

ECONOMIC ANALYSIS

In Colombia BanRep shows concern regarding GDP growth, MPR cuts become more likely in 2015

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

Retail sales growth in Brazil in October in line with the positive contribution from private consumption in 4Q14, however we do not expect a sharp recovery ahead. Industrial production in Mexico expanded slightly below expectations in October supported by construction and manufacturing.

Brazil – Robust retail sales growth in October

Core retail sales grew 1.0% MoM in October as 7 out of its 8 components recorded a positive growth. The expansion was higher than expected (BBVA: 0.5% MoM; consensus: 0.5% MoM). The broad retail sales indicator also revealed a strong growth in the period, increasing 1.7% MoM, driven by the recovery of vehicles sales (4.3% MoM). The figures support the view that private consumption could contribute positively to GDP growth in 4Q14 after contracting in 3Q14. In any case, we do not expect a sharp recovery ahead as the macro environment (high inflation, increasing interest rates, weak credit markets...) is not especially supportive.

Colombia – The good performance of civil works continues

Civil works payments increased 10.9% YoY (vs. 12.6% expected by BBVA Research). This result implies a downward pressure on 3Q14 GDP growth, equivalent to 0.1pp. However, private consumption and industrial exports had a better than expected performance, leaving without bias our growth forecast of 4.9% GDP for year end.

Colombia – BanRep minutes express concern on oil price shock

BanRep minutes reflected the Board's concerns with three external sources of shock that will likely have a significant impact on GDP growth, exchange rate depreciation and inflation expectations during 2015. Firstly, a steep fall in Colombia's terms of trade from historically high levels, secondly, the continued weak global demand and finally, uncertainty regarding external financing costs. Consequently, monetary hikes can be ruled out and cuts could become more likely in 2015.

Mexico – Industrial production increased 2.25%, YoY, sa, in October

According to INEGI, Mexico's October industrial production increased 2.25% YoY sa (BBVA Bancomer forecast: 2.38 % YoY, sa). In the original series industrial production grew 2.12 % annually. The annual growth of industrial production in October was mainly due to increase in construction (6.0% YoY, sa), manufacturing (3.5% YoY, sa) and electricity, gas and water (2.3% YoY, sa); although mining fell once again, this time -5.0% YoY, sa. In monthly terms, industrial production increased 0.3%, sa, and we would highlight the increased production in the sub-sectors of manufacturing (0.7% MoM, sa), construction (0.2% MoM, sa) and mining (0.2% MoM, sa). Meanwhile, electricity, gas and water fell 1.4% MoM, sa.

What to watch today

Brazil – IBC-Br (October, 3:30hrs NYT)

The BCB's economic activity should show a moderate increase at the beginning of the last quarter of the year, consistent with a higher GDP growth in 4Q14 than in 3Q14 (0.1% QoQ). More specifically, we expect the IBC-Br to grow 0.5% MoM in October.

Chile – Monetary policy report (4Q14, 9:30hrs NYT)

We expect a slight downward revision to the 2015 GDP growth range (vs. current range of 3%-4%). The lower GDP growth expected for next year is likely to be driven mainly by both a slower recovery in gross investment and private consumption, but should be partially offset by a higher contribution from external demand and fiscal expenditures. Inflation forecasts are likely to be kept unchanged for 2015 (the current estimate is at 2.8% eop), but recent developments in the commodity markets could set a downward bias to this view. In this context, the report will probably reinforce the neutral bias for policy rates in the short-term.

Colombia – GDP growth (3Q14, 11:00hrs NYT)

We expect GDP to grow 4.3% YoY (0.9% QoQ). The continued growth of private consumption and the robust performance of investment should be the main highlights. We anticipate a rebound in exports, mainly from the industrial sector. In contrast, we expect residential investment to decelerate as recent activity has been concentrated in lower value (social) housing.

Peru – Gross domestic product (October, 11:30hrs NYT)

We expect output to have increased 2.6% YoY (2.7% in September). The non-primary sectors should remain as the main support to economic activity growth. However, we also expect the set of primary sectors to have improved, showing a positive YoY print, something not seen over the past six months. Even though the fourth quarter may have started somewhat better than the previous one, the general tone of weakness still prevails. The recovery is thus incipient, consistent with our 2014 output growth forecast of 2.6%.

Calendar indicators

	Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
BZ	FGV Inflation IGP-10 MoM	15-Dec	Dec	0.89%		--	0.82%
BZ	Economic Activity MoM	15-Dec	Oct	0.20%	0.50%	--	0.40%
BZ	CNI Consumer Confidence	15-Dec	Dec	--		--	109.7
BZ	Tax Collections	15-Dec	Nov	98700M		--	106215M
BZ	Formal Job Creation Total	15-Dec	Nov	-30000		--	-30283
BZ	FGV CPI IPC-S	16-Dec	Dec 15	0.79%		--	0.77%
BZ	IGP-M Inflation 2nd Preview	17-Dec	Dec	0.75%		--	0.72%
	Chile						
CL	Central Bank 4Q monetary policy report (IPOM)	15-Dec	0	--		0	0
	Colombia						
CO	Consumer Confidence Index	15-Dec	Nov	--		--	21.6
CO	Retail Sales YoY	15-Dec	Oct	8%		--	8.70%
CO	Industrial Production YoY	15-Dec	Oct	0.40%		--	1.30%
	Mexico						
MX	Retail Sales YoY	18-Dec	Oct	4.60%	5.95%	--	4.50%
	Peru						
PE	Economic Activity YoY	15-Dec	Oct	2.40%	2.60%	--	2.70%
PE	Unemployment Rate	15-Dec	Nov	5.60%		--	5.70%

Most recent Latam reports

Date	Description
12.11.2014	Chile: As expected, central bank kept policy rate at 3.00%
12.09.2014	Chile Flash: Chile: November's CPI inflation came at 0.0% MoM
12.09.2014	Colombia Flash: Colombian inflation rate reaches highest level in the year
12.09.2014	Mexico Inflation Flash: Annual inflation is on a downward trend and the outlook remains favorable
12.06.2014	Chile Flash: Null CPI in November and in the way to negative CPI in Dec (in Spanish)
12.05.2014	Peru Press Article: There is no free lunch (in Spanish)
12.05.2014	Mexico Flash: Banxico leaves fondeo rate unchanged (in Spanish)
12.05.2014	Chile Flash: Economy grows 1.5% YoY in October marginally above market expectations (in Spanish)
12.05.2014	Brazil Flash: inflation remains above the target ceiling in November
12.04.2014	Uruguay Economic Outlook. Second Half 2014.

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