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Revelation of Expectations in Latin America

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REVELA is a free Web-based monthly service on inflation and growth expectations in Latin America. REVELA's Web site offers an up-to-date report and a database with historical information. This service compiles data from the expectations surveys conducted and reported by eight Central Banks in Latin American with inflation-targeting regimes. REVELA does not represent official projections by the IDB or any other official institution.

A. Highlights

According to the April surveys conducted by Central Banks in the region, inflation expectations increased slightly in most of the countries covered by REVELA. At the same time, growth expectations increased in three countries, decreased in four and remained stable in only one of the countries of the database.

Although the simple average of growth expectations for 2014 remained stable last month, at 3.7%, the GDP

weighted average growth expectation decreased by 0.1%, from 2.6% to 2.5%. In four out of eight countries included in REVELA growth expectations in April decreased, in Brazil (from 1.8% to 1.7%), Chile (from 3.7% to 3.4%), Mexico (from 3.1% to 3.0%) and Paraguay (from 5.2% to 5.1%). On the contrary, growth expectations increased in three countries, Guatemala (from 3.4% to 3.5%), Peru (from 5.4% to 5.5%) and Uruguay (from 3.2% to 3.4%). Colombia was the only country of our sample where growth expectations remained stable in April (at 4.2%).

Both the simple average and the GDP weighted average of inflation expectations for 2014 increased by 0.1% in April, the former from 4.7% to 4.8% and the latter from 5.1% to 5.2%. Inflation expectations increased strongly in Brazil (from 6.2% to 6.5%) and Chile (from 3.0% to 3.3%) and to a smaller degree in Colombia (from 2.9% to 3.0%) and Guatemala (from 4.4% to 4.6%). By contrast, they declined mildly in Mexico (from 4.0% to 3.9%) and Paraguay (from 5.7% to 5.6%). They remained stable in Peru (at 2.8%) and Uruguay (at 8.4%).

Table 1. Growth and Inflation Expectations for 2014

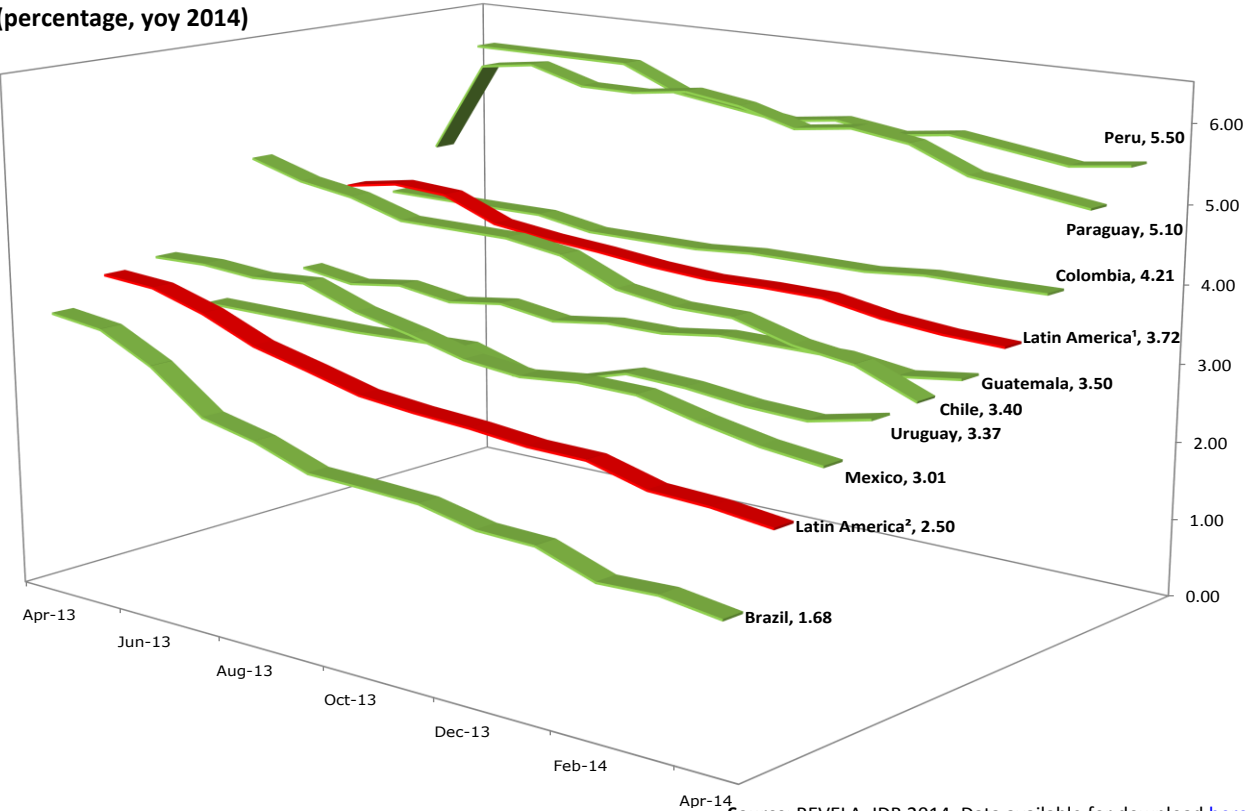
Country	Growth expectation (percentage expected for 2014)		Inflation expectation (percentage expected for 2014)	
	as of April 2014	Mar-Apr change	as of April 2014	Mar-Apr change
	Brazil	1.7	↓ -0.1	6.5
Chile	3.4	↓ -0.3	3.3	↑ 0.3
Colombia	4.2	⇒ 0.0	3.0	↑ 0.1
Guatemala	3.5	↑ 0.1	4.6	↑ 0.2
Mexico	3.0	↓ -0.1	3.9	↓ -0.1
Paraguay	5.1	↓ -0.1	5.6	↓ -0.1
Peru	5.5	↑ 0.1	2.8	⇒ 0.0
Uruguay	3.4	↑ 0.2	8.4	⇒ 0.0
Eight country average	3.7	⇒ 0.0	4.8	↑ 0.1

