

ECONOMIC ANALYSIS

Brazil: higher inflation, lower growth and stable interest rates

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

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 |
| Chile | | | | | | |
| Central Bank's Traders Survey | 25 Jun | -- | -- | -- | -- | -- |
| Central Bank Meeting Minutes | 27 Jun | -- | -- | -- | -- | -- |
| Colombia | | | | | | |
| 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 |
| Mexico | | | | | | |
| 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 | Paraguay Flash: GDP grew by 4.1% in 1Q14 (in Spanish) |
| 06.24.2014 | Chile Economic Watch: Stagflation in Chile, more of a myth than a reality |

- 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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