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Mexico

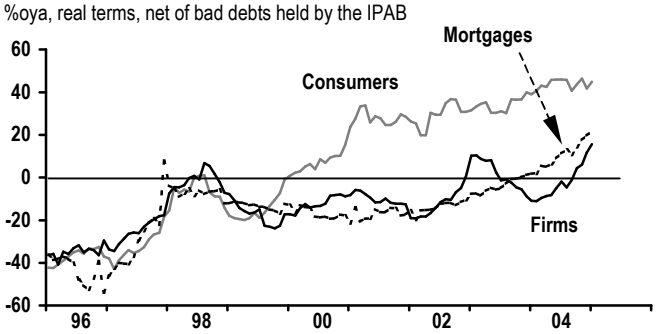
- **Boom in credit extension is both remarkable and challenging amid rising real interest rates**
- **Public sector began 2005 with a small surplus but January fiscal data stronger than at first appears**
- **Next week: February CPI and wage settlements**

Exactly ten years have passed since the last boom in bank credit came to an abrupt end. The 1995 "tequila" crisis shocked the economy generally and speedily terminated what earlier had been flourishing lending activity. A prolonged period of stagnation ensued, in which successive over-year-ago declines in real terms averaged minus 8.5% for the next ten years. In early 2004, however, the first signs popped up hinting that credit was awakening from the doldrums, in the sense that the pace of oya declines in bank credit began to dwindle while the economy at large staged above-trend GDP growth. The swing of bank credit growth back into positive territory this past December and the further gain in January now confirm that lending is back. In fact, bank credit outstanding (net of bad debts in the IPAB restructuring program) accelerated going into 2005 to show double-digit over-year-ago gains in January.

Also impressive is the breadth of the strength in net credit data for January. Consumer credit is leading the surge, with sustained rocket-like (45%oya) expansion. In addition, January brought a 22%oya surge in mortgage lines and a healthy 16% jump in lending to firms, where the bulk (nearly three-fourths) of total banking flows are concentrated. This broad-based upswing in a business that might be thought highly sensitive to increases in real interest rates is a bright sign for future growth. Looking ahead, the expansion in credit should continue to fuel spending in both consumption and fixed investment, thus helping to soften the deceleration in domestic demand that JPMorgan expects to result from ongoing monetary policy tightening.

Separately, according to the Ministry of Finance, the public sector ran a surplus of Mex$1.2 billion in January, which compares negatively with the Mex$25.8 billion surplus reported in the same month of last year. Higher discretionary outlays (mainly through Pidiregas and for social security) lifted primary spending by 16%oya in real terms. Notably, however, the government managed to reduce its interest costs by 7%oya despite the hike in interest rates. Revenues were stronger than they looked: oil income rose 8.6%oya once the proceeds from the Repsol shares sell are removed from the January 2004 data. Non-oil tax collection rose 5.5%oya, led by a solid 14.1% gain in VAT income that clearly reflects the upswing in economic activity.

Bank credit since the 1995 crisis
%oya, real terms, net of bad debts held by the IPAB



Key economic forecasts for 2005
All figures for year end, except as noted

	JPMorgan	Market consensus[1]
Real sector		
Real GDP growth (%oya, full year)	4.00	3.79
Trade balance ($ billion, full year)	-16.6	-11.7
Current account ($ billion, full year)	-16.6	-13.5
FDI ($ billion, full year)	14.0	13.8
Change in formal employment (000s	550	390
Financial sector		
CPI inflation (%oya)	3.60	3.90
Core (%oya)	3.50	3.65
Exchange rate (MXN/USD)	11.90	11.70
28-day Cetes (% p.a.)	9.15	9.04

1. From Banxico's February monthly survey.

Also this week, the February edition of the central bank survey confirmed that most market participants continue to revise down their 2005 CPI inflation forecasts in line with the recent softer readings on noncore prices. But inflation expectations for the long term (average of 2006-09) remain stuck at 3.9% p.a., and so well above Banxico's 3% target range midpoint. This is bad news for the monetary authority, who has repeatedly expressed concern about the influence of such high expectations on future price setting.

Next week, inflation will be in the spotlight with the release of the CPI and wage settlements data for February. Consumer prices likely rose 0.15%2w/2w in February-2H , which would bring the full-month inflation rate to 0.24%m/m. Core inflation, one of Banxico's main concerns of late, is expected to have accelerated to 0.34%m/m, largely on the usual price-resetting activity in the economy at the beginning of the year. February and March open the wage settlement season, a time when large manufacturing firms set their wage increases for the year ahead. The forecast calls for an average 4.4% increase in February wage settlements, slightly above the 4.3% figure for January but still below the most recent peak of 4.8% last September. The December fixed investment report also will be worth watching and should print another positive result.

