

## Higher short-term inflation does not change positive outlook for 2019

### Overview

- **A few supply shocks have been driving consumer inflation higher. As a result, the consumer inflation (IPCA) is likely to see additional pressure in the next few months, even though core prices should remain at comfortable levels.** The upward surprise with the IPCA in March was mostly driven by food and fuel prices. Despite these occasional shocks, the inflation trajectory continues to look comfortable, with balanced risks to the outlook. We have kept our 2019 IPCA forecast unchanged at 3.8% and, given this environment, the benchmark Selic rate is likely to remain at 6.5% until the end of the year.
- **On the other hand, economic activity remains sluggish, and the signs of a recovery in the second quarter are incipient at best.** Both the stability of retail sales and the decline in the volume of services in February are in line with our expectation of 0.1% GDP decline in the first quarter. Household demand drivers – such as consumer confidence and the labor market – are consistent with the economy continuing its moderate pace in the coming months. In addition, it is important to note that February's numbers were impacted by seasonal factors associated with the Carnival holiday. The economy will need to pick up going forward in order for our 1.9% forecast to materialize.
- **In the political sphere, the pension reform bill received a positive report, and now awaits a vote in the Constitution and Justice Committee of the House of Representatives.** Despite lingering uncertainties, which can arise at any point in the bill's long journey to becoming law, we believe that Congress will pass a pension reform package in the second half of the year that will save at least BRL 800 billion over 10 years.
- **As for the global economy, expectations of a more pronounced slowdown have been put on hold as central banks have adopted a more accommodative stance. The FOMC minutes suggested that the Fed should maintain a stimulative monetary policy.** At least until the end of the year, the policy rate is likely to remain within the current range. Meanwhile, the European Central Bank continues to express its frustration with economic activity. Mario Draghi confirmed that the ECB will probably keep current rates and stimulus measures unchanged at least until the end of 2019, stressing that the ECB is prepared to provide any additional stimulus if necessary.
- **Finally, the European Union offered to postpone Brexit until the end of October.** If the British Parliament ratifies the agreement negotiated with the E.U. before then, the United Kingdom will leave the E.U. on the first day of the month after ratification. The new postponement makes the prospect of a "hard" Brexit less likely, but Theresa May, who faces opposition within her own party, will still have a hard time getting a majority in Parliament.

### The week ahead

- **The international calendar is headlined by economic activity indicators from China (including GDP) and the U.S.** We will pay close attention to the extent of the slowdown in the first quarter and any factors that could lead to stabilization in the second quarter. In China, in particular, credit and infrastructure investment need to have picked up in March.
- **The domestic calendar faces an uneventful week ahead.** The highlight is February's IBC-Br, a monthly GDP proxy announced by the Central Bank of Brazil, which is expected to have fallen 1.0% compared to January.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 04/15</b>				
08:00	Brazil	FGV: IGP-10 (Apr)		0.92% (MoM)
08:25	Brazil	BCB: Focus Survey		
08:30	Brazil	BCB: Economic Activity Index (Feb)		-1.0% (MoM)
-	Brazil	MDIC: Trade Balance (weekly)		
09:30	USA	Índice Empire Manufacturing de atividade (Apr)	8.0	
<b>Tuesday 04/16</b>				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
09:00	Brazil	IBGE: PPI (Feb)		
06:00	Germany	ZEW Survey Expectations (Apr)		
10:15	USA	Industrial Production (Mar)	0.3% (MoM)	
23:00	China	GDP	6.3% (YoY)	
23:00	China	Industrial Production (Mar)	5.6% (YoY)	
23:00	China	Fixed Assets Investments (Mar)	6.3% (YoY)	
<b>Wednesday 04/17</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.42% (MoM)
08:00	Brazil	FGV: IGP-M (2st preview) (Apr)		
12:30	Brazil	BCB: Currency Flows (weekly)		
06:00	Eurozone	CPI (Mar)		
15:00	USA	Fed: Beige Book		
<b>Thursday 04/18</b>				
04:30	Germany	Markit: Composite PMI (Apr - P)		
05:00	Eurozone	Markit: Composite PMI (Apr - P)		
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	Fed Philadelphia Outlook (Apr)		
<b>Friday 04/19</b>				
-	Brazil	National Holiday - Closed markets		
<b>During the week</b>				
-	Brazil	Tax Collections (Mar)		R\$ 122.2 b

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	3.80
GDP growth (%)	1.1	1.1	1.9
Industrial Production (%)	2.5	1.1	1.6
Retail Sales (%)	4.0	5.0	5.0
Job Creation (in thousands)	263.5	1316.1	873.6
Unemployment Rate (% of labor force, avg)	12.7	12.3	12.3
Outstanding Credit Growth (%)	-0.5	5.0	8.6
Trade Balance (USD bn)	64.0	53.6	54.3
Current Account (USD bn)	-7.2	-14.5	-16.4
Exchange Rate (BRL/USD, eop)	3.31	3.87	3.70
Selic Rate (% eop)	7.00	6.50	6.50
Primary Balance (BRL bn)	-111	-108.3	-108.1
Gross Debt (% of GDP)	74.1	76.7	77.8

## Technical Staff

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

### Economists

Andréa Bastos Damico / Ariana Stephanie Zerbinatti / Constantin Jancsó / Ellen Regina Steter  
Hanna Farath / Fabiana D'Atri / Igor Velecico / Leandro Câmara Negrão / Mariana Silva de Freitas/  
Myriã Tatiany Neves Bast / Priscila Pacheco Trigo / Rafael Martins Murrer / Renan Bassoli Diniz /  
Robson Rodrigues Pereira / Thiago Coraucci de Angelis / Thomas Henrique Schreurs Pires

### Interns

Ana Beatriz Moreira dos Santos / Camila Medeiros Tanomaru / Daniel Funari Fouto / Gustavo  
Rostelato de Miranda / Isabel Cristina Elias de Souza Oliveira / Lucas Maia Campos / Thaís  
Rodrigues da Silva

[economiaemdia.com.br](http://economiaemdia.com.br)

DEPEC – BRADESCO is not responsible for any acts/decisions made based on the information disclosed in its publications and projections. All data or opinions contained in the information herein is carefully checked and prepared by fully qualified professionals, but should not be taken, under any circumstances, as a basis, support, guidance or standard for any document, assessment, judgment or decision-making, of a formal or informal nature. Thus, we emphasize that all consequences and responsibility for the use of any data or analysis of this publication are assumed solely by the user, exempting BRADESCO from all actions resulting from the use of this material. We also point out that access to this information implies acceptance of this term of responsibility and usage. The total or partial reproduction of this publication is strictly prohibited, except with authorization from Banco BRADESCO or full citation of the source (naming the authors, the publication and Banco BRADESCO).