

Daily Latam | Mexico growth forecast for 2015 revised downwards from 3.5% to 2.5%

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In Mexico the quarterly growth was 0.4%, with a significant contraction in agriculture, services and industry in March. Brazil surprised with sharp decline in its activity indicators for March, while the deterioration in the labour market continued; these results confirm our view of a contraction of GDP in 1Q15 and a negative contribution of private consumption in the first half of the year.

Brazil - Sharp contraction in economic activity in March

According to the BCB's economic activity indicator, the IBC-Br, the economy contracted 1.1% MoM in March, significantly more than expected (BBVA: -0.4% MoM; consensus: -0.5% MoM). This is the fifth time the IBC-Br has posted a negative rate of growth in the last six months, which clearly reveals the current weakness of the Brazilian economy. In 1Q15 the IBC-Br dropped 0.8% QoQ, reinforcing the prospect of a significant GDP contraction in the period (we forecast a 0.6% GDP contraction in the period). There are multiple drivers of the sharp deterioration of economic activity in 1Q15: the reduction in the terms of trade, the impact of the monetary and fiscal tightening, the skyrocketing of inflation, the Petrobras crisis, the concerns about an energy blackout ahead in the year, etc.

Brazil - The deterioration in the labour markets has continued at the beginning of 2Q15

The unemployment rate reached 6.4% in April, broadly in line with expectations. This rate is significantly higher than the rate registered a year ago (4.9%) as the employment level has remained practically unchanged while the labour supply has increased significantly (especially in the last few months). Average wages declined in real terms both in comparison to the previous month and vs. April 2014 (-0.5% and -2.9% respectively), as a consequence of a moderation in nominal wages and the severe increase of inflation. This figure supports the view that private consumption could contribute negatively to GDP quarterly growth not only in 1Q15 but also in 2Q15.

Colombia - Imports slowed down in March, adjusting the current account deficit

In March, imports fell 5.5% YoY, settling at USD CIF 4.641mn. (vs. BBVAe: USD4.574mn) and completing the second consecutive month with negative growth figures. Fuel oil registered a decline of -20.5% and manufacturing products fell 3.8% (especially vehicles and other durable goods). On the contrary, agricultural goods and food and beverages registered a positive rate of growth. Consequently March's trade deficit stood at USD1.015mn, the lowest figure since last September. All in all, the external deficit is undergoing a gradual adjustment, as we expected. In fact, the first quarter deficit could be the highest figure of 2015.

Mexico - Given the moderate growth in 1Q15, we have lowered our annual GDP growth forecast for 2015 from 3.5% to 2.5%

According to INEGI, the GDP growth in the first quarter of 2015 (1Q15) was 0.4% (QoQ), seasonally adjusted (sa), and 2.5% in annual terms (YoY). This increase was in line with our forecast and the market consensus (BBVAe: 2.5% YoY; consensus: 2.4% YoY, sa). Due to the slow growth in the first quarter, and

even considering that the economy will grow moderately in the next quarter as a result of an improvement in the US economy and increased government spending linked to the elections (though tempered in the second part of the year given the announcement of cuts to public spending), we have lowered our economic growth forecast for this year to 2.5% from 3.5%. (see Mexico Flash).

Mexico - Global Economic Activity Indicator in March decreased 0.64% MoM, sa

The increase in economic activity was lower than expected earlier this year. This slowdown was reflected in the monthly evolution of the Global Economic Activity Indicator (IGAE). Monthly growth rates of this indicator in January and February were 0.32% and 0.30% respectively, seasonally adjusted, which suggested a limited GDP growth for the first quarter. This was reaffirmed by the negative performance of the IGAE in March (-0.64% MoM, sa) due to the declines in agriculture (-4.41% MoM, sa); the services sector (-0.17% MoM, sa), and industrial production (-0.02% MoM, sa).

What to watch today

Brazil - IPCA-15 (May, 8:00hrs NYT)

We expect monthly inflation in May to start to converge towards the average levels observed in the past few years, following a period of abnormally high readings due to adjustments in administered prices, which are now mostly over. May's IPCA-15, which measures inflation from mid-April until mid-May, should come in around 0.58% MoM (vs. 1.07% MoM in the previous reading).

