

Gradual Recovery

Overview

- **Economic indicators reinforce expectations for modest GDP growth in the first quarter.** The first activity data available for 2019 continue to point to a slower-than-expected recovery. In January, manufacturing output fell 0.8%, the service sector fell 0.3% and the broad retail sector grew 1.0%. In addition, confidence and labor market indicators are losing their positive momentum, while the global economic slowdown deepens. Combined, these factors suggest a downward bias to our first-quarter GDP growth forecast, currently of 0.3%.
- **On the side of inflation, the outlook remains benign, but now with balanced risks.** IPCA consumer inflation for February exceeded expectations and came in at 0.43% (compared to our forecast of 0.35%). Much of the surprise was due to rising food at home and gas prices, which are more subject to supply shocks. These items have been placing some short-term upward pressure on inflation and led risks to appear more balanced (in our previous assessment, the balance of risks was tilted towards less inflation). On the other hand, core inflation remain subdued, having risen just 2.9% over the past 12 months. In the same direction, the IGP-10 inflation index for March showed that core wholesale prices for industrial products, which could exert some pressure on consumer prices, remained in deflation. Combined with a sluggish economic recovery and well-anchored inflation expectations, these numbers reinforce our view that the inflation outlook remains benign, which would allow for a new round of monetary easing.
- **Internationally, data suggests that the economic slowdown continues.** In the US, retail and new home sales for January and the manufacturing output for February suggest that first-quarter GDP growth will fail to meet expectations (it is now expected to come in at 1.2%, compared to a forecast of 2.1% in the beginning of the year). In the same direction, the core readings for both consumer and wholesale inflation came in slightly weaker than the market had predicted. These conditions are in line with the Fed's shift in tone at the end of January.
- **In China, activity indicators have started to show the effects of Beijing's stimulus measures.** While manufacturing output underperformed and retail sales grew in line with expectations, infrastructure and real estate investment, which are both more sensitive to government stimulus, provided positive surprises. In the Eurozone, manufacturing output emerged as a positive surprise in January, but the final number was not enough to change the perception of weak first-quarter growth. It is worth noting that the data does not reflect the impact of measures taken by key policymakers around the world, who have recently opted to add more stimulus to the economy. Therefore, we believe that activity indicators will begin to stabilize over the course of the first half.

Weekly Outlook

- **The Monetary Policy Committee (Copom) meeting is the main highlight on the domestic calendar.** We expect the committee to keep the benchmark Selic rate unchanged at 6.5%, but believe that the Central Bank will make some minor adjustments to its balance of risks, leading it to release a neutral statement. January's IBC-Br will also be released; we expect the index to show a 0.2% decline, reflecting the poor performance of the industrial and service sectors in the month.
- **On the international calendar, the focus is on the FOMC meeting and the preliminary manufacturing output readings for March.** We believe that the Fed will offer an even more cautious diagnosis of the economy, which would reinforce our expectation of interest rates remaining unchanged in 2019. Finally, we expect preliminary manufacturing PMI readings for March to reaffirm the perception of weak global growth in the first quarter.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 03/18				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey		
08:30	Brazil	BCB: Economic Activity Index (Jan)		-0.2% (MoM)
15:00	Brazil	MDIC: Trade Balance (weekly)		
08:30	Chile	GDP (4Q - P)		3.3% (YoY)
Tuesday 03/19				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		0.56% (MoM)
08:00	Brazil	FGV: IGP-M (2st preview) (Mar)		
07:00	Germany	ZEW Survey Expectations (Mar)		
Wednesday 03/20				
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	BCB: Central bank meeting	6.50%	6.50%
15:00	USA	Central bank meeting	2.5%	2.5%
Thursday 03/21				
09:00	United Kingdom	Central bank meeting	0.75%	0.75%
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	Fed Philadelphia Outlook (Mar)		
16:00	Argentina	GDP (4Q - P)		-6.5% (YoY)
Friday 03/22				
-	Brazil	CNI: Industrial Confidence (Mar)		
05:30	Germany	Markit: Composite PMI (Mar - P)		
06:00	Eurozone	Markit: Composite PMI (Mar - P)		
-	Colombia	Central bank meeting	4.25%	4.25%
During the week				
-	Brazil	Tax Collections (Feb)	R\$ 112,5 billions	R\$ 110 billions

	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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