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Data releases and forecasts

Week of March 7 - 11

Tue Mar 8 2:30pm — **Fixed investment**
%oya, nsa

	Sep	Oct	Nov	Dec
Total	9.1	6.5	14.0	10.2
(%m/m, sa)	0.6	0.6	1.3	0.7
(%3m/3m, saar)	11.2	9.9	7.9	9.1
Machinery and equipment	9.7	7.7	21.5	14.1
Construction	8.5	5.3	6.5	6.0

Tue Mar 8 — **Central bank reserves**
$ billion

	Feb 11	Feb 18	Feb 25	Mar 4
Gross int. reserves	61.6	61.5	61.4	___
ch. over 1 month ($, mill)	11	-267	-413	___

Wed Mar 9 2:30pm — **Consumer prices**

	Jan 1H	Jan 2H	Feb 1H	Feb 2H
(%2w/2w)	0.1	0.0	0.2	0.1
Core	0.2	0.2	0.3	0.2
(%m/m)	-0.1	0.1	0.2	0.3
(%oya)	4.7	4.4	4.2	4.1

	Nov	Dec	Jan	Feb
All items (%m/m, nsa)	0.9	0.2	0.0	0.2
(%oya)	5.4	5.2	4.5	4.2
Core (%m/m, nsa)	0.3	0.3	0.4	0.4
(%oya)	3.8	3.8	3.8	3.7

Wed Mar 9 2:30pm — **Wholesale prices**
%m/m

	Nov	Dec	Jan	Feb
All items	0.3	-0.1	0.4	___
(%oya)	7.8	6.6	6.6	___
Ex services	0.5	0.1	0.3	___
Ex services and oil	0.7	-0.3	0.1	___

Thu Mar 10 — **Nominal wage settlements**
% per annum, one-year ahead

	Nov	Dec	Jan	Feb
Nominal increase	4.1	4.3	4.3	4.4
Real terms[1]	-0.2	0.0	0.1	0.1
Workers benefited (000s)	76	34	179	150

1. Using the one-year ahead market consensus inflation forecast.

Review of past week's data

Manufacturing labor indicators (Feb 25)
%3m/3m, saar

	Oct		Nov		Dec	
Employment	~~1.3~~	*1.4*	~~-0.5~~	*-0.8*	___	*-0.3*
Hours worked	~~-0.8~~	*-0.5*	~~2.5~~	*2.7*	___	*4.0*
Real earnings per worker	~~-0.5~~	*-0.3*	~~-0.8~~	*-0.7*	___	*-2.5*

Maquila labor indicators (Feb 25)
%3m/3m, saar

	Oct		Nov		Dec	
Employment	~~4.3~~	*4.6*	~~2.1~~	*2.4*	___	*2.6*
workers (ch, 000s mr)	~~-2.0~~	*-1.8*	~~7.3~~	*7.4*	___	*4.6*
Hours worked	~~-2.2~~	*-1.2*	~~1.1~~	*1.2*	___	*0.6*
Real earnings per worker	~~-2.5~~	*-2.9*	1.1	*0.7*	___	*1.0*

Construction indicators (Feb 28)
%oya, nsa, real terms

	Oct	Nov	Dec
Output	15.8	16.2	___ *14.3*
Employment	4.0	3.0	___ *1.8*
workers (ch, 000s mr)	0.5	-11.4	___ *-8.1*
Earnings	0.2	-0.3	___ *2.7*
Material orders	12.1	14.7	___ *11.0*

Monetary aggregates (Feb 28)
%oya, real

	Nov	Dec	Jan
M1	9.0	5.3	___ *8.4*
M4	7.5	7.2	___ *9.1*
Credit to private sector	-2.4	~~2.5~~ *2.4*	___ *5.0*
net of bad debts	15.9	~~19.7~~ *19.6*	___ *23.4*

Banco de Mexico expectations survey (Mar 3)
Forecasts for end-2005, except as noted

	Dec	Jan	Feb
Real GDP, %oya (full year)	4.1	3.8	___ *3.8*
CPI inflation, %oya	5.5	4.0	___ *3.9*
Short-term interest rate, % p.a.	8.7	8.6	___ *9.0*
Exchange rate USD/, MXN	11.9	11.8	___ *11.7*

Consumer confidence, Inegi-Banxico (Mar 3)
Jan 2003=100

	Nov	Dec	Jan
Composite	102.8	105.2	___ *107.9*
Present situation[1]	101.3	103.7	___ *105.5*
Expectations[1]	103.5	105.9	___ *107.9*
Durable goods buying plans	104.3	106.9	___ *114.6*

1. Average of country and personal perceptions.

Consumer confidence opened the year on the right footing, by setting an all-time high for this newly created index (January 2002). The rise was led by a surge in durable goods buying plans, which hints strong consumer spending ahead.

