

## Economy slows down at the end of the third quarter

### Overview

- **Economic indicators showed a moderation in activity as the third quarter came to an end.** Retail sales fell 1.3% in September from the previous month. Looking at the industry breakdown, six of the eight surveyed industries posted declines. Despite slipping in the last month, economic activity had a positive performance in the third quarter overall. The service sector (household and corporate combined) was up 0.5% in September – and, just like retail, failed to meet expectations. In line with these surveys, the Central Bank's activity indicator (IBC-Br) fell 0.09% in the month. Therefore, we reiterate our outlook regarding the gradual and volatile nature of the current economic recovery, and the latest data suggest a more sluggish fourth quarter.
- **IGP-10 composite inflation, released on the 10th of each month, suggested that wholesale prices have started cooling off.** The index fell 0.16% in November, compared to 1.43% in the previous month. This movement reflected a more positive trend for both industrial and agricultural prices. Industrial wholesale prices were held back by slumping gas and diesel prices, which helped drag the industrial IPA index down from 2.10% in October to 0.16% so far in November. Meanwhile, agricultural WPI was impacted by a downward trend in soybean, corn and milk prices, and dipped into negative inflation territory at -1.97% for the month. Thus, we expect November IGP-M inflation to follow this disinflationary trend, keeping the current inflation backdrop benign and consistent with maintaining the benchmark (Selic) interest rate at 6.5% in 2018.
- **October was another weak month for the Chinese economy, despite the stimulus measures recently implemented by the government.** Mixed activity indicators – with retail sales cooling off and manufacturing output and investments on the rise – have caused the economy to grow at a more moderate pace. On the one hand, the increase in manufacturing output and fixed asset investments could be seen as a response to the stimulus measures enacted over the past few months. On the other, consumer spending slowed down and the credit market failed to take off – which, combined with trade tensions with the U.S., suggest downside risks to activity in the coming months.
- **Brexit: UK-EU agreement close to reaching British Parliament.** After a meeting with members of British prime minister Theresa May's cabinet, the sides have agreed to support the draft agreement for the United Kingdom's withdrawal from the European Union. Some of the main points of the draft Brexit deal are: i) the free flow of goods and people across the Irish border until the end of 2020, when it should be replaced by a new agreement to be negotiated between the parties; ii) financial sector would be given same level of access to EU markets as U.S. and Japanese companies; and iii) current customs rules would be kept in place during the transition period. Now, the next step would be to present the agreement to the public and to Parliament, which should bring it to a vote.

### Weekly outlook

- **The mid-month consumer inflation report (IPCA-15) will be the highlight of next week's economic calendar in Brazil.** We expect the report to confirm a benign backdrop for current inflation, in line with the disinflation trend seen in wholesale. Our forecast has this indicator coming in at 0.26%. No release date yet (it could be sometime next week), but we expect the Brazilian labor market to have created 40,000 formal net jobs in October.
- **Internationally, the highlights are activity numbers for November from both the Eurozone and the U.S.** We expect the PMI indexes to continue to show the U.S. economy outperforming its peers. We will also keep an eye on the U.S. construction industry, which will be releasing its data this week.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 11/19</b>				
08:00	Brazil	FGV: IGP-M (2st preview) (Nov)		
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
09:30	Chile	GDP (3Q - P)		2.9% (YoY)
<b>Tuesday 11/20</b>				
-	Brazil	SP Holiday - Closed markets		
<b>Wednesday 11/21</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.31%
12:30	Brazil	BCB: Currency Flows (weekly)		
11:30	USA	Initial Jobless Claims - Weekly		
13:00	USA	University of Michigan Sentiment (Nov - F)	98.3	
<b>Thursday 11/22</b>				
-	Brazil	CNI: Industrial Confidence (Nov)		
-	USA	National Holiday - Closed markets		
<b>Friday 11/23</b>				
8:00	Brazil	FGV: Industrial Confidence (Nov - P)		
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Nov)		0.26% (MoM)
-	Brazil	CNI: Consumer Confidence (Nov)		
05:00	Germany	GDP (3Q - P)		
06:30	Germany	Markit: Composite PMI (Nov - P)		
07:00	Eurozone	Markit: Composite PMI (Nov - P)		
12:00	Mexico	GDP (3Q - P)		2.3% (YoY)
<b>During the week</b>				
-	Brazil	Caged: Formal Job Creation Total (Oct)		40k
-	Brazil	Tax Collections (Oct)		
	Peru	GDP (3Q - P)		2.7% (YoY)

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	4.40	4.25
GDP growth (%)	1.0	1.1	2.8
Industrial Production (%)	2.5	1.5	3.0
Retail Sales (%)	4.0	5.5	5.5
Unemployment Rate (% of labor force, avg)	12.7	12.3	11.9
Outstanding Credit Growth (%)	-0.5	4.0	8.3
Trade Balance (USD bn)	64.0	57.1	56.1
Current Account (USD bn)	-9.8	-13.2	-13.5
Exchange Rate (BRL/USD, eop)	3.31	3.70	3.70
Selic Rate (% eop)	7.00	6.50	8.00
Primary Balance (BRL bn)	-111	-117.9	-94.7
Gross Debt (% of GDP)	74.0	75.7	76.5

## Technical Staff

**Department of Economic Research and Studies** Fernando Honorato Barbosa

### Economists

Andréa Bastos Damico / Constantin Jancsó / Ellen Regina Steter Hanna Farath / Estevão Augusto Oller Scripilliti / Fabiana D'Atri / Igor Velecico / Leandro Câmara Negrão / Mariana Silva de Freitas/ Myriã Tatiany Neves Bast / Priscila Pacheco Trigo / Rafael Martins Murrer / Robson Rodrigues Pereira / Thomas Henrique Schreurs Pires

### Interns

Ana Beatriz Moreira dos Santos / Camila Medeiros Tanomaru / Daniel Funari Fouto / Felipe Yamamoto Ricardo da Silva / Isabel Cristina Elias de Souza Oliveira / Lucas Maia Campos / Renan Bassoli Diniz / Thaís Rodrigues da Silva

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