

LatAm Daily | We are lowering our end of the year inflation forecast in Mexico

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Following the surprise to the downside, we have lowered our end of period inflation forecast to 2.5% from 2.6% previously as demand-side weakness drags down core inflation, suggesting a limited FX pass-through. In Brazil, the labour market continued deteriorating in June.

Mexico - Headline inflation registers a fresh all-time low in the first half of July

Headline inflation increased 0.09% FoF in the first half of July (BBVAe: 0.22%; consensus: 0.20%) while core inflation was 0.10% FoF (BBVAe: 0.12%, consensus: 0.16%). Annual headline inflation decreased to 2.76%, from 2.87% in the second fortnight of June, and annual core inflation decreased to 2.30%, from 2.35% in the previous fortnight. After this new surprise to the downside, we have lowered our year-end forecast to 2.5% from 2.6%. Our previous forecast (2.6%) was already the lowest among analysts according to the latest Banamex survey. The evidence still points to limited FX pass-through and suggests that demand-side weakness continues to weigh on core inflation.

Brazil - Further deterioration in the labour market in June

In line with expectations, the unemployment rate increased to 6.9% in June from 6.7% in May and 4.8% one year ago. The sharp slowdown in the labour market is also evidenced by the evolution of real average wages, which exhibited a growth of -2.9% YoY / 0.8% MoM in June. The labour market deceleration in 2015, which follows a period of high resiliency in the past few years, is one of the clearest signs yet of the recession the country is going through. The labour market report released yesterday supports our view that private consumption will drop around 2.3% QoQ in 2Q15 after having contracted 1.5% QoQ in 1Q15.

What to watch today

Mexico - Global Economic Activity Index (IGAE) (May, 09:00hrs NYT)

We estimate that the IGAE for May will show a monthly growth of 0.2%, seasonally-adjusted (2.3% in annual terms). Within this indicator, we expect the secondary sector to decrease 0.4% MoM, sa, and the tertiary sector to grow 0.4% MoM, sa. Looking at the series of IGAE in its original terms, we estimate an annual growth rate of 2.0% in May.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
IGP-M Inflation 2nd Preview	20 July	Jul	--		0.71%	0.59%
IBGE Inflation IPCA-15 MoM	22 July	Jul	0.48%	0.6%	59.00%	0.99%
Current Account Balance	22 July	Jun	--		-\$2547.3M	-\$3366M
FGV CPI IPC-S	23 July	22-jul	0.66%		0.61%	0.72%
Unemployment Rate	23 July	Jun	6.90%	6.90%	6.90%	6.70%
FIPE CPI - Weekly	24 July	23-jul	0.64%		--	--
FGV Consumer Confidence	24 July	Jul	--		--	83.90
Chile						
Central Bank's Traders Survey	22 July	--	--		--	--
Colombia						
Trade Balance	21 July	May	-\$790M	-\$672M	-\$870.9M	-\$1038.9M
Industrial Confidence	21 July	Jun	--	5	0.10	0.90
Mexico						
Retail Sales YoY	22 July	May	5.00%	5.0%	4.1%	4.6%
Retail Sales MoM	22 July	May	0.20%	0.3%	0.20%	-0.3%
Unemployment Rate SA	24 July	Jun	4.35%	4.4%	--	4.4%
Unemployment Rate NSA	24 July	Jun	4.34%	4.36%	--	4.45%
Economic Activity IGAE YoY	24 July	May	1.15%	2.0%	--	2.09%

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
07.23.2015	Colombia: Portfolio quality and economic cycle
07.20.2015	Mexico: Home loan advances 20% in May
07.17.2015	Mexico: We expect services to have spurred the growth in activity in May
07.15.2015	Peru: Economic activity slows down in May
07.13.2015	Chile: Central Bank of Chile keeps MPR at 3% as expected
07.10.2015	Colombia: Client presentation on real estate in Santa Marta
07.10.2015	Mexico: Inflation touches record low; industrial production shows weakness
07.10.2015	Peru: Monetary dilemma remains; activity, exchange rate, inflation?
07.09.2015	Chile: Analyzing the new fiscal scenario
07.09.2015	Mexico: Inflation YoY reached its lowest level in June
07.08.2015	Chile: "One timers" drive inflation above expectations
07.05.2015	Sectors that will benefit the most from the Pacific Alliance
07.04.2015	Chile: IMACEC grows 0.8% YoY in May: slowdown speeds up
07.04.2015	Colombia: Inflation in June stood at 4.4% YoY

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