Public sector indicators (Mar 3)
Mex$ billion

	Nov	Dec	Jan
Overall balance	0.0	-89.9	___ *1.2*
(ytd)	70.2	-19.7	___ *1.2*
Interest expenses	7.5	22.7	___ *12.6*
Primary balance	13.3	-71.1	___ *23.6*
Total revenues, %oya[1]	2.1	20.6	___ *-5.7*
Primary expenditures, %oya[1]	7.5	1.8	___ *16.1*

1. Real terms.

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Brazil

- **4Q04 GDP growth slowed on investment cutback**
- **Primary surplus reached 4.8% of GDP in January**
- **Surprisingly stiff expenditure withholding under 2005 budget decree**

4Q04 GDP growth slowdown confirmed

The 4Q04 GDP release was in line with expectations. The q/q, saar growth rate slowed to 1.6% (JPMorgan, 2.0%), down from an upwardly revised estimate of 4.5% in 3Q04. The growth rate for 2004 as a whole reached 5.2%oya (JPMorgan, 5.1%), which was the best full-year performance since 1994, when the economy grew 5.85% after the *Plano Real* was implemented. However, whereas 3Q04 delivered a brilliant result, the makeup of the 4Q04 GDP gain was less satisfactory; fixed investment plunged 14.7%q/q, saar, and consumption rose faster than overall GDP, which increases concerns about the output gap. The external sector contribution to growth, which had been negative in 3Q04, turned positive again in the final quarter of the year, and was responsible for 1.1% points of the full year's GDP expansion, while the other 4.1% points came from internal demand.

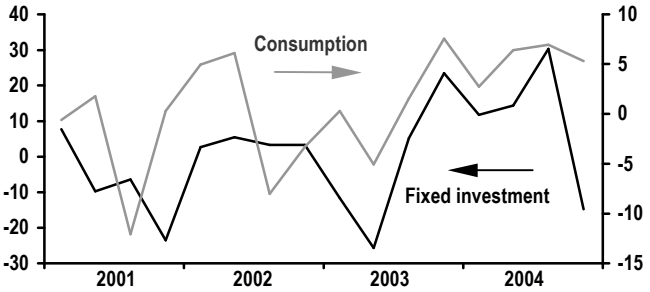
Decline in investment not driven by monetary tightening

It is too early to say that the 4Q04 plunge in fixed investment was explained by the monetary tightening that started in September. The plunge finds more obvious explanation in a drop in public investment once the municipal electoral cycle ended in October, and a decline in agricultural investment in response to the fall in key international commodity prices late last year. Besides, fixed investment had grown 11.5%oya year-to-date during the first three quarters of 2004, and some normalization after this long period of above-trend growth was to be expected.

In fact, even after counting in the 4Q04 decline, total investment in 2004 as a whole grew to 18.8% of GDP, at constant prices, up from 17.2% in 2003. Moreover, we expect investment growth to resume in 2005, in response to the growth in consumption and business confidence, and motivated also by the still high level of operating rates in industry. Nonetheless, there plainly is risk that the current monetary tightening cycle will provoke a cutback in this year's investment plans. That could delay achievement of the investment levels in excess of 20% of GDP that will be necessary to lift potential real GDP growth to 4.5% p.a.

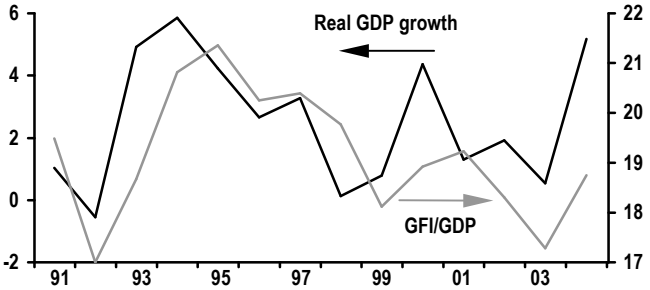
Real private consumption and fixed investment

%q/q, saar, both scales



Real GDP growth and fixed investment share of GDP

%oya | %, at constant prices



2005 federal budget adjustments

R$ billion

	Budget Law	Adjusted budget	Change
1. Total fiscal revenues	482.5	467.2	-15.2
1.1 Tax revenues	323.2	316.0	-7.2
1.2 Social security contributions	107.7	105.4	-2.3
1.3 Other revenues	51.6	45.8	-5.7
2. Constitutional transfers	78.3	74.0	-4.3
3. Net revenues (1-2)	404.2	393.2	-10.9
4. Total expenditures	356.9	346.5	-10.4
4.1 Personnel	91.3	91.3	0.0
4.2 Social security expenditures	140.0	143.2	3.2
4.3 Other mandatory expenses	38.2	40.5	2.3
4.4 Discretionary expenditures	87.4	71.5	-15.9
4.4.1 Pilot program (IMF)	2.8	2.8	0.0
4.4.2 Other discretionary	84.6	68.7	-15.9
5.Federal gov't result (3-4)	47.3	46.7	-0.5

More of the same on the fiscal side

The January public sector report posted a fiscal outcome in line with the dynamics we highlighted in our recent research note "Brazil: fiscal targets to be met, but budget rigidity lingers" (*GDW*, Feb 4). In particular, the overall primary surplus continues to improve thanks to greater revenue collection efforts, but the parallel increase in mandated budgetary expenditures means that fiscal inflexibility continues as a stubborn underlying concern.

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The public sector registered a primary surplus of R$11.4 billion in January. On a 12-month trailing sum basis, the surplus totaled R$85.5 billion (or 4.81% of GDP), up from R$81.1 billion (4.61% of GDP) in December 2004. The January result reflects solid performance at all levels of government (center, states and municipalities, and state owned enterprises). The high primary surplus, along with the BRL appreciation, led to an additional fall in the public sector net debt to 51.5% of GDP in January, down from 51.9% of GDP at end-2004. Looking forward, however, we do not see room for much further BRL appreciation, the Selic rate is apt to remain high on average, and the primary surplus will probably diminish. Together, these conditions will likely raise the public debt to GDP ratio to 52.6% by end-2005.