Source: REVELA, IDB 2014. Data available for download [here](#).

B. Growth

As illustrated in Figure 1, this past month, average growth expectations for 2014 have remained stable on a simple average basis (Latin America 1) and have decreased by 0.1% considering the GDP weighted average (Latin America 2). Although growth expectations for 2014 only decreased in four out eight countries covered by REVELA, this list contains the two largest economies, Brazil and Mexico, in both countries and in Paraguay expectations fell by 0.1%. Additionally, growth expectations drop sharply in Chile, by 0.3%. Nevertheless, in three out of eight countries growth expectations actually increased in April, this was the case of Guatemala (by 0.1%), Peru (by 0.1%) and Uruguay (by 0.2 %). A similar distinction can be made when we observe the evolution of expectations over the past six months. During this period of time the cumulative decline of growth expectations for 2014 is 0.3% on simple average basis (from 4.0% to 3.7%) and 0.4% considering the GDP weighted average (from 2.9% to 2.5%). Where expectations have fallen the decline has been rather pronounced, these is visible in Brazil (from 2.2% to 1.7%), Chile (from 4.4% to 3.4%), Mexico (from 3.4% to 3.0%) and Paraguay (from 5.8% to 5.1%). By contrast, where growth expectations have risen the changes have been smaller this is the case of Colombia (from 4.1% to 4.2%), Guatemala (from 3.4% to 3.5%) and Uruguay (from 3.1% to 3.4%).

Figure 1. Market Expectations of Growth
(percentage, yoy 2014)



