

## Activity indicators suggest a more moderate transition into 2019

### Overview

- **Economic activity indicators were sluggish at the end of 2018, and suggest that the moderate momentum is likely to persist as we transition into 2019.** The IBC-Br (a monthly GDP proxy) rose 0.29% in November, which is compatible with GDP growth of 0.1% in the fourth quarter. Growth was driven mostly by solid retail sales for November, which were 1.6% higher than October due to a Black Friday boost. However, other parts of the economy did not carry the same momentum in the quarter – for example, the industrial sector grew just 0.1%, while service showed flat growth. Coincident indicators released so far for the month of December point to a loss of traction at the end of 2018. We recognize that the recent dynamics reduce the likelihood that a high GDP growth scenario will materialize in the first quarter of 2019. As a result, we have revised our Q1 forecast downwards from 0.7% to 0.3%.
- **Wholesale inflation came in below expectations, reinforcing the notion that consumer prices will face little pressure in the coming months.** The IGP-10 index was down 0.26% in January, showing that core industrial prices remain muted – unlike last year, when they were one of the sources of inflation pressure. These developments reinforce our expectation that core consumer prices will remain at low levels throughout 2019.
- **Combined with a new round of stimulus in China, activity data for the Eurozone and the U.S. reinforce the outlook that global activity will see a more pronounced slowdown.** Both the Empire State and Philadelphia Fed activity indicators for January put a downward bias on our first-quarter U.S. GDP forecast, currently at 2.1% (SAAR). Even though these are the first activity indicators released for the U.S. so far this year, they already point to a sharper-than-expected loss of momentum. In the Eurozone, manufacturing output fell 1.7% in November, confirming the negative results for the German and French manufacturing sectors, and in line with the expectations for lower GDP growth in the fourth quarter. In the same direction, China's balance of trade numbers for December reinforce the view that the country could face a sharper economic slowdown. In an attempt to ward off such a scenario, Beijing announced a new round of fiscal stimulus (investments in infrastructure and credit). Given these challenges, we expect a further slowdown in the global economy as we turn the page from 2018 to 2019.
- **The latest developments on Brexit could result in the postponement of the final deadline for a vote on the deal.** British PM Theresa May's plan for the country's exit from the European Union was rejected in Parliament this week by a 432-202 vote. The PM survived a motion of no confidence by 19 votes, and the government will now have to present a revised Brexit blueprint by next week to Parliament. As a result, the odds of a delay in Brexit appear to have increased.

### Weekly Outlook

- **We expect the mid-month Broad Consumer Inflation Index (IPCA-15) and interim survey numbers for January to reinforce the view that the economy is recovering at a moderate pace and inflation is muted.** We expect the IPCA-15 to come in at 0.32% in January, showing a continuing benign outlook for core prices. Meanwhile, we expect the preliminary FGV survey readings to confirm last month's trend – on the one hand, business and consumer confidence for six months ahead should be on the rise, but the assessment of current conditions is likely to remain downbeat.
- **On the international calendar, the highlights include the ECB's monetary policy decision, the announcement of Chinese activity data for the fourth quarter and preliminary composite activity PMIs for January.** The statement by the European Central Bank (ECB) should be aligned with the latest speech by its President, Mario Draghi, who acknowledged that the EU faces an economic downturn, mainly caused by external factors. Likewise, we expect Chinese activity data for the fourth quarter to confirm signs of moderating activity. Finally, we expect the preliminary PMIs for January to confirm the scenario of a slowdown in global growth.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 01/21</b>				
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	China	GDP (4Q - P)	6.4% (YoY)	6.3% (YoY)
-	China	Fixed Assets Investments (2018)	6.0% (YoY)	
-	China	Industrial Production (Dec)	6.2% (YoY)	
-	USA	National Holiday - Closed markets		
<b>Tuesday 01/22</b>				
08:00	Germany	ZEW Survey Expectations (Jan)	-17.0	
<b>Wednesday 01/23</b>				
08:00	Brazil	FGV: Industrial Confidence (Jan - P)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Jan)		0.32% (MoM)
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	CNI: Industrial Confidence (Jan)		
-	Japan	Central bank meeting		-0.10%
<b>Thursday 01/24</b>				
-	Brazil	Federal Debt Total (Dec)		
06:30	Germany	Markit: Composite PMI (Jan - P)		
06:30	Germany	Markit: Manufacturing PMI (Jan - P)	51.5	
07:00	Eurozone	Markit: Manufacturing PMI (Jan - P)	51.3	
07:00	Eurozone	Markit: Composite PMI (Jan - P)		
10:45	Eurozone	Central bank meeting	0.00%	0.00%
11:30	USA	Initial Jobless Claims - Weekly		
<b>Friday 01/25</b>				
08:00	Brazil	FGV: Retail Confidence (Jan)		
08:00	Brazil	FGV: Consumer Confidence (Jan)		
-	Brazil	CNI: Industrial Confidence (Dez)		
-	Brazil	SP Holiday - Closed markets		
07:00	Germany	IFO Business Climate (Jan)	100.9	
<b>During the week</b>				
-	Brazil	Caged: Formal Job Creation Total (Dec)		-343.0 k
-	Brazil	Tax Collections (Dez)		

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	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	3.89	3.70
Selic Rate (% eop)	7.00	6.50	7.25
Primary Balance (BRL bn)	-111	-116.9	-93.3

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