2005 budget expenditure withholding surprisingly strong

The federal government has promulgated a budgetary decree that withholds an unexpectedly large share of expenditures from the 2005 budget law approved by Congress. The main objective of the decree is to correct some excesses that occurred during the budget's complicated passage through Congress, such as the inclusion of uncertain tax collection windfalls as current revenues, and the higher public expenditures that those windfalls supposedly permitted. One consequence of the decree, however, is that the budget has become even more inflexible after adjustment, increasing mandated current spending and cutting the discretionary part of the budget.

The announced adjustment withholds R$15.9 billion (US$6.1 billion) from the discretionary component of the federal budget, but lifts mandated spending (social security and other expenses) by R$5.5 billion, thus bringing total government expenditures down by R$10.4 billion. Also, the forecast of net revenues has been reduced by R$10.9 billion. The upshot is a R$0.5 billion narrowing of the federal government primary surplus to R$46.7 billion (or 2.4% of GDP), which is in line with a 4.25%-of-GDP target for the primary surplus of the overall public sector. Note that the selected public investments worth about US$1 billion contained in the IMF and the Brazilian government pilot program have been preserved, as expected. And it is important to remember too that the IMF is allowing a reduction in the primary surplus to 4.1% of GDP this year, contingent upon the implementation of these agreed investments.

Data releases and forecasts

Week of March 7 - 11

Tue Mar 8 6:30 am — **General prices (IGP-DI)**
%m/m, nsa

	Nov	Dec	Jan	Feb
Overall	0.8	0.5	0.3	0.3
(%oya)	12.2	12.1	11.6	10.7
Wholesale prices	1.0	0.5	0.1	0.2
Consumer prices	0.4	0.6	0.9	0.4
Construction costs	0.7	0.5	0.7	0.4

Thu Mar 10 7:30am — **Industrial production**

	Oct	Nov	Dec	Jan
%m/m, sa	0.2	0.2	0.6	-0.7
%oya, nsa	3.2	7.7	8.3	5.9

Thu Mar 10 5:00am — **Consumer prices (FIPE)**
%m/m, nsa (% weights in parentheses)

	Feb W2	Feb W3	Feb W4	Mar W1
Total (100)	0.5	0.4	~~0.3~~ *0.4*	0.4
Housing(32.8)	0.4	0.4	~~0.3~~ *0.5*	0.3
Food (22.7)	0.0	0.1	*0.1*	0.2
Transport (16.0)	1.6	1.4	~~0.9~~ *1.1*	1.3

Fri Mar 11 6:30am — **Consumer prices (IPCA)**
%m/m, nsa, % weights in parentheses

	Nov	Dec	Jan	Feb
Total (100)	0.7	0.9	0.6	0.6
(%oya)	7.2	7.6	7.4	7.4
(%ytd)	6.5	7.6	0.6	1.2
Ex food and energy prices	0.7	0.7	0.6	0.9
Trimmed mean	0.6	0.7	0.7	0.6
By major component				
Food (22.6)	0.0	0.7	0.8	0.4
Transport (21.7)	1.7	1.7	0.6	0.4
Housing (16.6)	0.4	0.5	0.6	0.4

Review of past week's data

Consumer prices (FIPE) - see above

Real GDP

	2Q04	3Q04		4Q04	
%q/q, saar	5.4	~~4.2~~	*4.5*	~~1.8~~	*4.2*
%oya	5.6	6.1		4.7	*6.1*

Merchandise trade balance
US$ billion

	Dec	Jan	Feb	
Trade balance	3.2	2.2	~~2.6~~	*2.8*
Year to date	33.4	2.2	~~4.8~~	*5.0*
Last 12 months	33.4	34.3	~~35.0~~	*35.1*
Exports	9.2	7.4	~~7.6~~	*7.8*
(%oya)	36.3	28.3	~~32.0~~	35.5
Imports	6.0	5.3	~~4.9~~	*5.0*
(%oya)	50.5	24.9	~~31.0~~	*32.5*

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Argentina

- **Debt exchange wins upbeat 76% participation**
- **2005 CPI forecast raised to 8.5%Dec/Dec**
- **BCRA faces monetary policy dilemma**

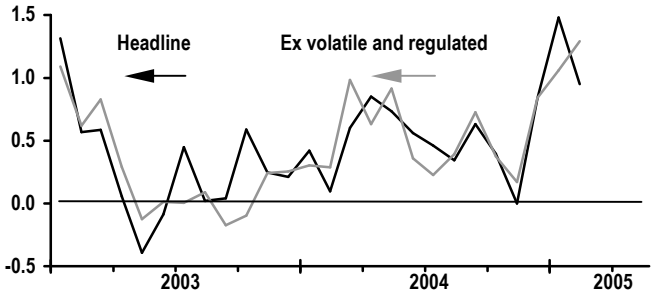
Official preliminary figures put participation in Argentina's debt swap at 76%, in line with expectations. After the exchange, public sector debt (including principal and PDI arrears) will stand at (a still high) 85% of GDP, down from 123%. The strong result paves the way for a new IMF program to refinance upcoming amortizations—recall that Argentina is currently paying down IMF debt. But little political consensus exists in an election year for the reforms demanded by the Fund, so refinancing commitments made by the IMF will likely be lower than those to which Argentina could have otherwise aspired (under the latest program, Argentina enjoyed full refinancing of amortizations).

