cuts will be data dependent.

### Colombia – Unemployment rate (May, 12:00 hrs, NYT)

We expect an urban unemployment rate of 9.4% in May, a 1pp fall with regards to 2013 (YoY). In seasonally adjusted terms, the unemployment rate should be similar to that of last month and should confirm the declining trend of unemployment throughout the year. Finally, job-creation (YoY) should be similar to that of 1Q14 and in line with our favourable expectations for economic activity in 2Q14.

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
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	--	--	103.8	102.8
Central Bank's Inflation Report	26 Jun	--	--	--	--	--
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	27 Jun	May	--	--	--	--
Industrial Confidence	27 Jun	May	--	--	--	4.1
Retail Confidence	27 Jun	May	--	--	--	26.2
Trade Balance	26 Jun	Apr	-\$500.0M	\$542.4M	-\$905.6M	-\$276.2M
Current Account Balance	27 Jun	1Q	-\$4,200M	--	--	-\$3,396M
National Unemployment Rate	27 Jun	May	--	--	--	9.0%
Budget Balance	27 Jun	May	--	--	-\$1,968.8B	-\$1,969B
<b>Mexico</b>						
Unemployment Rate SA	23 Jun	May	4.84%	--	5.00%	4.90%
Economic Activity IGAEY oY	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="#">Paraguay Flash: GDP grew by 4.1% in 1Q14 (in Spanish)</a>
06.24.2014	<a href="#">Chile Economic Watch: Stagflation in Chile, more of a myth than a reality</a>

- 06.24.2014 [Mexico Flash: IGAE shows a robust increase in April, mainly driven by Services and Industry](#)
- 06.24.2014 [Mexico Banking Flash: Credit to the private sector grew by 8.5% in April \(in Spanish\)](#)
- 06.23.2014 [Pacific Alliance Flash: Mexico announces its entry in MILA effective from 4Q14 \(in Spanish\)](#)
- 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](#)
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