

## LatAm Daily | Brazil's GDP plunges and the economy enters technical recession

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*Brazil's GDP shrank more than expected driven by contractions in investment and consumption. In Chile monetary policy minutes revealed concerns about the persistent inflation although the current environment supports a neutral bias and a pause in the MPR in coming months.*

### Brazil- GDP contracted 1.9% QoQ, placing the country in a technical recession

Brazil's GDP shrank more than we expected in 2Q15 (-1.9% QoQ vs. -1.4% BBVAe), deepening the contraction of the first three months of the year (-0.7% QoQ in 1Q15). The component that contracted the most was investment (-8.1% QoQ), followed by private consumption (-2.1%), weighed down by the weak confidence of producers and consumers. We recall the recent deterioration in the labour market where the unemployment rate has reached 7.5% in July, from a mean of 4.8% in 2014, and the fall in real wages (-2.4% in July). We also recall that rising inflation and currency depreciation (which have reached 9.6% and more than 30% YoY respectively) have an immediate impact on costs for both consumers and producers. This worse than expected GDP outcome confirms our bias to the downside for GDP for the full year at -1.5%.

### Chile - Monetary policy minutes showed an increase in rates was an option

The August monetary policy minutes revealed concerns about the persistence of annual inflation above 4%, and the risk of losing credibility in a scenario of potential de-anchoring of long-term inflation expectations. In this context, a pause at 3.00% and an increase to 3.25% were discussed as the only relevant options. Nonetheless, actual measures of long-term inflation expectations remain anchored to the central bank's target of 3%, so the latter policy option was discarded quickly. We see the increase in rates option as a communication mechanism to tackle short-term inflation risks related to persistent exchange-rate depreciation - due to Fed tapering and China related events - and as a less costly alternative tool for active exchange-rate policy. In this regard, the Board's signal to lean against the wind seems not to be a credible commitment in the context of weakness in both domestic and external demand. All in all, the current circumstances support both a neutral bias and pauses in policy rates in coming months (see our [Chile Flash](#) in Spanish for details).

## What to watch today

### Chile - Activity data by sector (July, 08:00hrs NYT)

We expect manufacturing output to have increased 2.5% YoY in July, while retail sales should come in at around +3.4% YoY. In this context, figures will still reveal weakness in both domestic and external demand.

### Chile - Unemployment rate (July, 08:00hrs NYT)

We expect the jobless rate to remain stable at 6.5% in July. Job-creation should remain weak, based on the

public-sector employment.

### Colombia - Unemployment rate (July, 11:00hrs NYT)

The unemployment rate for July will stand at 9.7%, below the rate observed one year ago (-0.2pp YoY). We expect the YoY job-creation rate for July to be slightly lower than in June in YoY terms.

## Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
<b>Brazil</b>						
GDP QoQ	28-Aug	2Q	-1,80%		-1,90	-0,20%
FGV CPI IPC-S	1-Sep	Aug 31	--			0,27%
Trade Balance Monthly	1-Sep	Aug	--			\$2379M
CNI Capacity Utilization (SA)	1-Sep	Jul	--			80,1%
Industrial Production MoM	2-Sep	Jul	--	-0,30%		-0,30%
Selic Rate	2-Sep	37500	14,25%	14,25%		14,25%
FIPE CPI - Monthly	3-Sep	Aug	--			0,85%
FGV Inflation IGP-DI MoM	4-Sep	Aug	--			0,58%
<b>Chile</b>						
Unemployment Rate	31-Aug	Jul	6,70%	6,50%		6,50%
Manufacturing Production YoY	31-Aug	Jul	--	2,50%		1,70%
Retail Sales YoY	31-Aug	Jul	--	3,40%		4,10%
Industrial Production YoY	31-Aug	Jul	--	--		1,60%
<b>Colombia</b>						
Urban Unemployment Rate	31-Aug	Jul	9,60%	9,70%		9,70%
National Unemployment Rate	31-Aug	Jul	--			8,20%
Colombia Monetary Policy Minutes	4-Sep	--	--			--
Exports FOB	4-Sep	Jul	--	\$3,099.00		\$3218.1
CPI YoY	5-Sep	Aug	4,44%	4,53%		4,46%
CPI MoM	5-Sep	Aug	0,17%	0,27%		0,19%
CPI Core YoY	5-Sep	Aug	--	4,09%		3,98%
CPI Core MoM	5-Sep	Aug	--	0,25%		0,32%
<b>Mexico</b>						
Net Outstanding Loans	31-Aug	Jul	--			2832B
Remittances Total	1-Sep	Jul	--	2083		\$2168.3M
IMEF Manufacturing Index SA	1-Sep	Aug	--			52,7
IMEF Non-Manufacturing Index SA	1-Sep	Aug	--			51,3
Vehicle Domestic Sales AMIA	1-Sep	Aug	--			111.714
Leading Indicators (MoM)	2-Sep	Aug	--			-0,05
Gross Fixed Investment	3-Sep	Jun	--	6,50%		2,30%
<b>Peru</b>						
CPI YoY	1-Sep	Aug	--	3,92%		3,56%
CPI MoM	1-Sep	Aug	--	0,26%		0,45%
Consumer Confidence Index	4-Sep	Aug	--			92,2

Fuente: BBVA Research

## Most recent Latam reports

Date	Description
08.28.2015	<a href="#">Peru: Private expenditures maintained fragile in 2Q15</a>
08.28.2015	<a href="#">Chile: MPR Minutes CB considers sorpressive option of rise in MPR</a>
08.25.2015	<a href="#">Chile: And if there were a central bank intervention, what form would it take?</a>
08.24.2015	<a href="#">Chile: We expect inflation to grow 0.4% MoM in August</a>
08.21.2015	<a href="#">Colombia: BanRep kept rates on hold on a majority vote</a>
08.21.2015	<a href="#">Mexico: Exchange rate at all-time highs</a>
08.20.2015	<a href="#">Mexico: GDP growth increased in 2Q15 slightly above than expected, 2.2% annual</a>
08.19.2015	<a href="#">Mexico Economic Outlook</a>
08.18.2015	<a href="#">Chile: Figures in national accounts in 2Q15 confirm slower activity</a>
08.15.2015	<a href="#">Peru: GDP gorwth surprises positively</a>
08.15.2015	<a href="#">Mexico: We expect the GDP to have grown 2% YoY in 2Q15</a>
08.14.2015	<a href="#">Peru: CB raises concerns around inflation</a>
08.13.2015	<a href="#">Chile: CB keeps MPR at 3% and expects inflation high</a>

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