Beyond the restructuring, February inflation figures attracted attention as well this week, as consumer price pressures failed to abate last month, contrary to expectations. Indeed, consumer prices advanced 1%m/m (nsa) in February, following a 1.5% jump in January that had partly reflected that month's high seasonality. Inflation had been expected to ease last month as the effects of January's seasonality vanished, and the lift from volatile and seasonal, and regulated components did in fact fade last month. But "core" price pressures not only failed to decelerate but actually intensified a bit, at 1.3%m/m (nsa) up from a 1.1% gain in January (chart). The persistence of monthly "core" price advances in excess of 1% prompts an upward revision to the full-year 2005 JPMorgan CPI forecast to 8.5%Dec/Dec (from a previous 7.5%), and risks to this forecast remain skewed to the upside.

The recent acceleration in inflation has highlighted the existing conflict of monetary policy objectives in the long run: namely intervening in fx markets to ward off nominal exchange rate appreciation , while also minimizing sterilization and keeping inflation low. So far, the significant amount of slack in the economy and the strong expansion that has required remonetization of the economy has prevented that long-term inconsistency from constraining monetary policy options. And unit labor costs look well behaved. But given accelerating price pressures, debate about this trade-off among policy objectives is apt to intensify. It may be too much to blame last December's monetary policy expansion for affecting prices so rapidly, but recent price dynamics leave the central bank in a tough position to argue the contrary.

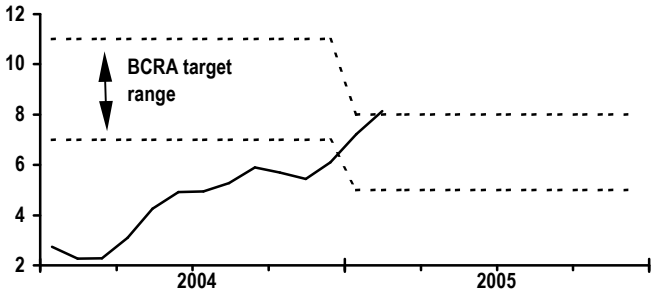
Consumer prices

%m/m, nsa



Consumer prices

%oya



Given the Ministry of the Economy's preference for a competitive real peso, the ability of BCRA's monetary policy decisions to combat rising prices aggressively remains uncertain. Importantly, while BCRA has itself scaled down fx intervention lately and raised the repo rate a symbolic 25bp in January, fx purchases by state-owned banks are fuelling suspicion that inflation is trending higher due to uncoordinated monetary policy actions. Last year, state-owned banks bought US dollars using some of the Treasury's flow of primary surpluses. That was an action with limited monetary consequences. But now these banks have been unwinding repos with BCRA in order to buy US dollars, and the ensuing intervention increases pesos in circulation.

Inflation is running at 8.1%oya—above the upper bound of BCRA's 5-8% target range—and retaining "too many cooks in the kitchen" can unsettle expectations. With short-term interest rates at -6% in real terms, BCRA could conceivably raise the repo rate or issue more short-term Lebac paper without affecting much the long end of the yield curve (given that the latter is very steeply sloped) or alternatively raising reserve requirements. The authorities appear to acknowledge the problem and among actions being designed to complement fx intervention are increased regulations: in addition to the existing 180-day minimum holding period for portfolio investment inflows, an unremunerated reserve requirement is under consideration.

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Data releases and forecasts

Week of March 7 - 11

Thu Mar 10 **Consumer confidence (UTDT)**
Buenos Aires City

	Dec	Jan	Feb	Mar
Index level	51.4	54.1	55.0	___
Current conditions	40.1	44.7	46.5	___
Expectations	62.7	63.5	63.4	___

Review of past week's data

Merchandise trade

	Nov	Dec	Jan	
Balance, $ billion	0.85	0.87	~~0.91~~	*0.85*
12-month sum	12.21	12.13	~~12.33~~	*12.27*
year-to-date	11.26	12.13	~~0.91~~	*0.85*
Exports	3.04	2.96	~~2.82~~	*2.74*
%oya	24.4	20.8	~~21.9~~	*18.4*
Imports	2.20	2.10	~~1.91~~	*1.89*
%oya	64.5	38.9	~~19.4~~	*17.9*

The gradual narrowing of the trade surplus paused in January but is nevertheless expected to resume going forward as the pace of import growth will likely remain upbeat due to the strong performance of domestic demand. Meanwhile, nominal exports will suffer from less supportive terms of trade but will continue to benefit from improving demand in trading partners. The trade surplus for the full year is thus seen at $8 billion, down from $12.1 billion in 2005.