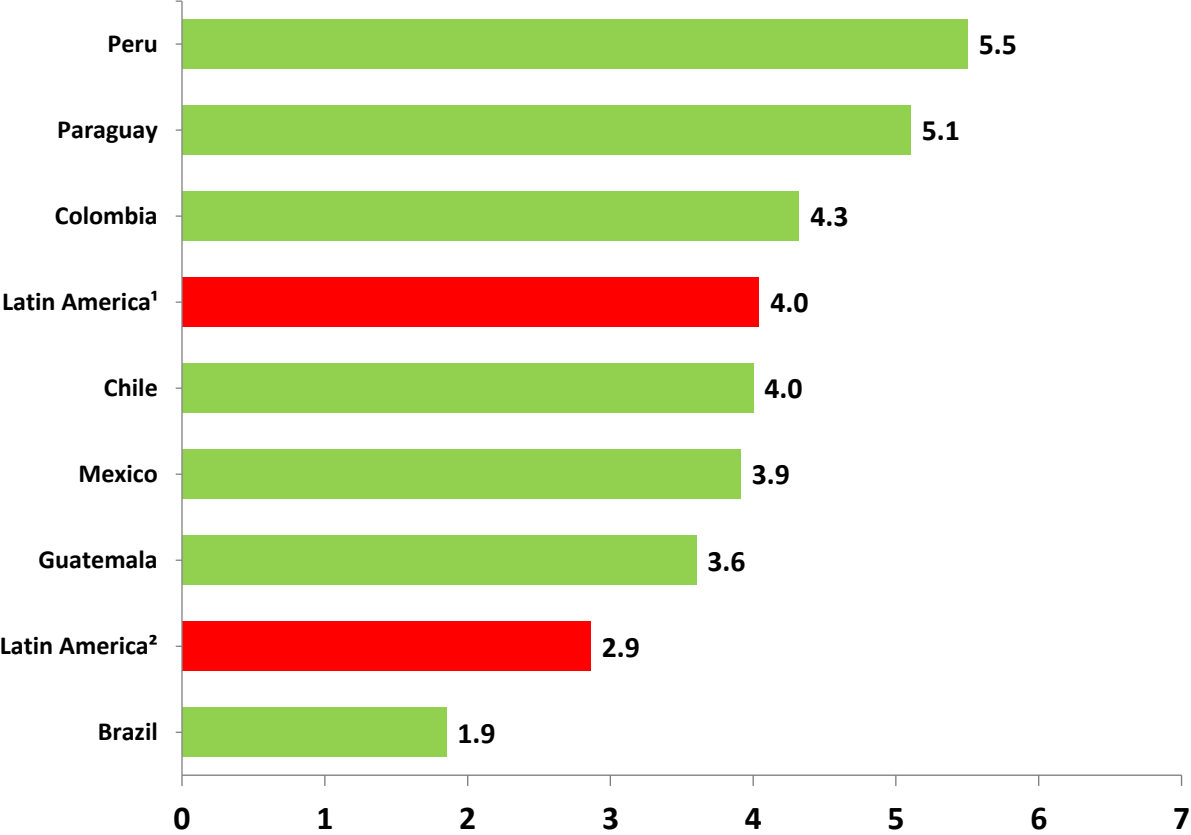
Source: REVELA, IDB 2014. Data available for download [here](#).

¹ Refers to the simple average of the eight inflation targeting countries.

² Refers to the GDP weighted average of the eight inflation targeting countries.

In April 2014, the simple mean of growth expectations for the region in 2015 was 4.0%, while the GDP weighted mean was 2.9%. For the fourth month in a row, both of them decreased by 0.1% compared to their values in the previous month. In Brazil and Paraguay growth expectations for 2015 fell, by 0.2% this last month. In the former case growth expectations went from 2.1% to 1.9% and in the latter one from 5.3% to 5.1%. Conversely, in all the other countries these expectations remained constant. Growth expectations for 2015 in the region now range from 5.5% in Peru to 1.9% in Brazil.

Figure 2. Growth Market Expectations
(percentage, yoy 2015)



Source: REVELA, IDB 2014. Data available for download [here](#).

