

Brazil's GDP rose 0.2% in the second quarter and is expected to grow 1.1% for 2018

Overview

- **Brazil's economy grew 0.2% in the second quarter, despite the truck drivers' strike in May.** Domestic demand continued at a slow pace, with consumption growing 0.1% and investments falling 1.8% compared to the previous quarter. We expect a still moderate growth rate in the second half of the year, as the unemployment rate remains high and business confidence levels have declined in recent months. The unemployment rate stood at 12.3% in July, with very little recovery in formal employment, as recent Ministry of Labor formal payrolls growth data (Caged) had already shown. This dynamic restricts growth in household consumption. We maintain our GDP growth forecast at 1.1% for 2018.
- **This more moderate growth rate is being reflected in other indicators, such as new loans and external accounts.** While non-earmarked loans to individuals rose 1% in July, corporate loans were down yet again, dipping 1.3% in the month. Defaults remain within an acceptable range, holding steady for individuals (5%) and declining for corporate loans (3.4%). In external accounts, the current account deficit reached USD 4.4 billion in June. A more moderate growth rate creates a healthy surplus in the balance of trade, which helps lower the external deficit. The 12-month deficit stands at USD 15 billion – well under total foreign investment for the period, which was USD 64 billion. Therefore, we believe that Brazil will keep a comfortable external position, with the country's external deficit being easily financed by foreign direct investment. This is one of the instruments used by Brazil to defend its currency, and it's particularly important at times when the external environment is less favorable to emerging economies.
- **The country's main challenge is still the public debt trend, which has reached 77% of the GDP.** In July, the government recorded a deficit of BRL 3.4 billion – year-to-date, federal government revenues grew 7.6% while spending increased 1.9%. Keeping the spending cap limits is key to improving this situation, and that will only be possible if the government is able to pass through reforms in areas such as social security.
- **Argentina asked for the early release of a USD 50 billion bailout loan from the IMF and raised its benchmark interest rate from 45% to 60%** as its currency plunges. The Argentine peso remained under pressure as the prevailing sentiment among investors is that the local government is not acting quickly and transparently enough to address the country's problems. Emerging economies may continue to face a challenging environment, despite the trade deal reached between the U.S. and Mexico. The agreement is expected to last 16 years, with an option to revisit issues every 6 years, but final details still need approval. The new rules will now require that 75% of a car's content be made within NAFTA – up from the 62.75% currently in place – and that 40% to 45% of content be produced by workers earning more than \$16 an hour. Despite the positive news, negotiations with Canada suffered a new setback, reinforcing our view that global trade relations will continue to be marked by confrontation.

Weekly outlook

- **On the domestic calendar, a highlight of the coming week is the Broad Consumer Price Index (IPCA) for August, which is expected to come in at 0%.** After a significant share of price increase for products most affected by the truck drivers' strike in May were passed on to consumers, these effects have continued to fade away. Core prices should continue to accelerate, albeit still at levels well under the center of the target. The week also includes manufacturing output for July, which is likely to show a decline. We expect the average for the post-strike period to be down from the levels seen before May, which means that some of the effects were not entirely temporary.
- **The markets will be watching closely for the jobs creation report from the U.S.** We expect the country's strong growth rate to be confirmed by these numbers and by the ISM report for August, which supports our forecast for two more interest rate hikes in 2018. The outlook for strong growth in the U.S. combined with a slowdown in Europe and China, could be reinforced by the release of PMI data for August for these markets.



Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 09/03				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey		
10:00	Brazil	Markit: PMI Manufacturing (Aug)		
15:00	Brazil	MDIC: Trade Balance - monthly (Aug)		US\$ 3.9 b
-	Brazil	CNI: Capacity Utilization (Jul)		
04:55	Germany	Markit: Manufacturing PMI (Aug - F)		
05:00	Eurozone	Markit: Manufacturing PMI (Aug - F)		
05:30	United Kingdom	Markit: Manufacturing PMI (Aug)		
-	China	Markit: Manufacturing PMI (Aug)		
-	USA	National Holiday - Closed markets		
*The indicator will be released on September, 2nd				
Tuesday 09/04				
05:00	Brazil	FIPE: Consumer Price Index (Aug)		0.27% (MoM)
09:00	Brazil	IBGE: Industrial Production (PIM) (Jul)		-2.6% (MoM)
-	Brazil	Fenabreve: Vehicle sales (Aug)		
11:00	USA	ISM Manufacturing (Aug)	57.4	
18:00	Chile	Central bank meeting	2.50%	2.50%
Wednesday 09/05				
10:00	Brazil	Markit: Composite PMI (Aug)		
10:00	Brazil	Markit: PMI Services (Aug)		
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	BCB: Commodity Price Index (Aug)		
04:55	Germany	Markit: Composite PMI (Aug - F)		
05:00	Eurozone	Markit: Composite PMI (Aug - F)		
05:30	United Kingdom	Markit: Composite PMI (Aug)		
Thursday 09/06				
8:00	Brazil	FGV: Employment Indicators (Aug)		
8:00	Brazil	FGV: IGP-DI (Aug)		0.73% (MoM)
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Aug)		0.01% (MoM)
11:20	Brazil	Anfavea: Vehicle Production (Aug)		
09:15	USA	Employment Change (ADP) (Aug)	191 k	
09:30	USA	Initial Jobless Claims - Weekly		
11:00	USA	ISM Services (Aug)	56.8	
Friday 09/07				
-	Brazil	National Holiday - Closed markets		
03:00	Germany	Industrial Production (Jul)		
06:00	Eurozone	GDP (2Q - F)		0.4% (QoQ)
09:30	USA	Change in Nonfarm Payrolls (Aug)	192 k	
09:30	USA	Unemployment Rate (Aug)	3.8%	
During the week				
-	China	Trade balance (Jun)		

	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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