

## LatAm Daily | Primary surplus in March, but the fiscal outlook worsens in Brazil

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*Despite the measures taken recently we remain sceptical about the fiscal outlook. In Chile the unemployment rate stood at 6.4%, while in Colombia it stood at 9.1%. Today Brazilian 1Q16 GDP data will be published; we estimate a new contraction, although less intense than in previous quarters.*

### Brazil - A primary surplus in March does not prevent fiscal prospects from worsening further

The public sector posted a BRL10.2bn primary surplus in April as the management of public expenditure offset the impact of the contraction in domestic demand on public revenues. From January to April, a period usually characterised by favourable seasonality, the public sector generated a BRL4.4bn primary surplus, well below the BRL32.5bn surplus recorded in the same period last year. However, we do not expect the public sector to maintain a surplus in the primary account over the remainder of the year. The recession will likely continue to weigh negatively on revenues, while structural rigidity and the lack of reforms should continue to prevent a sharper adjustment of expenditure. The most likely scenario is that the primary result ends up being around -2.7% of GDP in 2016, in line with the downgraded fiscal target, rather than around -1.5% of GDP as we previously expected. Even though the new government has recently presented some measures (such as a ceiling on public expenditure to prevent it from increasing in real terms, which is subject to approval by Congress, and a debt payment anticipation of BRL100bn to the federal government from the BNDES bank) and has started to discuss some positive reforms (such as social security and labour reforms), we remain sceptical about the implementation of a proper solution to Brazil's fiscal problems and expect: i) the primary result to remain in negative territory and, ii) gross public debt, which reached 67.5% of GDP in April, to continue to trend upwards in the next few years.

### Chile - The unemployment rate increased slightly to 6.4% in April

The jobless rate increased slightly to 6.4% in April, above our expectation (a stable 6.3%) but below consensus (at 6.5%). The figure was driven by a 1.4% YoY rise in job-creation (mainly self-employment) as against the 1.6% YoY growth in the labour force. Annual job-creation was driven by construction, commerce and hotels and restaurants, which was partially offset by the negative contribution from mining, manufacture and services. Overall, despite the low unemployment rate, the labour market still shows signs of increasing slack (see our [Chile Flash](#) in Spanish for details).

### Colombia - Urban unemployment rate: low in April (9.1%). Job creation is still weak

In April the urban unemployment rate stood at 9.1% (a reduction of 1.4 percentage points YoY), the lowest rate observed for April since 2000. The yearly reduction in urban unemployment rate was explained by the decrease in the participation rate (-1.1 percentage points YoY), proxy of labour supply, and the stability -YoY- of the occupation rate, proxy of labour demand. It should be noted that before April and since August 2015, the unemployment rate had grown in annual terms, since the yearly growth in the number of those occupied was lower than the rate of growth of the labour force (EAP). This quarter (Feb-Apr 2016) job

creation accelerated its rhythm of growth with respect to the previous quarter, producing a 1.3% YoY increase (vs the 0.3% YoY observed in Nov 2015- Jan 2016). The retail, tourism and restaurants sector contributed the most to annual job creation this quarter, followed at a distance by real estate and social services. Industry and construction contributed negatively. It is worth mentioning that despite the acceleration in the rhythm of job creation this term, job creation remains weak and has been very volatile in the last few months (observing, for example, a negative rate in March). The labour market will remain weak for a while.

## What to watch today

### Brazil - GDP (1Q16, 8:00hrs NYT)

We expect GDP to contract in quarterly terms again in 1Q16 due to abnormally high uncertainty, low confidence, the restrictive tone of economic policy, a still high inflation, and a non-supportive external environment, among other factors. However, we forecast the contraction of GDP in 1Q16 to not be as sharp as in previous quarters. More precisely, we forecast GDP to decrease 0.6% QoQ in 1Q16, in comparison to -1.5% QoQ in 4Q15, -1.7% QoQ in 3Q15 and -2.1% in 2Q15, mainly due to decreases in private consumption and fixed capital investment.

### Chile - Minutes of monetary policy meeting (April, 08:30hrs NYT)

Weak economic activity data is still supporting a pause in policy rates at 3.5%, despite the fact that CPI inflation figures remain above 4% YoY. In the absence of further exchange-rate depreciation, the Board will maintain the stimulus, although we also expect a transition from a restrictive to a neutral tone during coming months.

