Mixed signals imply moderate growth in coming months

Overview

- **Activity indicators offered mixed signals about the economy's performance at the end of last year, reiterating our expectations for continuing moderate growth in the coming months.** On the one hand, manufacturing output rose 0.2% in December, beating both our forecast and market expectations. Nevertheless, the slight improvement of the industrial sector in the last few months was not enough to push industrial activity growth for 2018 above 2017 levels. In addition, the labor market recovery has been very gradual, as indicated by the National Household Survey (PNAD). Even though formal job creation (CAGED) improved, the seasonally-adjusted unemployment rate was up slightly from November to December (12.1% to 12.2%). On the other hand, an increase in industrial confidence and the positive performance of the credit market suggest a slightly faster pace for economic recovery. Industry Confidence Index improved driven by higher expectations, which should translate into growth going forward. Moreover, total loans increased 5.5% in 2018, especially in the last two months, alongside with lower delinquency rates.

- **External sector data remains positive, while public finances printed a smaller deficit compared to 2017.** In December, the external deficit remained at a comfortable level and Foreign Direct Investment (FDI) continued on a very positive path. The current account balance was negative at USD $14.5 billion in 2018 (equivalent to 0.8% of GDP), more than offset by FDI flow, which stood at USD 88 billion for the year. Meanwhile, the primary balance of the Central Government showed a deficit of BRL 120.3 billion in 2018, falling below the target and the previous year's level. To a large extent, the data reflected the government's adherence to the spending cap and extraordinary revenues. In the same direction, the public sector as a whole posted a deficit of BRL 108.3 billion in 2018, causing the debt-to-GDP ratio to reach 76.7% at the end of the year.

- **Fed signals that monetary normalization cycle may come to an end.** The federal funds rate were kept unchanged at a range of 2.25-2.50% p.a. The Federal Reserve recognized muted inflation pressures and increased uncertainty over the global economic outlook, despite continuing to see signs of solid growth in the U.S. economy. Officials also discussed reviewing the pace of the Fed's balance sheet reduction. In addition, the U.S. labor market remained strong in January, with modest wage gains. The external environment marked by continued strong liquidity offers some relief to emerging economies, amid risks of a slowdown in trade and global growth.

- **Eurozone's GDP and manufacturing industry PMI results reinforced the perception that the economic activity is losing momentum within the EU.** The region's economy increased 0.2% in Q04 2018, flat from the previous quarter, while the final reading of the January industrial PMI suggests that industrial activity cooled during the month. In the UK, a vote on the new Brexit deal reduced the likelihood of a disorderly exit from the EU. China saw a slight uptick in its industrial PMI between December and January, but the index remains below the neutral level (50 points).

Weekly Outlook

- **On the domestic front, all eyes on the Central Bank's monetary policy decision and CPI data.** We expect the benchmark Selic rate to remain steady at 6.50% amid a very benign inflation outlook. Our view should be supported by the CPI data for January, which we expect to come in at 0.33%. The CB is likely to revise its balance of risks regarding the inflation outlook, issuing a neutral statement.

- **On the external front, the final readings for the January composite PMIs and the possible announcement of U.S. balance of trade and activity data will be on the radar.** Leading indicators are expected to reinforce a global slowdown, while data on the U.S. economy that have been held back due to the federal government's shutdown may be disclosed this week.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 02/04				
05:00	Brazil	FIPE: Consumer Price Index (Jan)		0.49% (MoM)
08:25	Brazil	BCB: Focus Survey (weekly)		
Tuesday 02/05				
10:00	Brazil	Markit: PMI Services (Jan)		
10:00	Brazil	Markit: Composite PMI (Jan)		
10:30	Brazil	Fenabrave: Vehicle sales (Jan)		
06:55	Germany	Markit: Composite PMI (Jan - F)	52.1	
07:00	Eurozone	Markit: Composite PMI (Jan - F)		
07:30	United Kingdom	Composite PMI (Jan)		
13:00	USA	ISM Services (Jan)	57.3	
Wednesday 02/06				
11:20	Brazil	Anfavea: Vehicle Production (Jan)		
12:30	Brazil	BCB: Commodity Price Index (Jan)		
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	BCB: Central bank meeting	6.50%	6.50%
Thursday 02/07				
08:00	Brazil	FGV: Employment Indicators (Jan)		
08:00	Brazil	FGV: IGP-DI (Jan)		0.20% (MoM)
05:00	Germany	Industrial Production (Dec)	-2.8% (YoY)	
10:00	United Kingdom	Central bank meeting	0.75%	0.75%
11:30	USA	Initial Jobless Claims - Weekly		
17:00	Mexico	Central bank meeting	8.25%	8.25%
21:00	Peru	Central bank meeting	2.75%	2.75%
Friday 02/08				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Jan)		0.33% (MoM)
09:00	Brazil	IBGE: Industrial Production - regional (Dec)		
During the week				
02/08	USA	Personal Spending (Dec)	0.3% (MoM)	
02/08	USA	GDP (4Q - P)	2.6% (QoQ)	
02/08	USA	Personal Income (Dec)	0.5% (MoM)	
-	USA	USDA - World Agricultural Supply and Demand Estimates		

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	4.00
GDP growth (%)	1.1	1.1	2.8
Industrial Production (%)	2.5	1.1	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	5.5	8.3
Trade Balance (USD bn)	64.0	53.6	56.1
Current Account (USD bn)	-9.8	-14.5	-13.5
Exchange Rate (BRL/USD, eop)	3.31	3.70	3.70
Selic Rate (%, eop)	7.00	6.50	7.25
Primary Balance (BRL bn)	-111	108.2	-94.6

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