

## Economic recovery slows at the beginning of 2019

### Overview

- **The fourth-quarter GDP results announced last week and the economic indicators reported so far this month point to a slower-than-expected recovery.** After building positive momentum at the end of 2018, consumer spending has faltered, serving as a drag on growth: supermarket sales grew only 2.95% in real terms year-on-year in January, suggesting that retail sales flattened in the month. The drop recorded in the confidence indexes and the loss of traction in the labor market explain part of this underwhelming performance. In addition to these domestic factors – which have derailed a strong growth trend in the retail sector –, the crisis in Argentina and a global economic slowdown are likely to hold back economic growth in the quarters ahead.
- **Disappointing U.S. labor market data in February.** After adding more than 300,000 new jobs in January, The U.S. economy reported a mere 20,000 seasonally adjusted gains in nonfarm payrolls last month, well below market expectations. Despite the weakness in hiring, the unemployment rate fell to 3,8% and hourly wages rose 3,4% from a year earlier. The weak jobs report are compatible adds to expectations that the Fed will not raise interest rates at its next monetary policy meetings.
- **The European Central Bank downgraded its European Union growth forecast for 2019 and announced new stimulus measures.** After recognizing that the EU economy has stalled and lowering its 2019 growth forecast from 1.7% to 1.1%, the ECB not only kept interest rates steady but also changed its forward guidance, communicating that it now expects interest rates “to remain at their present levels at least through the end of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term”. The monetary authority also announced a new round of long-term refinancing operations, better known as TLTRO. At the opening session of the National People’s Congress in Beijing, the Chinese government announced that its GDP growth target for 2019 is in the 6.0-6.5% range, in line with expectations and reflecting greater tolerance for lower growth. After consecutive quarters of slowing growth, the Chinese economy is unlikely to see a sharp upturn in the months ahead, even if the government chooses to ramp up its credit stimulus program. Finally, China’s exports and imports failed to meet expectations, as both were down considerably in February. Trying to adjust for the negative seasonal effect of the Chinese New Year, we estimate that exports fell 4.6% year-on-year in February. For the next few months, we expect the Chinese economy to stabilize, albeit at a low level, as trade tensions with the U.S. alleviate and domestic policies prove more effective.

### Weekly Outlook

- **The main economic indicators for January are the highlights on this week’s domestic calendar.** Compared with December, we expect manufacturing output to rise 0.1%, retail sales to stay flat and the service volume to go up 0.4%. We will also get the consumer price inflation (IPCA) for February, which we expect to come in at 0.33%. If our projections are confirmed, these numbers are compatible with a gradual economic recovery and the absence of upward inflationary pressures, reinforcing our expectations that the benchmark (Selic) interest rate will remain unchanged at 6.5% until the end of 2019.
- **On the international agenda, the highlights include activity numbers for China, U.S. inflation data and a key vote in the British Parliament.** We expect China’s activity indicators for the first two months of the year to show that the economy has not yet been able to reverse its slowing trend. In the U.S., all eyes on February’s inflation data, given the tone adopted by the FED in its most recent statements. The British Parliament’s agenda for the upcoming week includes a series of votes on whether Britain will leave the European Union with or without a deal, or if the government should try to delay its exit, which is scheduled for March 29.