Tax revenues

	Dec	Jan	Feb	
Total, APs billion (nsa)	7.99	8.80	~~8.18~~	*8.25*
%oya	18.4	22.9	~~28.6~~	*29.7*

Tax collection remained aloft last month. The deferral into 2005 of income tax deadlines originally falling before end-2004 has lifted revenues early this year and will continue to do so through next May. But beyond these distortions, tax revenue performance should continue to be underpinned by the steady pace of economic activity near term (forecast to cruise at an average 7.3%oya speed in 1H05 before a gradual deceleration to a more sustainable 4.8% pace in 2H05) and the expected gradual pickup in inflation.

Help-wanted index (UTDT)

	Dec	Jan	Feb	
%m/m, sa	-7.5	-9.4	___	*-3.8*

Automobile report

	Dec	Jan	Feb	
Output, 000 units, nsa	22.8	21.5	~~23.0~~	*12.9*
%oya	69.2	78.9	~~62.5~~	*-9.1*
Sales, 000 units, nsa	28.5	31.9	~~30.0~~	*27.2*
%oya	52.5	43.0	~~47.7~~	*33.9*

Domestic cement sales

	Dec	Jan	Feb	
%oya	22.5	14.7	___	*13.9*

Construction activity

	Nov		Dec		Jan	
%oya	~~11.6~~	*12.3*	~~13.7~~	*14.9*	~~9.0~~	*7.0*
%m/m, sa	~~-0.8~~	*0.5*	~~2.4~~	*2.6*	___	*-0.2*

Consumer and wholesale prices

%m/m, nsa, except where noted

	Dec		Jan		Feb	
Consumer prices	0.8		1.5		~~0.6~~	*1.0*
%oya	6.1		7.2		~~7.7~~	*8.1*
Wholesale prices	0.9		~~-1.1~~	*-1.0*	~~0.5~~	*1.0*
%oya	7.9		~~7.0~~	*7.2*	~~6.1~~	*6.8*

Household survey (labor market report)

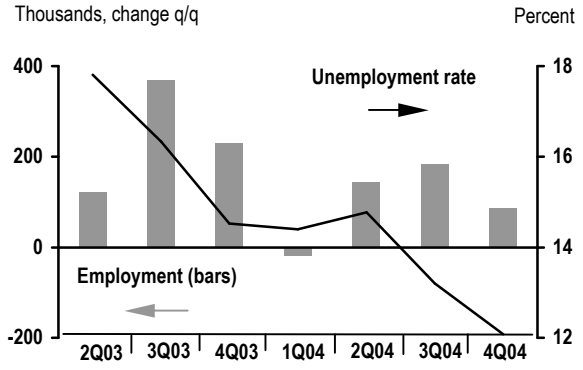
National aggregate

	2Q04	3Q04	4Q04	
Unemployment rate (%)[1]	14.8	13.2	~~12.1~~	
incl. people in social plans	19.1	17.6	~~16.4~~	*16.2*
Employment (000)[2]	145	185	~~234~~	*88*

1. % of labor force. 2. Change since last survey.

The jobless rate declined in line with JPMorgan expectations, but the details of the report were less upbeat than expected: employment appears to have become less responsive to the economic expansion lately. Job gains decelerated to 0.9%q/q, nsa (not annualized) last quarter versus JPMorgan expectations of a 2.5%q/q improvement. In over-year-ago terms, last quarter's sequential employment gains translated into a 4.4%oya advance. Given our estimate that real GDP was up 8.9%oya in 4Q04, reported jobs growth implies an elasticity of employment to output of 0.49, down sharply from 0.74 in 3Q04.

Employment and unemployment rate



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Andeans: Colombia, Ecuador, Peru, Venezuela

- **Peru grew 5.1%oya in 2004, topping forecast**
- **Boom was led by exports and private investment**
- **Internal demand expected to drive growth in 2005**

The Peruvian economy expanded 5.1%oya in 2004, surpassing JPMorgan's forecast of 4.6%. On the aggregate demand side, growth was driven by exports, which surged 15.2%oya, and investment, which increased 8.3%oya. Although growth consistently exceeded expectations during the course of last year, prompting upward revisions to the forecasts, the outperformance in the fourth quarter proved to be the greatest. Real GDP grew 6.8%oya in 4Q04—the highest figure in the past 19 quarters. This was driven in part by external demand, which pushed up exports a whopping 22.7%oya. Private and public investment also exceeded GDP growth in the quarter, rising 11.3%oya and 19.6%, respectively. The 4Q04 rebound in internal demand reflected improving trends in business and consumer confidence, and a pickup in corporate profits that had built up throughout the year and that began to be reinvested.

Looking at the full-year growth figures, the export sector's extraordinary expansion of 15.2%oya was led by both traditional and nontraditional exports. Among the former, mineral sales abroad registered the highest growth, while among nontraditional exports the most dynamic sectors were textile, agricultural, and chemical products. The 9.4%oya jump in private investment went primarily into new mining and energy sector projects. Private consumption grew a more modest 3.3%oya, buoyed by a recovery in employment and a 5.7% gain in disposable income (which explain also the improvement in consumer sentiment and the pickup all year in semidurable and durable goods sales).