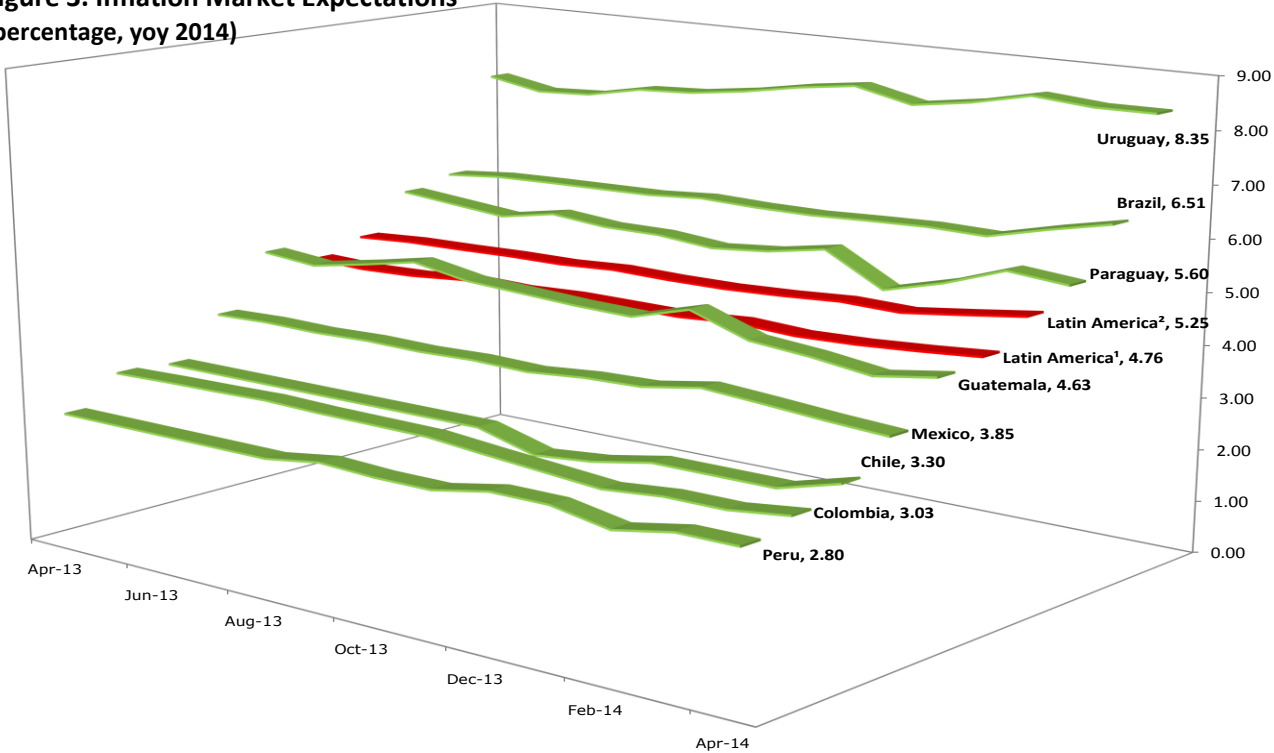
¹ Refers to the simple average of the eight inflation targeting countries.

² Refers to the GDP weighted average of the eight inflation targeting countries.

C. Inflation

Both the simple average and the GDP weighted average inflation expectation for 2014 for the region increased by 0.1% last month, the former from 4.7% to 4.8% and the latter from 5.2% to 5.3%. Over the past month inflation expectations for 2014 increased strongly (by 0.3%) in Brazil (from 6.2% to 6.5%) and Chile (from 3% to 3.3%). A less pronounced increase was also observed in Colombia (from 2.9% to 3.0%) and Guatemala (from 4.4% to 4.6%). A mild decrease was only observed in two countries, Mexico (from 4.0% to 3.9%) and Paraguay (from 5.7% to 5.6%). Finally Peru and Uruguay maintained their last month inflation expectations for 2014, at 2.8% and 8.4% respectively. However, if we compare April expectations with the ones made six months ago the increasing trend of inflation expectations is more visible. Measured as simple average they have increased from 4.6% to 4.8% and as a GDP weighted mean from 4.9% to 5.3%. In six out of eight countries, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay inflation expectations are now above their levels six months ago. The increases range from 0.1% in Mexico to 0.6% in Brazil, comprising a 0.3% increase in Chile, Paraguay and Uruguay and a 0.2% increase in Peru. The two only countries at odds with this regional trend are Colombia and Guatemala, where inflation expectations are now below their level than six months ago. The respective decreases have been, 0.1% in Colombia and 0.2% in Guatemala.

