

Latam Daily Flash

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In Brazil, the unemployment rate remained unchanged but real wages continued to moderate due to inflation. At the same time, another tax cut in a key component of CPI was announced (this time on public transport), in line with the trend to use tax cuts to try to contain inflation. In Mexico, headline inflation surprised to the upside, but core inflation remains anchored, supporting our call for stable rates until September. Meantime, in Peru, the central bank said that it considers that the downward surprise in GDP growth in March should be temporary, with a strong rebound in April, in line with our view. Today all eyes will be on the strength of credit growth in Brazil and official GDP growth numbers in Peru for 1Q13.

Brazil - Labor market continued to lose some of its buoyancy in April

Accounting for seasonal issues, the unemployment rate remained practically unchanged at 5.4% in April vs. March. The non-adjusted series shows that unemployment increased to 5.8% from 5.7% in the previous reading. Average wages grew 1.6% YoY in April, well below the average growth in 2012 (4.0% YoY). This moderation in real wages is driven by moderation in nominal wages and rising inflation, and is already impacting private consumption (as indicated, for example, by retail sales data).

Brazil - Taxes on public transport will be cut to reduce inflation

The Finance Minister Guido Mantega confirmed that from 1 June onwards the 3.65% PIS/Cofins tax on urban transport services (trains, buses and subways) will be eliminated. This measure reinforces our view that the government will continue to cut taxes and manage administered prices to try to prevent inflation from running out of control. Even though this measure should take some pressure off inflation in the middle of the year, we expect the BCB to adjust the Selic rate by 50bp at the next two monetary meetings in May and July and then to make a final 25bp adjustment in August.

Mexico - Headline inflation surprises to the upside while core remains low and stable

We had forecast that headline inflation would start to decrease to 4.5% in the first fortnight of May, but that was prevented by broad-based upside surprises in non-core inflation. Headline inflation rose to 4.72% YoY from 4.65% in April. Core inflation came in line with our forecast (BBVA Research: 0.14%, consensus: 0.10%) and remained at 2.89% YoY. The upside surprise in annual inflation along with the recent depreciation in MXN virtually rules out a rate cut in June or July. However, our view is still that inflation will fall below the 4.0% target threshold in the summer and that monetary conditions are likely to tighten again. Thus in our view, the conditions will be right for Banxico to cut 50bp off its policy rate in September.

Peru - The central bank sees GDP growing closer to 6% in 2013

The central bank's president said that the low output growth print in March (3% YoY) will reverse in April, when he expects economic activity to have increased by 7%. In spite of this, he sees economic activity growing somewhat more slowly this year than the bank's current forecast of 6.3% (perhaps at around 5.9%) due to export weakness, the fall in business confidence and the delays in some investment projects. Our 2013e forecast (6.5%) has the same downward bias because of weak exports in 1Q13 and weaker business confidence.

What to watch today

Brazil - BCB's credit report (April, 09:30 NYT)

Data released today will provide information about how supportive to domestic demand credit markets were at the beginning of the second quarter. In recent months, the robustness of credit from public banks partially offset the moderation in private credit.

Peru - Quarterly macroeconomic statistics (1Q13, 19:00 NYT)

We expect data to be released today to show a moderation in output growth down to 4.8% YoY (vs. 5.9% in 4Q12). This would be mostly due to negative statistical effects such as the leap year in 2012 and fewer working days. We also expect both the trade and fiscal balances to have worsened. Long-term capital inflows will be key to assessing how supportive this is for private investment and the local currency.

Mexico - Current account (1Q13, 10:00 NYT)

We estimate a deficit of MXN4.5bn (1.5% of GDP) for the current account, with a trade deficit of MXN1.11bn. This deficit is set to be one of the largest in the last four years. In terms of the financial account, it will be interesting to assess if there is a recovery in revenues from FDI given the weakness seen in the previous quarters and to see whether the strength in the portfolio investment inflow continues.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
IGP-M Inflation 2nd Preview	20-May	May	--	--	0.01%	0.28%
CAGED Formal Job Creation	21-May	Apr	215000	--	196913	112450
Tax Collections	21-May	Apr	95000M	--	98713M	79613M
IBGE CPI IPCA-15 (MoM)	22-May	May	0.49%	0.42%	0.46%	0.51%
Current Account - Monthly	22-May	Apr	-\$7268.5M	--	-\$8318M	-\$6873M
FGV CPI IPC-S	23-May	2-may	0.33%	--	0.40%	--
Unemployment Rate	23-May	Apr	5.55%	5.9%	5.80%	5.7%
FGV Consumer Confidence	24-May	May	--	--	--	113.9
Total Outstanding Loans	24-May	Apr	--	--	--	2427B
Chile						
GDP (YoY)	20-May	1Q	4.5%	4.4%	4.1%	5.70%
Current Account	20-May	1Q	-1800	-2150	-1690	-2880.0
Central Bank's Traders Survey	22-May	May	--	--	--	--
Colombia						
Trade Balance	20-May	Mar	-100.5	-\$115	\$285.7	\$386.4
Outstanding Loans (YoY)	22-May	Mar	--	--	14.90%	15.41%
Mexico						
Retail Sales (INEGI)	22-May	Mar	-0.2%	--	-2.4%	-2.6%
GDP Current \$ YoY	23-May	1Q	4.2%	--	3%	3.9%
Bi-Weekly CPI	23-May	2-may	-0.35%	--	-0.35%	0.01%
Unemployment Rate	24-May	Apr	4.67%	--	--	4.51%
Current Account Balance	24-May	1Q	-4500	--	--	-\$6490M
Peru						
GDP YoY	23-May	1Q	4.8%	4.8%	4.80%	5.9%

Most recent Latam reports

Date	Description
23-05-2013	➤ Mexico Inflation Flash: May's biweekly inflation: annual inflation remains close to 4.7% as non-core shocks prove more resilient than expected
22-05-2013	➤ Mexico Banking Watch
22-05-2013	➤ Paraguay Economic Outlook
21-05-2013	➤ Mexico Banking Flash: Strategies and lines of action to democratize access to finance for projects offering potential to increase Mexico's economic growth under the 2013-2018 National Development Plan (PND)
21-05-2013	➤ Brazil Economic Outlook. Second Quarter 2013
17-05-2013	➤ Peru Economic Outlook Second Quarter 2013
17-05-2013	➤ Mexico GDP Flash: Slightly higher than estimated, GDP grew 0.5% q/q in 1Q13. This is, however, the lowest annual growth since 2009
16-05-2013	➤ Chile Flash: Central Bank kept interest rate at 5% overshadowing dovish market positions
15-05-2013	➤ Peru Flash: Output surprises on the downside in March
15-05-2013	➤ Mexico Real Estate Flash: Activity in the construction sector declined in the first quarter

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