

## ECONOMIC ANALYSIS

## Dilma Rousseff re-elected for another term in a very narrow victory

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

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*Dilma Rousseff will have to face a weaker economy with much less social support than in her first term. In Mexico, the monthly activity indicator pointed to a slight monthly decline in August, resulting from weaker momentum in the service sector. In the latter part of the year, we believe the economy will recover helped by the improvement in industry that should boost the services sector thanks to their close links.*

### Brazil – Dilma Rousseff re-elected for another four-year term

In line with the most recent polls, the current president Dilma Rousseff beat the center-right candidate Aécio Neves by a very small margin (52% vs. 48%). Her second four-year mandate will start on 1 January, 2015. On the economic front, she will have to face the challenge of driving up growth and reining in still high inflation, which in our view will require, among other things, restoring the confidence in the economy. To try to do so, we think president Dilma will make some (partial) adjustments in the ongoing set of economic policies, which could include a somewhat stricter control of fiscal policy (at least in 2015) and some pro-business measures. She has already announced that the current Finance Minister Guido Mantega will not form a part in her second government. In any event, president Dilma should face more problems running the country now than at the beginning of 2011 when her first mandate began. Not only has the economic situation deteriorated sharply since then, but also she now has less social support, as revealed by her narrow victory against Aécio Neves (in 2010 she was elected with 54% of the votes).

### Brazil – Current account deficit reaches 3.7% of GDP

The current account deficit in September was USD7.9bn, more than in August (USD5.5bn) and higher than in the same period last year (USD2.7bn). As a result, the deficit accumulated in the last 12 months has jumped to USD83.6bn (3.7% of GDP) from USD78.4bn (3.5% of GDP) in August. This increase is due to the deterioration in the trade and service accounts. The former declined to -USD0.9bn in September from USD1.1bn in August and the latter, to USD4.7bn from USD3.8bn in the same period. The impact of the recent exchange rate depreciation and even the deceleration in economic activity on the current account deficit, and in particular on the service accounts, which include things such as travel expenditure and equipment rental, is still small. We expect some improvement in the trade balance during the last quarter of the year to allow the current account deficit to remain practically unchanged at around 3.7% of GDP. However, the balance of payments report released on Friday suggests that risks are tilted to the upside.

### Mexico – The Global Indicator of Economic Activity fell 0.2% MoM, sa

The Global Indicator of Economic Activity (IGAE) slowed in August with a fall of -0.2% per month (MoM) mainly due to a weaker than expected service sector, with seasonally adjusted (sa) figures. The monthly decline was the result of IGAE decreases in Agriculture (-0.4% MoM, sa) and Services (-0.2% MoM, sa), while the Industry component increased 0.48% MoM, sa. In annual terms, the IGAE grew 1.9%, sa (BBVAe: 2.7% YoY, sa), with the agricultural sector posting a growth of 7.2% YoY, sa; Industry

increasing 2.1% YoY, sa; and services +1.6% YoY, sa. This is a slow step towards greater economic growth, but we will still have to see if the service sector rebounded in September thanks to the good performance of the industry and its strong association with it.

## What to watch today

No relevant news is expected for today.

## Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
Federal Debt Total	27 Oct	Sep	--	--	--	2169B
Tax Collections	27 Oct	Sep	91000M	--	--	94378M
FIPE CPI - Weekly	28 Oct	Oct	0.37%	--	--	0.34%
Selic Rate	29 Oct	Oct	11.00%	11.00%	--	11.00%
FGV Inflation IGPM MoM	30 Oct	Oct	0.20%	--	--	0.20%
Outstanding Loans MoM	30 Oct	Sep	--	--	--	1.0%
Central Govt Budget Balance	30 Oct	Sep	-10.5B	--	--	-10.4B
CNI Consumer Confidence	30 Oct	Oct	--	--	--	109.7
PPI Manufacturing MoM	31 Oct	Sep	--	--	--	0.48%
Net Debt % GDP	31 Oct	Sep	35.4%	--	--	35.9%
<b>Chile</b>						
Manufacturing Index YoY	29 Oct	Sep	0.9%	1.0%	--	-4.9%
Copper Production Total	29 Oct	Sep	--	--	--	483170
Retail Sales YoY	29 Oct	Sep	1.8%	1.5%	--	1.7%
Unemployment Rate	30 Oct	Sep	6.7%	6.7%	--	6.7%
<b>Colombia</b>						
Vehicle Sales	27 Oct	Sep	--	--	--	27658
National Unemployment Rate	31 Oct	Sep	--	--	--	8.9%
Urban Unemployment Rate	31 Oct	Sep	9.3%	9.2%	--	9.5%
Overnight Lending Rate	31 Oct	Oct	4.50%	4.50%	--	4.50%
<b>Mexico</b>						
Trade Balance	27 Oct	Sep	-368.9B	97	--	-1123.1M
Overnight Rate	31 Oct	Oct	3.00%	3.00%	--	3.00%
<b>Peru</b>						
CPI MoM	1 Nov	Oct	0.16%	--	--	0.16%
CPI YoY	1 Nov	Oct	2.86%	--	--	2.74%
Wholesale Price Index MoM	1 Nov	Oct	--	--	--	0.34%

## Most recent Latam reports

Date	Description
10.23.2014	<a href="#">Chile Economic Watch: Determinants of non-tradable inflation (in Spanish)</a>
10.23.2014	<a href="#">Mexico Inflation Flash: Annual inflation has peaked. We expect it to reach 3.8% by year-end</a>

10.21.2014	<a href="#">Brazil Economic Watch: Tell me who you export to and what you make, and I'll tell you how competitive you are</a>
10.20.2014	<a href="#">Mexico Banking Flash: Banking deposits: growth slows, but stays in double figures</a>
10.17.2014	<a href="#">Colombia Economic Watch: The NAIRU falls in Colombia and gets closer to a single-digit rate (in Spanish)</a>
10.16.2014	<a href="#">Chile Flash: Central bank cut the policy rate by 25bp introducing a neutral tone (in Spanish)</a>
10.15.2014	<a href="#">Peru Flash: Output growth remains weak (in Spanish)</a>
10.10.2014	<a href="#">Mexico Flash: In September 2014 formal employment registered a higher annual growth rate (4.1%), than the one of the previous month (3.1%)</a>
10.10.2014	<a href="#">Mexico Flash: Industrial Production increased 2.1%, YoY, sa, in August</a>
10.09.2014	<a href="#">Peru Flash: The Central Bank keeps the policy rate on hold (in Spanish)</a>

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