

Consumer inflation still under control in August

Overview

- **Consumer inflation remains controlled in August.** The mid-month index (IPCA-15) stood at 0.13%, compared with 0.64% in July. The figures are in line with our forecast and were led by lower prices for food, clothing and fuel. Meanwhile, core items showed a slight increase, which was consistent with expectations. Core inflation keeps muted, which suggests that the components most sensitive economic activity remain subdued. For the next releases, price increases will continue on a slowing trend. We expect the final Broad Consumer Price Index (IPCA) for August to come in at near zero (0.04%). It is worth noting that the Central Bank has maintained in its official statements that it will only respond to the secondary effects of recent shocks, which underscores the need to monitor any potential impacts on future inflation trends. Since inflation expectations remain anchored and current variations are still benign, we maintain our forecast for the benchmark interest rate (Selic) at 6.5% for the next few months.
- **Activity indicators continue to point to a slow recovery.** Industry (preliminary data) and consumer confidence indicators released by FGV this past week showed a decline, albeit with an improvement in the expectations component. Retail confidence is back up again after posting four consecutive declines. The latest economic activity data reinforce that economic recovery is to remain sluggish in the third quarter. Meanwhile, employment numbers point to a rather gradual recovery in the job market. In the latest General Register of Employed and Unemployed Persons (Caged), net job creation stood at 47,319 formal jobs in June. Seasonally adjusted, 7,900 jobs were created in the month, offsetting part of the 20,000 jobs lost in the previous report. Lastly, the average wage of new hires decline more than offset the gains recorded in June, at a low level, suggesting low inflationary pressures coming from the job market.
- **The Fed's Monetary Policy Committee (FOMC) signaled that it will continue to normalize interest rates.** In the minutes from its latest meeting, the committee acknowledged that U.S. GDP grew more than expected in the second quarter, including a slight increase in wages. However, the latest price change data came in below expectations and are still in line with the Fed's target (approximately 2%), leading to a symmetric balance-of-risks for inflation. In the minutes, the committee also admitted that the trade war has had a negative impact on business confidence, investment and wholesale price indicators, as well as deteriorated risk assessments for emerging economies. Either way, despite expectations for modest economic growth in the second half of the year, the Fed signaled that interest rates should keep rising – albeit gradually – over the next few quarters. Therefore, we have maintained our forecast for two other increases in 2018 and two more in 2019, lifting the benchmark rate to 3.0%. In addition, the Eurozone PMI was stable this month, despite showing significant regional differences: Germany and France showed improvements on the margin (up 0.7 points), other European countries were down (-0.8 points).

Weekly outlook

- **Brazil's second-quarter GDP is expected to show stability.** The second-quarter GDP will be released next Friday. We expect to see stability or slightly negative trend compared to the first quarter. External sector data for July will also be announced, and should reinforce the view of balanced external accounts and favorable financing conditions in the Brazilian economy. Other highlights include the release of fiscal and credit data for July.
- **Analysts will be keeping an eye on the U.S. second-quarter GDP.** The quarterly figure likely to reflect strong growth in the world's largest economy. Inflation reports for the U.S. and Germany will also be on the spotlight.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 08/27				
05:00	Brazil	FIPE: Consumer Price Index (weekly)	0.45%	
08:00	Brazil	FGV: Construction Costs (Aug)		
08:00	Brazil	FGV: Construction Confidence (Aug)		
08:25	Brazil	BCB: Focus Survey		
10:30	Brazil	BCB: Current Account Balance (Jul)		
10:30	Brazil	BCB: Foreign Direct Investment (Jul)		
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	Brazil	Federal Debt Total (Jul)		
05:00	Germany	Ifo Business Climate (Aug)		
Tuesday 08/28				
08:00	Brazil	FGV: Industrial Confidence (Aug)		
11:00	USA	Consumer Confidence (Aug)	126.5	
Wednesday 08/29				
08:00	Brazil	FGV: Services Confidence (Aug)		
09:00	Brazil	IBGE: PPI Manufacturing (Jul)		
10:30	Brazil	BCB: Press Release - Monetary Policy (Jul)		
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	CNI: Consumer Confidence (Aug)		
09:30	USA	GDP (2Q - P)	4.0% (QoQ)	4.0% (QoQ)
Thursday 08/30				
08:00	Brazil	FGV: IGP-M (Aug)		0.6 (MoM)
09:00	Brazil	IBGE: Unemployment Change (Jul)		12.4%
-	Brazil	Central Govt Budget Balance (Jul)		- R\$ 16.0 billions
09:00	Germany	CPI (Aug - P)		
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	Personal Income (Jul)	0.4% (MoM)	
09:30	USA	Personal Spending (Jul)	0.4% (MoM)	
22:00	China	Composite PMI (Aug)	51.2	
Friday 08/31				
09:00	Brazil	IBGE: GDP (2Q)		0.0% (QoQ)
10:30	Brazil	BCB: Press Release - Fiscal Policy (Jul)		
-	Brazil	Aneel: Tariff range		
11:00	USA	University of Michigan Sentiment (Aug - F)	95.7	

	2016	2017	2018	2019
Consumer inflation - IPCA (%)	6,29	2,95	4,11	4,25
GDP growth (%)	-3,6	1,0	1,1	2,5
Industrial Production (%)	-6,4	2,5	1,5	2,7
Retail Sales (%)	-8,7	4,0	5,0	4,5
Unemployment Rate (% of labor force, avg)	11,5	12,7	12,5	12,3
Outstanding Credit Growth (%)	-3,5	-0,5	4,0	8,3
Trade Balance (USD bn)	45,0	64,0	60,4	61,1
Current Account (USD bn)	-23,5	-9,8	-9,9	-8,5
Exchange Rate (BRL/USD, eop)	3,26	3,31	3,60	3,60
Selic Rate (% eop)	13,75	7,00	6,50	8,00
Primary Balance (BRL bn)	-155,8	-111	-157,9	-111,0
Gross Debt (% of GDP)	70,0	74,0	75,2	76,5

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