

New Social Security rules should generate approximately BRL 1.1 trillion in savings over next 10 years

Overview

- **This week, the government introduced a social security reform bill, which is expected to generate BRL 1.1 trillion in savings over the next 10 years.** To pass in Congress, the bill needs to be approved in two voting rounds in the House of Representatives and the Senate, and could go through changes during the legislative process, which is expected to start over the next few weeks. The reform seeks to reduce the differences between workers in the private and public sectors, in addition to addressing some imbalances in the country's social security systems. Getting the bill passed through Congress and implementing the reform will help the government stay under the spending cap by reducing the deficit and stabilizing public debt. It will also help lower the country's risk rating and neutral interest rates, and eventually promote faster growth and job creation.
- **The mid-month consumer inflation report (IPCA-15) for February underpinned expectations for benign inflation amid mild economic activity reinforcing the perception that interest rates will remain unchanged throughout 2019.** The IPCA-15 came in at 0.34%, in line with our forecast and slightly below market expectations. The faster growth in 'food away from home' prices were offset by the education index, which rose less than seasonally expected for the period. In addition, core prices remained at very comfortable levels. We expect the Consumer Broad Index Price (IPCA) for the month to come in at 0.27%. Meanwhile, the preliminary reading of FGV's Industry Survey pointed towards rising confidence levels for the month, driven by an improved assessment of the current situation. The indicator reached 99.1 points in February – slightly below, but close to the neutral level of 100 points.
- **The minutes of the last FOMC meeting confirmed the perception that the Fed's rate raising cycle ended.** In line with the policy decision statement, the communication emphasized weaker-than-expected coincident indicators, as well as increasing uncertainties surrounding trade policy and the government shutdown. Once again, the minutes mention inflation risks as balanced and compatible with inflation near target levels over the next few months, largely reflecting lower oil prices. Given its latest signals, we believe that the Fed will keep its benchmark interest rate within the current 2.25-2.50% range at least until the end of 2019. Our forecast is supported by the latest industrial activity data, which suggest that economic growth will start to lose some momentum. With the monetary normalization coming to a halt in the U.S. and global trade tensions easing, the impact of the global slowdown on emerging countries tends to be limited.
- **The preliminary reading for Eurozone PMI showed the index rising in February, but continuing to suggest moderate growth for the European economy in the first quarter.** The rise in the composite index was largely driven by an improved performance from the German and French service sectors, while the manufacturing index was down once again, pressured by negative data from the German industrial sector. The result is consistent with GDP growth of approximately 1.4% in 2019, reinforcing the perception of a slowdown in the world's major economies.

Weekly Outlook

- **The highlight among domestic indicators will be the GDP figures for the fourth quarter of 2018.** We expect a slight 0.1% rise on the margin, confirming the very gradual pace of economic recovery. If that number is confirmed, the GDP will have grown 1.1% last year. The Central Bank will release the following statements, as of the month of January: (i) external sector, which is expected to show the current account deficit remaining at the same low levels of the past few months; (ii) credit market, expected to show continued growth and well-behaved delinquency rates; and (iii) fiscal policy. In addition, we will get the General Market Price Index (IGP-M) for February, which we expect to come in at 0.74%. The Continuous Prnad survey should place January's unemployment rate at 11.9%. Finally, the FGV surveys will provide an early look at economic activity for February.
- **Internationally, all eyes will be on the U.S. GDP for the fourth quarter of 2018, as well as final PMI readings for February.** Combined, these figures should reinforce expectations of a global slowdown between the end of 2018 and the start of 2019.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 02/25				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.51% (MoM)
08:00	Brazil	FGV: Construction Costs (Feb)		
08:00	Brazil	FGV: Construction Confidence (Feb)		
08:25	Brazil	BCB: Focus Survey		
10:30	Brazil	BCB: Current Account Balance (Jan)		
10:30	Brazil	BCB: Foreign Direct Investment (Jan)		
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	Brazil	CNI: Construction Confidence (Jan)		
11:00	Mexico	GDP (4Q - P)		
Tuesday 02/26				
08:00	Brazil	FGV: Industrial Confidence (Feb)		
08:00	Brazil	FGV: Retail Confidence (Feb)		
10:30	Brazil	BCB: Press Release - Monetary Policy (Jan)		
-	Brazil	Federal Debt Total (Jan)		
12:00	USA	Consumer Confidence (Feb)	124.8	
Wednesday 02/27				
08:00	Brazil	FGV: Services Confidence (Feb)		
08:00	Brazil	FGV: IGP-M (Feb)		0.74% (MoM)
09:00	Brazil	IBGE: PPI Manufacturing (Jan)		
09:00	Brazil	IBGE: Unemployment Change (Jan)		11.9%
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	Central Govt Budget Balance (Jan)		
22:00	China	Manufacturing PMI (Feb)	49.6	
Thursday 02/28				
09:00	Brazil	IBGE: GDP (4Q - P)		0.1% (QoQ)
10:30	Brazil	BCB: Press Release - Fiscal Policy (Jan)		
-	Brazil	Fiesp: Capacity Utilization (Jan)		
10:00	Germany	CPI (Feb - P)		
10:30	USA	Initial Jobless Claims - Weekly		
10:30	USA	GDP (4Q - P)	2.5% (QoQ)	2.3% (QoQ)
Friday 03/01				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
10:00	Brazil	Markit: PMI Manufacturing (Feb)		
15:00	Brazil	MDIC: Trade Balance - monthly (Feb)		
-	Brazil	CNI: Capacity Utilization (Jan)		
05:55	Germany	Markit: Manufacturing PMI (Feb - F)		
06:00	Eurozone	Markit: Manufacturing PMI (Feb - F)		
06:30	United Kingdom	Markit: Manufacturing PMI (Feb)		
10:30	USA	Personal Income (Jan)	0.3% (MoM)	
10:30	USA	Personal Spending (Dec)	0.3% (MoM)	
12:00	USA	ISM Manufacturing (Feb)	56.4	
12:00	USA	University of Michigan Sentiment (Feb - F)	96.0	
During the week				
-	Brazil	Caged: Formal Job Creation Total (Jan)	87k	80k

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	3.80
GDP growth (%)	1.1	1.1	2.8
Industrial Production (%)	2.5	1.1	3.0
Retail Sales (%)	4.0	5.0	5.5
Job Creation (in thousands)	263.5	1316.1	1287.5
Unemployment Rate (% of labor force, avg)	12.7	12.3	11.9
Outstanding Credit Growth (%)	-0.5	5.5	8.9
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	3.87	3.70
Selic Rate (% eop)	7.00	6.50	6.50
Primary Balance (BRL bn)	-111	-108.3	-95.3

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