On the supply side, the most dynamic sector in 2004 as a whole was fishing (+28.3%oya), which benefited from the lifting of the ban that had been in effect during part of 2003. Also turning in strong gains were manufacturing (+6.7%oya), and mining and hydrocarbons (+5.4%).

Going forward, the performance of the export sector will probably moderate, since global external conditions are expected to be less supportive. Instead, economic growth will depend more on the dynamism of domestic demand. One potentially important driver of growth in 2005 may be government spending. Indeed, the government has announced plans to launch a new poverty alleviation program and new infrastructure projects—presumably to boost President Toledo's popularity (which has dropped back down to 8% this year) and to secure a good showing for Toledo's party in the congressional elections due in April 2006 (the president himself is not eligible for reelection). Although higher public spending may make this year's aggressive 1%-of-GDP fiscal deficit target hard to reach, the risks to JPMorgan's 4.5%oya GDP growth forecast for 2005 appear to be on the upside.

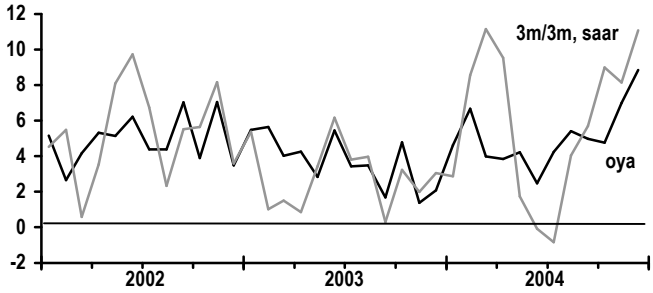
Peru: real GDP by demand and supply component
%oya

	1Q04	2Q04	3Q04	4Q04	2004
Total demand	**4.5**	**4.6**	**5.7**	**8.0**	**5.7**
1. Internal demand	2.9	4.3	3.2	5.1	3.9
Private consumption	3.1	2.8	3.4	3.8	3.3
Public consumption	-0.2	2.8	6.5	5.6	3.9
Investment	5.3	7.5	6.9	13.0	8.3
Private	8	11.7	6.6	11.3	9.4
Public	-12	-13.1	8.5	19.6	2.8
2. Exports	13.8	5.8	17.8	22.7	15.2
Total supply	**4.5**	**4.6**	**5.7**	**8.0**	**5.7**
3. GDP	5.1	3.5	5.0	6.8	5.1
4. Imports	1.3	11.4	9.9	14.9	9.5

Peru: real GDP growth by producing sector

		2004	
	% weight	Dec	Jan-Dec
Real GDP	**100.0**	**9.1**	**5.1**
Agriculture	7.6	3.4	-1.1
Fishing	0.7	38.3	28.3
Mining and hydrocarbons	4.7	7.9	5.4
Manufacturing	16.0	10.7	6.7
Electricity and water	1.9	6.8	4.5
Construction	5.6	7.8	4.7
Commerce	14.6	9.7	4.7
Other services	39.3	10.9	6.0
Import and other duties	9.7	3.7	4.1

Peru: real GDP
% change



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Chile:
Data releases and forecasts

Week of March 7 - 11

Mon Mar 7 **Merchandise trade**
$ billion, not seasonally adjusted

	Nov	Dec	Jan	Feb
Trade balance	0.48	1.11	0.83	0.75
last 12 months	8.31	9.04	9.39	9.35

Mon Mar 7 **Economic activity (IMACEC)**

	Oct	Nov	Dec	Jan
%oya	5.3	7.5	7.7	6.0

Review of past week's data

Industrial production and sales (ex copper)
%oya

	Nov	Dec	Jan	
Output	9.9	10.2	___	*5.3*
Sales	7.2	9.7	___	*6.5*

Unemployment rate
3-month moving average

	Nov	Dec	Jan	
% of labor force, nsa	8.6	7.8	~~7.8~~	*7.5*
change oya	0.5	0.4	~~0.4~~	*0.1*

Inflation
%m/m, nsa, except where noted

	Dec	Jan	Feb	
Consumer prices	-0.4	-0.3	~~0.0~~	*-0.1*
%oya	2.4	2.3	~~2.3~~	*2.2*
Wholesale prices	-3.0	-0.1	___	*0.8*
%oya	7.8	8.8	___	*8.7*

Business confidence (Icare)

	Dec	Jan	Feb	
Index level	61.8	63.0	___	*64.4*
Ex-Mining[1]	61.4	62.7	___	*61.9*

1. JPMorgan calculation.

Colombia:
Data releases and forecasts

Week of March 7 - 11

No data releases expected.

