

ECONOMIC ANALYSIS

Brazilian central bank reduced its GDP growth forecast for 2014 and 2015 but left inflation forecast broadly unchanged

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

Today we will be expecting Chilean monetary policy minutes from the last meeting, where the latest 25bp rate cut was supported by the decelerating activity figures and inflation figures above the tolerance range. Also today, activity data by sector and unemployment rate figures will confirm the slow pace and deceleration of job-creation in line with further monetary stimulus towards 2.75% by year-end.

Brazil – 3Q14 Inflation Report: slower growth does not imply lower inflation

In the 3Q14 Inflation Report released yesterday, the Brazilian Central Bank lowered its forecasts for GDP growth in 2014, from 1.6% to 0.7% (consensus: 0.3%), and added that the economy will expand by only 1.2% in 2Q15. However, the monetary authority does not expect this sharper economic deceleration to reduce inflation. The bank left its inflation forecasts broadly unchanged, at around 6.0% YoY at the end of both 2014 and 2015 and close to 5.0% in the middle of 2016. The tone and the wording of the document released today continue to support our view that the Selic rate will continue at 11.0% for some time (see our [Brazil Flash](#) for more details).

What to watch today

Chile – Monetary policy minutes (September, 07:30hrs, NYT)

The last 25bp cut in rates (to 3.25%) and the moderation in the dovish bias during September should be supported by still weak aggregate activity prints and concerns about annual inflation that is persistently above the tolerance range. In this regard, we still expect further monetary stimulus, with cuts in the policy rate towards 2.75% at end-2014. Nonetheless, the timing of those cuts will remain dependent on inflation figures, mainly affected by exchange-rate depreciation pass-through.

Chile – Activity data by sector (August, 08:00hrs NYT)

We expect weak figures, with retail sales increasing 2.0% YoY while manufacturing output is likely to have fallen by 1.5% YoY. With these estimates, the aggregate activity print in August should show an increase in a range of 1.0% to 1.5% YoY. All in all, weak activity will continue during 3Q14 and we expect a mild recovery towards 2% to 3% YoY growth in 4Q14.

Chile – Unemployment rate (August, 08:00hrs NYT)

We expect the unemployment rate to have reached 6.6% in August. Labour force expansion should add to the deceleration in job-creation, mainly salaried, while a higher proportion of self-employed is likely to persist. We still expect an upward path in the unemployment rate during coming quarters.

Brazil – Public accounts report (August, 9:30hrs NYT)

Among other things, the report should help to support our view that the government will not be able to reach the primary surplus target of 1.9% of GDP, or at least not without relying on one-off, unplanned revenues.

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

We expect an urban unemployment rate of 9.6% in August (in line with consensus). In seasonally

adjusted terms, the unemployment rate should be the same as last month's. The economy is still creating jobs at a rate only slightly lower than that observed on average in 2Q14.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
BCB's Inflation Report	29 Sep	3Q	--	--	--	--
FGV Inflation IGPM MoM	29 Sep	Sep	0.32%	--	0.2%	-0.27%
Central Govt Budget Balance	30 Sep	Aug	0.0B	--	--	-2.2B
CNI Consumer Confidence	29 Sep	Sep	--	--	109.7	108.3
Net Debt % GDP	30 Sep	Aug	35.5%	--	--	35.1%
Primary Budget Balance	30 Sep	Aug	0.1B	--	--	-4.7B
FGV CPI IPC-S	1 Oct	Sep	0.46%	--	--	0.43%
Trade Balance Monthly	1 Oct	Sep	-\$600M	0	--	\$1168M
CNI Capacity Utilization (SA)	1 Oct	Aug	--	--	--	81.0%
Vehicle Sales Fenabrave	1 Oct	Sep	--	--	--	272495
Commodity Price Index MoM	1 Oct	Sep	--	--	--	-1.34%
FPE CPI - Monthly	2 Oct	Sep	0.11%	--	--	0.34%
Industrial Production MoM	2 Oct	Aug	0.18%	0.5%	--	0.7%
Chile						
Manufacturing Index YoY	30 Sep	Aug	-3.0%	-1.5%	--	-4.1%
Unemployment Rate	30 Sep	Aug	6.6%	6.6%	--	6.5%
Copper Production Total	30 Sep	Aug	--	--	--	465723
Retail Sales YoY	30 Sep	Aug	1.0%	2.0%	--	1.5%
Central Bank Meeting Minutes	30 Sep	--	--	--	--	--
Colombia						
Current Account Balance	30 Sep	2Q	-\$4100M	--	--	-\$4015M
Vehicle Sales	30 Sep	Aug	--	--	--	--
Urban Unemployment Rate	30 Sep	Aug	9.6%	9.6%	--	9.9%
PPI MoM	3 Oct	Sep	--	--	--	0.69%
CPI MoM	4 Oct	Sep	0.24%	0.14%	--	0.20%
CPI YoY	4 Oct	Sep	2.94%	2.86%	--	3.02%
CPI Core MoM	4 Oct	Sep	--	0.09%	--	0.15%
Mexico						
Net Outstanding Loans	30 Sep	Aug	--	--	--	2583B
Budget Balance YTD	30 Sep	Aug	--	--	--	-339.9B
Remittances Total	1 Oct	Aug	\$2050.0M	2048.0M	--	1995.7M
IMEF Manufacturing Index SA	1 Oct	Sep	52.0	51.7	--	51.6
IMEF Non-Manufacturing Index SA	1 Oct	Sep	53.0	52.3	--	52.7
Consumer Confidence Index	3 Oct	Sep	90.0	89.9	--	89.7
Central Bank Economist Survey	3 Oct	--	--	--	--	--
Peru						
CPI MoM	1 Oct	Sep	0.14%	-0.02%	--	-0.09%
Wholesale Price Index MoM	1 Oct	Sep	--	--	--	0.21%

Most recent Latam reports

Date	Description
09.29.2014	Chile Flash: September's CPI expected at +0.74% MoM, while October forecast is conditioned to specific price hikes (in Spanish)
09.29.2014	Brazil Flash: Lower growth does not imply lower inflation
09.26.2014	Colombia Flash: Pause in monetary policy interest rate hikes (in Spanish)
09.24.2014	Mexico Flash: In July the IGAE shows an unexpected positive annual performance (2.5% YoY, sa)
09.24.2014	Mexico Flash: Headline inflation surprises to the upside while core inflation points to some improvement in domestic demand
09.22.2014	Chile Flash: Activity indicator would be between 1 and 1.5% in August (in Spanish)
09.16.2014	Uruguay Flash: Positive surprise in growth in 2Q14 (in Spanish)
09.16.2014	Colombia Flash: Activity moderation in 2Q14 was in line with expectations (in Spanish)
09.15.2014	Peru Flash: Output remains weak (in Spanish)
09.12.2014	Chile Flash: As expected CB cut rates by 25bp (in Spanish)

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