Figure 3. Inflation Market Expectations (percentage, yoy 2014)



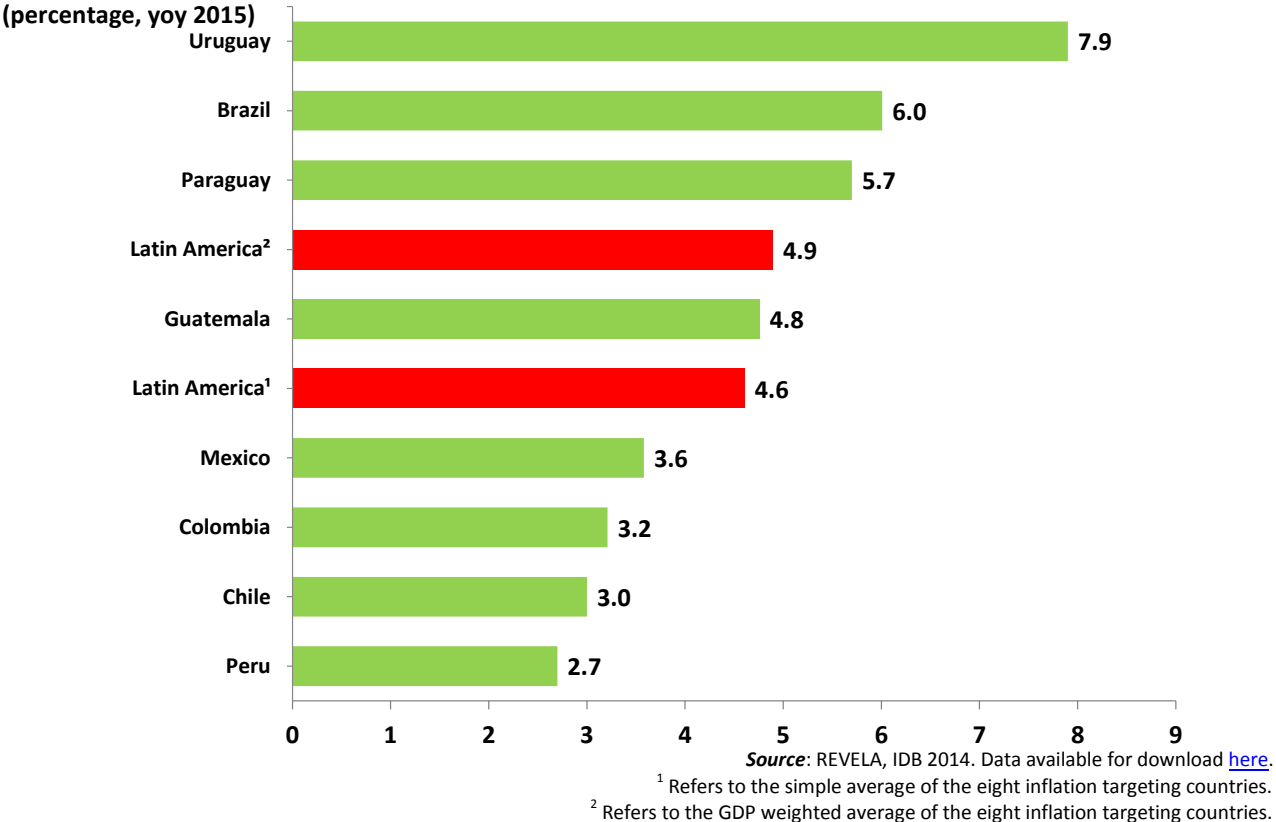
Source: REVELA, IDB 2014. Data available for download [here](#).

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² Refers to the GDP weighted average of the eight inflation targeting countries.

Inflation expectations for the region in 2015 are currently at 4.6% and 4.9%, simple average and GDP weighted mean respectively. Both of them have increased by 0.1% when we compare them to their March 2014 values. Indeed, inflation expectations for 2015 have increased over the last month in Brazil, Guatemala, Paraguay and Peru, by 0.2%, 0.1%, 0.1% and 0.2% respectively. However they have decreased in Uruguay (from 8.0% to 7.9%). Finally, inflation expectations for 2015 have remained constant in Chile (at 3.0%) and Colombia (at 3.2%). All this has only shrunk the range of the distribution. In 2015, inflation is expected to reach 7.9% in Uruguay and only 2.7% in Peru.

Figure 4. Inflation Market Expectations



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