| Time                   | Country  | Event  | Forecast (Bloomberg) | Forecast (Depec) |
|------------------------|----------|--|----------------------|------------------|
| <b>Monday 03/11</b>    |          |  |                      |                  |
| 08:25                  | Brazil   | BCB: Focus Survey (weekly)                     |                      |                  |
| 11:20                  | Brazil   | Anfavea: Vehicle Production (Feb)              |                      |                  |
| 15:00                  | Brazil   | MDIC: Trade Balance (weekly)                   |                      |                  |
| 04:00                  | Germany  | Industrial Production (Jan)                    | -3.1% (YoY)          |                  |
| <b>Tuesday 03/12</b>   |          |  |                      |                  |
| 05:00                  | Brazil   | FIPE: Consumer Price Index (weekly)            |                      | 0.45% (MoM)      |
| 08:00                  | Brazil   | FGV: IGP-M (1st preview) (Mar)                 |                      |                  |
| 08:00                  | Brazil   | FGV: Employment Indicators (Feb)               |                      |                  |
| 09:00                  | Brazil   | Conab: 6th Grains crop survey 2018/2019        |                      |                  |
| 09:00                  | Brazil   | IBGE: Agricultural production Survey (Feb)     |                      |                  |
| 09:00                  | Brazil   | IBGE: Consumer Price Index (IPCA) (Feb)        |                      | 0.35% (MoM)      |
| 09:30                  | USA      | CPI (Feb)                                      | 0.2% (MoM)           |                  |
| <b>Wednesday 03/13</b> |          |  |                      |                  |
| 09:00                  | Brazil   | IBGE: Industrial Production (PIM) (Jan)        |                      | 0.1% (MoM)       |
| 12:30                  | Brazil   | BCB: Currency Flows (weekly)                   |                      |                  |
| 07:00                  | Eurozone | Industrial Production (Jan)                    | -2.1% (YoY)          |                  |
| 23:00                  | China    | Industrial Production (Feb)                    | 5.5% (YoY)           |                  |
| 23:00                  | China    | Fixed Assets Investments (Feb)                 | 6.0% (YoY)           |                  |
| <b>Thursday 03/14</b>  |          |  |                      |                  |
| 09:00                  | Brazil   | IBGE: Retail sales (PMC) (Jan)                 |                      | 0.0% (MoM)       |
| 09:00                  | Brazil   | IBGE: Industrial Production - regional (Jan)   |                      |                  |
| 04:00                  | Germany  | CPI (Feb - F)                                  | 0.5% (MoM)           |                  |
| 09:30                  | USA      | Initial Jobless Claims - Weekly                |                      |                  |
| -                      | Japan    | Central bank meeting                           | -0.10%               | -0.10%           |
| <b>Friday 03/15</b>    |          |  |                      |                  |
| 08:00                  | Brazil   | FGV: IGP-10 (Mar)                              |                      | 1.27% (MoM)      |
| 09:00                  | Brazil   | IBGE: Services Sector Volume (PMS) (Jan)       |                      | 0.4% (MoM)       |
| -                      | Brazil   | Tax Collections (Feb)                          |                      | R\$ 110 billions |
| 07:00                  | Eurozone | CPI (Feb)                                      | 0,3 (MoM)            |                  |
| 09:30                  | USA      | Índice Empire Manufacturing de atividade (Mar) | 10.0                 |                  |
| 10:15                  | USA      | Industrial Production (Feb)                    | 0.6% (MoM)           |                  |
| 11:00                  | USA      | University of Michigan Sentiment (Mar - P)     | 95.4                 |                  |

|   | 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  |

## Technical Staff

**Department of Economic Research and Studies** Fernando Honorato Barbosa

### Economists

Andréa Bastos Damico / Ariana Stephanie Zerbinatti / Constantin Jancsó / Ellen Regina Steter  
Hanna Farath / Estevão Augusto Oller Scipilliti / Fabiana D'Atri / Igor Velecico / Leandro Câmara  
Negrão / Mariana Silva de Freitas / Myriã Tatiany Neves Bast / Priscila Pacheco Trigo / Rafael  
Martins Murrer / Robson Rodrigues Pereira / Thiago Coraucci de Angelis / Thomas Henrique  
Schreurs Pires

### Interns

Ana Beatriz Moreira dos Santos / Camila Medeiros Tanomaru / Daniel Funari Fouto / Isabel Cristina  
Elias de Souza Oliveira / Lucas Maia Campos / Renan Bassoli Diniz / Thaís Rodrigues da Silva

[economiaemdia.com.br](http://economiaemdia.com.br)

DEPEC – BRADESCO is not responsible for any acts/decisions made based on the information disclosed in its publications and projections. All data or opinions contained in the information herein is carefully checked and prepared by fully qualified professionals, but should not be taken, under any circumstances, as a basis, support, guidance or standard for any document, assessment, judgment or decision-making, of a formal or informal nature. Thus, we emphasize that all consequences and responsibility for the use of any data or analysis of this publication are assumed solely by the user, exempting BRADESCO from all actions resulting from the use of this material. We also point out that access to this information implies acceptance of this term of responsibility and usage. The total or partial reproduction of this publication is strictly prohibited, except with authorization from Banco BRADESCO or full citation of the source (naming the authors, the publication and Banco BRADESCO).