Colombia - BanRep's monthly board meeting (No set time)

We expect BanRep to keep its policy interest rate on hold, in line with consensus. We maintain our view that the current macroeconomic outlook creates a difficult context for monetary policy decisions. That said, we believe the most likely scenario is that BanRep will keep its monetary policy rate on hold for the rest of the year.

Mexico - Inflation (First half of May, 09:00hrs NYT)

For the first half of May, we predict a fall of 0.41% for headline inflation and a rise for the half-month of 0.11% in core inflation. If our estimates prove correct, in annual terms headline inflation should be 3.06% (compared to 3.10% in the second half of April), whereas core inflation should be 2.44% (against 2.39% for the previous half-month). We still expect the transmission of the exchange rate through to inflation to be limited, largely because of the weakness of domestic demand, and that the upturn in goods inflation will continue to be offset by an encouraging performance of the services component. On the non-core inflation side, most of the electricity subsidies for the warm season will be seen in the first half of May, which will be reflected in the energy prices sub-index and will explain the negative figure for the first half of the month. We also expect that drops in the prices of eggs and poultry will additionally contribute to the bi-weekly dip in inflation.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
FGV CPI IPC-S	17-May	may-17	0.6		0.65	0.70%
Formal Job Creation Total	17-May	Apr	48435		19282	19282
IGP-M Inflation 2nd Preview	18-May	May	0.44		0.41	1.16%
CNI Industrial Confidence	18-May	May	--		38.6	38.5
Economic Activity MoM	20-May	Mar	-0.5	-0.4	-1.07	0.36%
Unemployment Rate	20-May	Apr	6.3		6.4	6.2%
IBGE Inflation IPCA-15 MoM	21-May	May	0.59	0.58	--	1.07%
Chile						
GDP YoY	17-May	1Q	2.2		2.4	1.80%
GDP QoQ	17-May	1Q	0.9		1	0.90%
Current Account Balance	17-May	1Q	1000		1203	-704.8
Colombia						
Trade Balance	20-May	Mar	-960	-960	-1014.8	-\$1245.6
Retail Confidence	21-May	Apr	--	20	--	--
Industrial Confidence	21-May	Apr	--	9	--	4.1
Overnight Lending Rate	21-May	may-22	4.5	4.50%	--	4.50%
Mexico						
Inflation Report	18-May	ene-00	--		0	0
GDP NSA YoY	20-May	1Q	2.4	2.50%	2.5	2.6%
GDP SA QoQ	20-May	1Q	0.25	0.25%	0.4	0.7%
Economic Activity IGAE YoY	20-May	Mar	2.6	2.66%	2.7	2.27%
Bi-Weekly CPI	21-May	may-15	-0.45	-0.41%	--	0.02%
Bi-Weekly Core CPI	21-May	may-15	0.12	0.11%	--	0.08%
Bi-Weekly CPI YoY	21-May	may-15	3.02	3.06%	--	3.10%
Peru						
GDP YoY	19-May	1Q	1.7	1.70%	1.7	1.0%
Central Bank 2Q Inflation Report	21-May	ene-00	--		0	0

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
05.21.2015	Mexico: Annual GDP growth for 2015 was revised downwards from 3.5% to 2.5%
05.19.2015	Mexico: In February, the number of mortgages exceeds the rate of 15%
05.18.2015	Chile: GDP grew 2.4% y/y in 1Q15. We projected an IMACEC for April between 2.2% and 2.7% y/y
05.15.2015	Peru: GDP showed better performance in March due to extractive sectors
05.15.2015	Colombia: Colombian infrastructure: Where are we and where are we going?
05.14.2015	Chile: Central Bank maintains the MPR at 3% for the seventh consecutive month
05.14.2015	Peru: Central bank aims to normalize monetary conditions
05.12.2015	Mexico: Industrial production in total pause. Had zero growth in March
05.11.2015	Mexico: In March 2015 Mexico received USD2,257.9mn in remittances (+7.6% YoY)
05.08.2015	Chile: CPI inflation increased 0.6% MoM in April, above expectations

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