### Peru - Consumer prices (May, 11:00hrs NYT)

We expect headline CPI to have increased by 0.25%MoM in May. This takes into account higher domestic fuel prices and FX depreciation, but also a downward correction in some food prices (chicken, rice, and some types of potatoes) and the reduction in electrical energy prices. With this, we expect YoY inflation to keep going down, reaching 3.6%.

## Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
<b>Brazil</b>						
FGV Inflation IGPM MoM	30-may	May	0.74		0.82	0.33%
FGV Inflation IGPM YoY	30-may	May	11.01		11.09	10.63%
CNI Consumer Confidence	30-may	May			105.2	97.5
National Unemployment Rate	31-may	Apr	11.10			10.90%
PPI Manufacturing MoM	31-may	Apr				-1.40%
BCB Fiscal Report	31-may	Apr				
FGV CPI IPC-S	01-jun	may-31	0.68			0.68%
GDP QoQ	01-jun	1Q	-0.70	-0.6		-1.40%
Trade Balance Monthly	01-jun	May	5600.00			\$4861m
Industrial Production MoM	02-jun	Apr	-0.90	-0.5		1.40%
FIPE CPI - Monthly	03-jun	May	0.55			0.46%
<b>Chile</b>						
Manufacturing Production YoY	30-may	Apr	-0.8	-1.5	-1.23	2.70%
Retail Sales YoY	30-may	Apr	4.5	4.5	7.94	1.40%
Copper Production Total	30-may	Apr			432277	488759
Industrial Production YoY	30-may	Apr	0		-3.41	3.90%
Unemployment Rate	31-may	Apr	6.5	6.3		6.30%
Central Bank Meeting Minutes	01-jun					
<b>Colombia</b>						
National Unemployment Rate	31-may	Apr				10.10%
Urban Unemployment Rate	31-may	Apr	10.23	10.4		10.20%
GDP YoY	03-jun	1Q	2.7	1.8		3.30%
GDP QoQ	03-jun	1Q	0.3	-0.6		0.60%
Economic Activity Index SA YoY	03-jun	Mar	2.44	0		3.00%
Exports FOB	03-jun	Apr	2388	\$2393		\$2301.3
CPI MoM	04-jun	May		0.5		0.5
CPI YoY	04-jun	May		8.19		7.93
<b>Mexico</b>						
IMEF Manufacturing Index SA	01-jun	May	51.8			51.8
IMEF Non-Manufacturing Index SA	01-jun	May	50.75			50.5
Central Bank Economist Survey	01-jun					
Vehicle Domestic Sales AMIA	02 -06 jun	May				118407
Gross Fixed Investment	03-jun	Mar	-3	-3.0%		5.20%
<b>Peru</b>						
CPI MoM	01-jun	May	0.2	0.25		0.01%
CPI YoY	01-jun	May	3.51	3.58		3.91%

Source: Bloomberg and BBVA Research

## Most recent Latam reports

Date	Description
05.31.2016	<a href="#">Chile: Unemployment rate rises to 6.4%, less than expected by the consensus</a> (In Spanish)
05.30.2016	<a href="#">Chile: CPI should come up at 0.3% MoM (4.3% YoY)</a> (In Spanish)
05.30.2016	<a href="#">Mexico: Renewal and increase of the flexible credit line by the IMF: a positive measure</a> (In Spanish)
05.30.2016	<a href="#">Chile: Imacec should increase below 1.5% in April despite the favorable performance of trade</a> (In Spanish)
05.27.2016	<a href="#">Colombia: BanRep increased its monetary policy rate up to 7.25%</a> (In Spanish)
05.27.2016	<a href="#">Latin America Outlook. Second Quarter 2016</a> (In Spanish)
05.27.2016	<a href="#">Mexico Weekly: Differentiated movements in the markets given uncertainty about the US MP</a> (In Spanish)
05.27.2016	<a href="#">Mexico: In March 2016 the bank mortgage lending grew 1%</a> (In Spanish)
05.25.2016	<a href="#">Mexico: Less possibilities of a rate hike in an unscheduled meeting</a> (In Spanish)
05.26.2016	<a href="#">Mexico: Certainty in employment figures, but not its characteristics</a> (In Spanish)
05.25.2016	<a href="#">Peru: The dynamism of exports continues to increase</a> (In Spanish)

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