

Upswing in confidence indexes points to accelerated growth

Overview

- **Business confidence pushed forward in December, in line with data observed among consumers.** Several business confidence surveys released this week by FGV are keeping pace with the recently observed recovery trend and pointing to accelerating growth in the coming quarters. The highlight was the Trade Confidence Index, which reached 105.1 points, surpassing the neutral level (100 points) for the first time since March 2014. Other research with business owners is still on the fence between optimism and pessimism, but also reinforces this trend. Indices for the services and building sectors reached their highest levels since April 2014 and April 2015, respectively. The Industry Confidence Index, in turn, has shown a more moderate upturn, but the opening of the indicator shows high demand, especially internal, and stock levels close to the historical average, which suggests there is room for a more significant high ahead.
- **Ongoing improvement to labor markets and credit will be key vectors for stronger growth in 2019, while the IGP-M does not suggest inflationary pressures in the short term.** The unemployment rate measured by the PNAD survey for the quarter ending in November was 11.6%, lower than the 12% observed for the same period in 2017. Thus, job market conditions continued to improve gradually, without any wage pressures, in line with indications from last week's Caged data. Credit data published by the Central Bank points to faster lending growth last month, particularly to consumers, compatible with strong performance of household consumption in the period. On the other hand, non-performing loans continue to recede, suggesting that credit has been expanding in a sustainable and healthy manner, with low levels of leverage for households and companies. The December IGP-M recorded deflation of 1.08% (compared to the negative variation of 0.49% in the previous month's reading). In fact, final consumer price pressures remain low in this recovery phase of the Brazilian economy, which contributes to comfort levels for the Monetary Policy Committee (Copom) to maintain the Selic rate in the coming months.
- **The global environment remains challenging for emerging economies.** While the week was short due to the Christmas holiday, all eyes were on the partial shutdown of the U.S. Government and President Trump's repeated criticism of the Fed. Both contributed to increased market volatility in an environment of slowing global growth. The few indicators published reinforced the slowing U.S. economy late in the year, which is being incorporated into asset prices: while the Richmond Fed manufacturing index fluctuated from 14 points in November to -8 this month, consumer confidence (determined by the Conference Board) eased back significantly from 136 points to 128 points in the same period.

Weekly Outlook

- **There are few data releases this week, and the highlight will be the December trade balance and Brazilian PMI data.**
- **U.S. employment data takes the international spotlight.** After the poor performance observed in November, December job creation data will show a heated labor market, we believe, with the lowest unemployment rate in several decades. On the other hand, the December ISM should confirm a certain slowdown in the North American economy already pointed out by other indicators. The PMI results for Europe, China and the United Kingdom should also confirm the trend of a slightly slowing global economy.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 12/31				
08:25	Brazil	BCB: Focus Survey		
-	China	Composite PMI (Dec)		
*The indicator will be released on December, 30th				
Tuesday 01/01				
-	Brazil	National Holiday - Closed markets		
-	USA	National Holiday - Closed markets		
Wednesday 01/02				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
10:00	Brazil	Markit: PMI Manufacturing (Dec)		
12:30	Brazil	BCB: Currency Flows (weekly)		
12:30	Brazil	BCB: Commodity Price Index (Dec)		
15:00	Brazil	MDIC: Trade Balance (Dec)		US\$ 5.4 b
06:55	Germany	Markit: Manufacturing PMI (Dec - F)	51.5	
07:00	Eurozone	Markit: Manufacturing PMI (Dec - F)	51.4	
07:30	United Kingdom	Markit: Manufacturing PMI (Dec)	52.5	
Thursday 01/03				
11:15	USA	Employment Change (ADP) (Dec)	180 k	
11:30	USA	Initial Jobless Claims - Weekly		
13:00	USA	ISM Manufacturing (Dec)	58.0	
Friday 01/04				
05:00	Brazil	FIPE: Consumer Price Index (Dec)		0.02% (MoM)
09:00	Brazil	IBGE: PPI (Nov)		
10:00	Brazil	Markit: PMI Services (Dec)		
10:00	Brazil	Markit: Composite PMI (Dec)		
06:55	Germany	Markit: Composite PMI (Dec - F)	52.2	
07:00	Eurozone	Markit: Composite PMI (Dec - F)	51.3	
07:30	United Kingdom	Markit: Composite PMI (Dec - F)	50.8	
11:30	USA	Change in Nonfarm Payrolls (Dec)	180 k	
11:30	USA	Unemployment Rate (Dec)	3.7%	

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.80	4.00
GDP growth (%)	1.1	1.1	2.8
Industrial Production (%)	2.5	1.5	3.0
Retail Sales (%)	4.0	5.5	5.5
Job Creation (in thousands)	263.5	1359.7	1288.1
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	3.80	3.70
Selic Rate (% eop)	7.00	6.50	7.25
Primary Balance (BRL bn)	-111	-116.9	-93.4

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 Scipilliti / 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 / Thiago Coraucci de Angelis / Thomas Henrique Schreurs Pires

Interns

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

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