

Retail sales exceeded expectations in August, but our third-quarter GDP growth forecast remains unchanged at 0.3%

Overview

- **Consumer consumption was up in August.** Core retail sales provided a positive surprise for the month, rising 1.3% on the margin, after three consecutive months of decline. Meanwhile, the broad retail sales – which includes automobiles, auto parts and building material sales – grew 4.2% in August. On the other hand, the manufacturing industry continues to turn in a weak performance. It was reported this week that corrugated cardboard shipments fell nearly 2% in September, which points to another month of falling manufacturing production. In addition, consumer and business confidence levels remain below neutral, which also holds back recovery, even though the trend could be easily reversed. Therefore, recent data have led us to reiterate our third-quarter GDP growth forecasts at 0.3%, and 1.1% for 2018.
- **Wholesale prices remain under pressure.** The September IGP-DI was released at 1.79%, picking up from the previous month, when it stood at 0.68%. The result was above our forecast (1.58%) and the market's expectations (1.62%), and was driven by the price of industrial goods, which rose 2.69% (0.69% in August), especially diesel and processed foods. Agricultural wholesale prices also saw continued pressure, rising 2.11% month-to-month, against 1.90% in August. The agricultural IPA rose 10.33% year-over-year. We expect the index to show some deceleration in the months ahead, driven by a decline in both industrial and agricultural prices, which should benefit from the recent appreciation of the BRL.
- **The IMF cut its world growth forecasts for 2018 and 2019.** The Fund lowered its outlook for global GDP to 3.7% for both years (down from its previous forecast of 3.9%). The IMF emphasized that the balance of risks to the global growth forecast is tilted to the downside, amid heightened uncertainty over the impacts of the US-China trade war, additional interest rate hikes by the Fed, and a faster tightening of global financial conditions. The highlight for this past week's releases was the Composite Purchasing Managers' Index (PMI) in China, which suggested a modest decline in the growth rate for September. At the same time, Beijing slashed reserve requirements even before it released third-quarter GDP data, which could be seen as a sign that the economy is slowing down more than expected. Finally, the U.S. CPI report showed a weaker-than-expected increase of only 0.1% for both core and headline prices, against earlier expectations for a 0.2% reading on both measures. However, inflation components continue to show an accelerating trend as the U.S. economy continues to fire on all cylinders, making it unlikely that the Federal Reserve will alter its rate normalization plans. We continue to expect the Fed Funds rate to reach 3% at the end of 2019.

Weekly outlook

- **Domestically, markets will be paying close attention to the economic activity numbers for August.** We expect the Monthly Service Survey (PMS) to post a 0.2% decline month-to-month (following another 2.2% decline in July). The IBC-Br index, a monthly proxy for the GDP, is likely to decelerate from the previous two months and remain fairly stable.
- **International highlights include China's GDP, U.S. manufacturing production and Eurozone inflation.** China's third-quarter GDP should be released along with manufacturing production and retail sales for September; markets will be looking at these numbers to try to gauge the extent of the ongoing slowdown in the Chinese economy. In the U.S., manufacturing production and the first PMIs for October are expected to add to signs that the economy continues to expand briskly. Lastly, the Eurozone inflation report is expected to show that core prices remain subdued, while headline inflation should be near the target range.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 10/15				
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
09:30	USA	Índice Empire Manufacturing de atividade (Oct)	20.5	
22:30	China	CPI (Sep)	2.5% (YoY)	
Tuesday 10/16				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Aug)		-0.2% (MoM)
06:00	Germany	ZEW Survey Expectations (Oct)	-10.8	
10:15	USA	Industrial Production (Sep)	0.2% (MoM)	
Wednesday 10/17				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.46%
08:00	Brazil	FGV: IGP-10 (Oct)		1.60%
08:30	Brazil	BCB: Economic Activity Index (Aug)		0.00%
12:30	Brazil	BCB: Currency Flows (weekly)		
06:00	Eurozone	CPI (Sep)	0.5% (MoM)	
15:00	USA	Fed Minutes		
Thursday 10/18				
09:30	USA	Fed Philadelphia Outlook (Oct)	20.5	
09:30	USA	Initial Jobless Claims - Weekly	--	
18:00	Chile	Central bank meeting	2.50%	2.50%
23:00	China	Fixed Assets Investments (Sep)	5.4%	
23:00	China	GDP (3Q-P)		
23:00	China	Industrial Production (Sep)	6.5% (YoY)	
Friday 10/19				
08:00	Brazil	FGV: IGP-M (2st preview) (Oct)		
-	Brazil	CNI: Industrial Confidence (Oct)		

	2016	2017	2018	2019
Consumer inflation - IPCA (%)	6.29	2.95	4.40	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	3.90	3.80
Selic Rate (% eop)	13.75	7.00	6.50	8.00
Primary Balance (BRL bn)	-155.8	-111	-132.7	-94.9
Gross Debt (% of GDP)	70.0	74.0	75.7	76.5

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