

Brazil's GDP grows 1.1% in 2018, confirming the gradual pace of economic recovery

Overview

- **With a 0.1% growth in the fourth quarter, the economy continues on a slow recovery path.** With this reading, which came in lower than the previous quarter (0.5%), the GDP growth rate for 2018 stayed flat from 2017 at 1.1%, after showing a significant drop in the two previous years. The breakdown of these numbers reveals that many of its components had an underwhelming 2018. The 4.1% increase in gross fixed capital formation marked a rebound from the consecutive declines seen since 2014, bringing the investment rate to a three-year high of 15.8% of GDP. That is still below the levels needed to drive stronger, sustainable economic growth, which Brazil expects to achieve through a series of economic reforms. In the short term, however, the data show the economy shifting into a slower gear between late 2018 and early 2019. Even though a series of incentives are likely to speed up growth in the coming quarters (stimulative monetary policy, credit growth combined with low delinquency rates, increased confidence indexes and looser financial conditions), the current data suggest that the economy will continue in a mild recovery trend. Factors such as the financial crisis faced by Brazilian states and the global slowdown tend to prevent the economy from growing at a faster clip. The GDP is expected to grow 0.3% in Q1, dragged down by a decline in production from the mining industry in the State of Minas Gerais.
- **The labor market recovery lost steam in January.** Unemployment rose from 12.2% in December to 12.3% in the seasonally adjusted quarterly average ending in January. This slight increase in the unemployment rate is explained by a reduction of employed people in the private sector (both formal and informal employment), and by a less favorable scenario for self-employed workers. Meanwhile, the formal job creation report (Caged) brought disappointing results: net job creation stood at 34,000 in January, well below expectations (80,000). Seasonally adjusted, the past three months have averaged 42,000 jobs created, which puts the labor market on a firm – albeit gradual – path towards recovery. At the same time, neither survey shows wage pressures posing as an inflationary threat, which should help keep inflation at comfortable levels and the benchmark interest rate unchanged at 6.5% throughout 2019.
- **In the U.S., private consumption and investments continued to rise at a solid pace, helping drive GDP growth at the end of 2018.** Despite slowing from the previous quarter, the U.S. economy beat expectations as the fourth-quarter GDP (seasonally adjusted and annualized) grew 2.6%. However, we do not see any inflationary pressures that would require the Fed to make changes to its monetary policy. In other words, we expect the interest rate to remain unchanged throughout 2019. In Europe, all eyes and ears are still on Brexit, as the Parliament has postponed a decision, which can be seen as reducing the chances of a no-deal exit from the European Union. Finally, the Eurozone and Chinese PMIs saw a sharp slowdown in February, reinforcing the view that a global slowdown is under way.

Weekly Outlook

- **The Brazilian economic calendar is mostly empty next week, as the country will be celebrating Carnival.** One of the highlights is the General Price Index (IGP-DI) for February, which we expect to come in at 1.17%, with some pressure coming from agricultural, iron ore and diesel fuel prices, while the industrial core inflation should remain at low levels.
- **In the international calendar, the highlights are ECB's decision, China's trade balance and the U.S. jobs report.** In addition to maintaining an accommodative monetary policy, the European Central Bank (ECB) is expected to announce that it will offer new long-term financing operations for commercial banks. The idea is to help the economy rebound from the slowing growth figures recorded since the second half of 2018. While it is important to note that the Chinese New Year has a significant impact on Chinese data, February trade balance will be an important indicator to help monitor the fallout from trade tensions with the United States. In the U.S., we will keep an eye on the Beige Book and, more importantly, on the jobs report – especially wage growth component, which plays a major role in the Fed's monetary policy decisions.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 03/04				
-	Brazil	National Holiday - Closed markets		
Tuesday 03/05				
-	Brazil	National Holiday - Closed markets		
05:55	Germany	Markit: Composite PMI (Feb - F)		
06:00	Eurozone	Markit: Composite PMI (Feb - F)		
06:30	United Kingdom			
12:00	USA	ISM Services (Feb)	57.1	
Wednesday 03/06				
08:25	Brazil	BCB: Focus Survey		
12:30	Brazil	BCB: Commodity Price Index (Feb)		
12:30	Brazil	BCB: Currency Flows (weekly)		
10:15	USA	Employment Change (ADP) (Feb)	185k	
16:00	USA	Fed: Beige Book		
Thursday 03/07				
05:00	Brazil	FIPE: Consumer Price Index - monthly (Feb)		0.50% (MoM)
10:00	Brazil	Markit: Composite PMI (Feb)		
07:00	Eurozone	GDP (4Q - P)	0.2% (QoQ)	0.2% (QoQ)
09:45	Eurozone	Central bank meeting	0.00%	0.00%
10:30	USA	Initial Jobless Claims - Weekly		
20:00	Peru	Central bank meeting	2.75%	2.75%
20:50	Japan	GDP (4Q - P)		
Friday 03/08				
08:00	Brazil	FGV: IGP-DI (Feb)		1.17% (MoM)
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
10:30	USA	Unemployment Rate (Feb)	3.8%	
10:30	USA	Change in Nonfarm Payrolls (Feb)	178k	
22:30	China	CPI (Feb)		
-	USA	USDA - World Agricultural Supply and Demand Estimates		
During the week				
-	China	Trade Balance (Feb)		

	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	5.1	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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