

LatAm Daily | Brazil reduces 2017's inflation target range to help to anchor expectations

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The decision taken to narrow the tolerance range from 2pp to 1.5 pp while maintaining the 4.5% target for 2017 reinforces the BCB's commitment to bring down inflation. Meanwhile, unemployment increased to 6.7% while employment remained unchanged. We expect private consumption to contribute negatively to GDP growth in 2Q15

Brazil - 2017's inflation target ceiling was adjusted downwards to 6.0% from 6.5%

While keeping the central inflation target for 2017 at 4.5%, the National Monetary Council reduced the tolerance range from 2.0pp to 1.5pp. This implies that the target range will be 3.0% to 6.0% in 2017 rather than 2.5% to 6.5%. The 4.5% target for both 2015 and 2016, with a \pm 2pp tolerance, was kept unchanged. The adjustment in the target for 2017 is a welcome step. It reinforces the BCB's commitment to bring inflation down and anchor long-term expectations. In particular, we think it will contribute to the ongoing monetary authority efforts to bring inflation down to the central target by the end of 2016 (which is currently its main goal). Moreover, we think this decision paves the way for an eventual decision in the coming years to revise the central target downwards as it remains significantly above the levels used by other comparable countries.

Brazil - The unemployment rate reached 6.7% in May

The unemployment rate increased from 6.4% in April to 6.7% in May, broadly in line with forecasts (BBVA: 6.7%; consensus: 6.6%). The current rate is significantly higher than one year ago, 4.9%, revealing a sharp deterioration since then due to a relevant increase in the labour supply while employment remained broadly unchanged. Another dimension of the ongoing deceleration in the labour markets is the moderation in real wages, which have been declining in monthly terms since the end of 2014 (in May the reduction was equal to 1.9% MoM). Average wages now stand 5.0% under the levels observed one year ago. Therefore, given this slowdown in both margins (wages and employment), the real wage bill, which serves as a good proxy for private consumption, declined 1.8% MoM / 5.8% YoY in May. All in all, the labour market figures suggest that private consumption will contribute negatively to 2Q15 GDP growth (as it did in 1Q15).

What to watch today

Chile - Monetary policy meeting (June, 07:30hrs NYT)

We expect the minutes to reveal the Board's assessment and the arguments that prevailed in the latest pause in policy rates. We believe the minutes will probably highlight the retreat of annual inflation and wage figures towards the end of the year, in a context of slack in domestic demand.

Mexico - Trade balance (May, 8:00hrsNYT)

We expect that May's trade balance will show a deficit of -USD190mn due to the fact that exports could post an annual decrease of 4.7% (-53.5% decrease of oil exports and a 1.4% annual growth of non-oil exports) while imports should only decrease 3.7% on an annual basis.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Current Account Balance	22-Jun	May	--		-\$3366M	-\$6901M
Foreign Direct Investment	22-Jun	May	--		\$6608M	\$5777M
FGV CPI IPC-S	23-Jun	1 June	--		0.83%	0.86%
Federal Debt Total	23-Jun	May	--		\$2496B	\$2451B
Total Outstanding Loans	23-Jun	June	--		\$3081B	\$3061B
Central Bank Quarterly Inflation Report	24-Jun					
Unemployment Rate	25-Jun	May	0.07	6.70%	6.7%	6.40%
FGV Consumer Confidence	26-Jun	Jun	--		--	85.1
Chile						
Central Bank's Traders Survey	24-Jun		--	--	--	--
Central Bank Meeting Minutes	26-Jun		--	--	--	--
PPI MoM	24-Jun	May	--	--	2.2%	1.60%
Colombia						
Trade Balance	23-Jun	Apr	-\$900M	-\$ 932M	-\$1038,9M	-\$1014.8M
Retail Confidence	23-Jun	May	--	15	18.7	18.1
Industrial Confidence	23-Jun	May	--	0	0.9	-0.1
Overnight Lending Rate	24-Jun	1-Jun	4.50%	4.50%	4.5%	4.50%
Mexico						
Retail Sales YoY	22-Jun	Apr	5.20%	4.90%	4.6%	5.50%
Retail Sales MoM	22-Jun	Apr	0.60%	0.30%	-0.3%	0.20%
Economic Activity IGAE YoY	24-Jun	Apr	2.30%	1.70%	2.1%	2.65%
Bi-Weekly CPI	24-Jun	1-Jun	0.10%	0.10%	0.13%	0.04%
Bi-Weekly Core CPI	24-Jun	1-Jun	0.10%	0.09%	0.13%	0.08%
Bi-Weekly CPI YoY	24-Jun	1-Jun	2.87%	2.84%	2.87%	2.82%
Unemployment Rate SA	26-Jun	May	4.28%		--	4.30%
Unemployment Rate NSA	26-Jun	May	4.27%		--	4.31%
Trade Balance	26-Jun	May	-45.0M	-\$190.0M	--	-\$85.3M

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
06.24.2015	Brasil: COPOM still sees 2016 inflation above 4.5%; monetary tightening to continue ahead
06.24.2015	Mexico Outlook
06.24.2015	Chile: Inflation to come up at 0.3% MoM (4.3% YoY)
06.19.2015	Mexico: IGAE should improve in April due to service sector
06.19.2015	Chile: Our monetary policy forecast is neutral
06.16.2015	Chile: Labour market reform, still work to do
06.15.2015	Peru: GDP accelerates in April reaching 4.3% YoY
06.12.2015	Mexico: Inflation touches historical low and industrial activity begins slow in the 2 Q15
06.12.2015	Colombia: GDP growth surprises on the upside
06.11.2015	Peru: We expect the Central Bank to keep its monetary policy unchanged for the remaining of the year
06.11.2015	Mexico: Industrial production contracts slightly

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