

Inflation continues its benign trend to start the year

Overview

- **Consumer inflation started 2019 on a positive trajectory.** The mid-month reading for the Broad Consumer Price Index (IPCA-15) came in at 0.30% in January – below both our forecast (0.33%) and average expectations (0.35%). It was the lowest inflation for the month since the Real Plan was enacted. Core items rose at the margin, but remain at quite comfortable levels. In the 12-month measure, the core average is below 3.0%. We expect the IPCA for the full month of January to come in at 0.35%, with core items continuing their positive momentum. In addition to positive news on the inflation front, the balance of risks for future inflation has improved and, in our opinion, is tilted towards lower inflation. Some of the factors contributing to this improvement are: (i) a downgrade in the chances of a strong El Niño developing this season (which would put upward pressure on food prices); (ii) a decrease in the impact of the swine plague on China's pig farms; and (iii) a sharper global slowdown, which creates significant deflationary effects from abroad, such as a drop in oil prices and other commodities.
- **Employment and confidence numbers remain positive, but modest performances from the industrial and service sectors suggest that economic activity will still be moderate in coming months.** The job market has seen a consistent recovery in recent months, a trend that is likely to continue throughout 2019. Data from the General Register of Employed and Unemployed Persons (Caged) showed a net loss of 334k formal jobs in December. When seasonally adjusted, however, the figures show that approximately 45k jobs were created in the month. With those numbers, the Brazilian economy added 421k new formal jobs in 2018. For this year, we estimate the addition of 700k formal jobs. The January surveys released this week by FGV showed industrial and consumer confidence on the upswing, while business confidence posted a slight decline. These are significant predictors of future growth, since confident consumers and business owners are more likely to consume and invest more. In the short term, however, the modest performance of the industrial and service sectors continue to prevent the economy from growing faster.
- **China's fourth-quarter GDP growth confirmed a slowdown in the country's economy, while January's PMI readings for Japan and the Eurozone reflected the negative impacts of the trade war.** Chinese economy grew 6.6% in 2018, with GDP growing 6.4% year-over-year in the fourth quarter, slowing from 6.5% in the third quarter. The first leading indicators for January also confirmed the downward trend in the global economy, amid a challenging environment characterized by trade tensions and wavering confidence. The Eurozone PMI for January fell 0.4 to 50.7 points in January, below market expectations of a 0.3 increase. Similarly, Japan's industrial PMI fell from 52.6 to 50.0 points, reflecting the stability of the Japanese industrial sector in January.
- **The European and Japanese central banks acknowledged a sharper slowdown of their economies, as well as a moderate level of inflation.** Despite the lack of surprises in monetary policy decisions from the Eurozone and Japan, the recognition of more modest growth and inflation suggests that stimulative monetary policy will continue for now. The European Central Bank (ECB) has again discussed extending the TLTRO (Targeted Long Term Refinancing Operations) program, which would inject liquidity into its financial system.

Weekly Outlook

- **Manufacturing output, fiscal data, credit, and external accounts are the highlights on the domestic calendar.** We expect industrial activity to have declined 0.5% in December, reinforcing the notion that business confidence has not yet translated into growth for the sector. On the other hand, external accounts, fiscal and credit data for the same month are likely to have posted a positive performance, continuing the recent positive trend.
- **As to the international calendar, attention will be focused on the Fed's decision, the release of U.S. and European GDP, and U.S. job numbers.** The Fed is likely to keep interest rates flat. Chairman Jerome Powell will hold a press conference after the decision. He had previously announced that he will talk with reporters after each meetings starting this January, as part of a commitment to enhance communication. GDP growth and job market numbers in the U.S. and GDP growth in Europe are expected to confirm the downward trend in the global economy.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 01/28				
05:00	Brazil	FIPE: Consumer Price Index (weekly)	0.11%	0.38%
08:00	Brazil	FGV: Construction Confidence (Jan)		
08:00	Brazil	FGV: Construction Costs (Jan)		
08:25	Brazil	BCB: Focus Survey (weekly)		
10:30	Brazil	BCB: Current Account Balance (Dec)		US\$ -0.2 b
10:30	Brazil	BCB: Foreign Direct Investment (Dec)		US\$ 6.8 b
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	Brazil	CNI: Construction Confidence (Dec)		
-	Brazil	Federal Debt Total (Dec)		
Tuesday 01/29				
08:00	Brazil	FGV: Industrial Confidence (Jan)		
10:30	Brazil	BCB: Press Release - Monetary Policy (Dec)		
13:00	USA	Consumer Confidence (Jan)	126	
Wednesday 01/30				
08:00	Brazil	FGV: IGP-M (Jan)		0.07% (MoM)
08:00	Brazil	FGV: Services Confidence (Jan)		
09:00	Brazil	IBGE: PPI (Dec)		
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	Central Govt Budget Balance (Dec)		
11:00	Germany	CPI (Jan - P)		
11:15	USA	Employment Change (ADP) (Jan)	165k	
11:30	USA	GDP (4Q - P)	2.6% (QoQ)	
12:00	Mexico	GDP (4Q - P)		
17:00	USA	Central bank meeting	2.50%	2.50%
19:00	Chile	Central bank meeting	3.00%	
23:00	China	Manufacturing PMI (Jan)		
Thursday 01/31				
08:00	Brazil	FGV: Business Confidence (Jan)		
09:00	Brazil	IBGE: Unemployment Change (Dec)		11.4%
10:30	Brazil	BCB: Press Release - Fiscal Policy (Dec)		
11:30	USA	Personal Spending (Dec)	0.3% (MoM)	
11:30	USA	Initial Jobless Claims - Weekly		
11:30	USA	Personal Income (Dec)	0.5% (MoM)	
-	Colombia	Central bank meeting	4.25%	
Friday 02/01				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
09:00	Brazil	IBGE: Industrial Production (PIM) (Nov)		-0.5% (MoM)
10:00	Brazil	Markit: PMI Manufacturing (Dec)		
15:00	Brazil	MDIC: Trade Balance (Jan)		
07:00	Eurozone	Markit: Manufacturing PMI (Jan - F)		
07:30	United Kingdom	Markit: Manufacturing PMI (Jan - F)		
11:30	USA	Unemployment Rate (Jan)	3.8%	
11:30	USA	Change in Nonfarm Payrolls (Jan)	160k	
13:00	USA	ISM Manufacturing (Jan)	54.1	
13:00	USA	University of Michigan Sentiment (Jan - F)		

	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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