Review of past week's data

	Dec	Jan	Feb	
Consumer prices (%m/m)	~~0.32~~ *0.30*	0.83	___	*1.02*
%oya	5.5	5.4	___	*5.20*

Ecuador:
Data releases and forecasts

Week of March 7 - 11

Trade balance
$ million, nsa

	Oct	Nov	Dec	Jan
Balance	81	-77	-154	__
Exports	744	612	570	__
Imports	663	689	724	__

Review of past week's data

Consumer prices

	Dec	Jan	Feb	
%m/m, nsa	*-0.05*	0.10	___	*0.26*
%oya	*1.95*	1.60	___	*1.49*

Peru:
Data releases and forecasts

Week of March 7 - 11

Trade balance
$ million, nsa

	Oct	Nov	Dec	Jan
Balance	287.5	169.4	402.5	__
Exports	1140.9	1072.8	1373.1	__
Imports	853.4	903.3	970.5	__

Review of past week's data

Inflation

	Dec	Jan	Feb	
Consumer prices (%m/m)	-0.01	0.10	___	*-0.13*
%oya	3.50	3.30	___	*1.70*
Wholesale prices (%m/m)	-0.35	0.36	___	*-0.35*
%oya	4.90	4.70	___	*3.00*

Venezuela:
Data releases and forecasts

Week of March 7 - 11

No data releases expected.

Review of past week's data

Inflation

	Dec	Jan	Feb	
Consumer prices (%m/m	1.59	1.91	___	*0.17*
%oya	19.2	18.5	___	*16.8*
Wholesale prices (%m/m)	1.02	1.46	___	*1.16*
%oya	22.4	21.1	___	*17.5*

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Latin America economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
7 Mar **Chile:** Merchandise Trade Feb $0.75bn Monetary Aggregates Feb 28 International Reserves Feb 28 Econ. Activity (IMACEC) Jan 6.0%oya	**8 Mar** **Brazil:** IGP-DI Feb **Mexico:** Fixed Investment (02:30pm) Dec 10.4%oya	**9 Mar** **Brazil:** Industrial Production Jan **Mexico:** CPI (02:30pm) Feb 0.22%m/m PPI (02:30pm) Feb	**10 Mar** **Argentina:** Consumer Confidence (UTDT) Mar **Brazil:** FIPE CPI weekly Mar 7 **Chile:** BCCh Monthly Monetary Policy Meeting Mar 3.00% **Mexico:** Wage Settlements (02:30pm) Feb	**11 Mar** **Brazil:** IPCA Feb **Mexico:** Banxico Policy Meeting (09:00am) no change
During the week: **Chile:** Consumer Confidence (Adimark) Feb **Ecuador:** Trade Balance Jan **Peru:** Trade Balance Jan				
14 Mar **Mexico:** Industrial Production (02:30pm) Jan 4.0%oya Auto Report (02:30pm) Feb	**15 Mar** **Brazil:** Retail Sales Jan COPOM Meeting Mar	**16 Mar** **Argentina:** IP (INDEC) prel. Feb **Brazil:** Selic Target Central Bank Mar **Mexico:** GDP by Expenditures (02:30pm) 4Q	**17 Mar** **Argentina:** Real GDP 4Q **Brazil:** IGP-10 Mar **Mexico:** Leading Indicators (02:30pm) Dec	**18 Mar** **Brazil:** FIPE CPI weekly Mar 15
During the week: **Peru:** GDP Jan				
21 Mar **Brazil:** FDI Feb Current Account Feb *Holiday: Mexico*	**22 Mar** **Argentina:** IP (INDEC) final Feb Current Account 4Q **Mexico:** CPI (02:30pm) 1H 0.16%2w/ 2w Wholesale Sales (02:30pm) Jan Retail Sales (02:30pm) Jan	**23 Mar** **Argentina:** Managers' Survey (FIEL) Feb IP (FIEL) prel. Feb Economic Activity Indicator Jan **Chile:** Monetary Aggregates Mar 15 International Reserves Mar 15 Real GDP 4Q **Mexico:** Banxico Policy Meeting (09:00am) no change	**24 Mar** *Holiday: Argentina, Mexico, Venezuela*	**25 Mar** *Holiday: Latin America Good Friday*
During the week: **Chile:** Real Retail Sales Feb				
28 Mar **Argentina:** IP (FIEL) final Feb Construction Activity Feb **Mexico:** Employment IMSS (02:30pm) Feb Indicator of Overall Act. Jan	**29 Mar** **Mexico:** Labor Market Report (02:30pm) Feb	**30 Mar** **Mexico:** Maquila Indicators (02:30pm) Jan Manufacturing Indicators (02:30pm) Jan Public Sector Indicators (03:00pm) Feb	**31 Mar** **Argentina:** Merchandise Trade Feb **Chile:** Unemployment Feb Industrial Sales Feb Industrial Production Feb **Mexico:** Business Confidence (02:30pm) Mar Construction Industry Indicators (02:30pm) Jan Monetary Aggregates (03:00pm) Feb	**1 Apr** **Argentina:** Help Wanted Index Mar Tax Revenues Mar
During the week: **Argentina:** Public Sector Balance Feb **Colombia:** PPI Mar CPI Mar **Ecuador:** CPI Mar **Peru:** PPI Mar CPI Mar **Venezuela:** CPI Mar				

Highlighted data are scheduled for release on or after the date shown. Times shown are local.