

Central Bank of Brazil still in “observation mode”

Overview

- **The recent message from the Monetary Policy Committee (Copom) was reinforced by its latest meeting minutes and by the Inflation Report, both released this week.** The documents continued to suggest a cautious approach to monetary policy decisions, while the balance of risks for inflation remains neutral and underlying inflation readings are at “appropriate or comfortable” levels. Forecasts have the Consumer Inflation Index (IPCA) below the center of the target for 2019, and reaching the center range in 2020. The committee once again recognized that the economy continues to underperform expectations – in fact, it trimmed its GDP forecast from 2.4% to 2.0%. In addition, the monetary authority reiterated the need to keep monitoring the economy’s performance, especially as the impacts of last year’s shocks fade, before assessing the next steps of monetary policy. As such, we continue to expect the benchmark Selic rate to remain unchanged over the next few months, and we believe that the committee will wait for new information before reassessing the scenario, eventually slashing interest rates if the economy continues to underperform, provided that inflation expectations remain anchored and the reforms proposed by the government are advance.
- **Cooling business and consumer confidence and the performance of the labor market have set the stage for weak economic growth in the first quarter.** FGV surveys show that business confidence lost some of its momentum in March, underlying the slow pace of economic recovery. The labor market has also been lukewarm: 173,000 net jobs were created in February, but the figure could be explained by the fact that, this time around, Carnival holiday happened in March. When we adjust for these factors, we find that 48,000 new jobs were created in the month, while the unemployment rate stayed flat at 12.3%. On the other hand, total loans bounced back after having lost some ground in January, driven primarily by personal loans. Given the decline in delinquency rates, household debt service ratios and interest rates, we believe that the credit market will help drive economic growth in the next few quarters.
- **Meanwhile, March’s inflation numbers continue to point to a benign environment, with core prices under control.** The mid-month IPCA-15 index for February came in at 0.54%, slightly above market expectations and higher than in January – which is explained mostly by an increase in food prices. The General Price Index (IGP-M) for March stood at 1.26%. While headline inflation is picking up, core prices remain muted, as evidenced by the Industrial Wholesale Price Index (IPA), which recorded another month of deflation.
- **In the U.S., the fourth-quarter GDP grew less than previously expected.** The number was trimmed from 2.6% to 2.2% due to slowing private consumption and investment. The downward revision confirmed the slowdown scenario detected at the end of last year, a trend that is likely to have picked up strength in several regions across the world in the first quarter of 2019.

Weekly Outlook

- **The main highlight on the domestic calendar will be the release of February’s manufacturing output figures.** We expect the index to rise 0.8% compared to the previous month, reversing all of January’s decline. In addition, the first indicators for March will be released, including auto sales and production.
- **On the international front, all eyes will be on the announcements of US labor data and the ISM and PMI readings.** The US labor market is expected to post strong net job creation, after turning in an underwhelming performance in February. Finally, we will get the February results for the US ISM, as well as the PMI for the world’s major economies, which are expected to confirm that the global economy continues to slow down in the first quarter of 2019.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 04/01				
08:25	Brazil	BCB: Focus Survey		
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
10:00	Brazil	Markit: PMI Manufacturing (Mar)		
-	Brazil	CNI: Consumer Confidence (Mar)		
-	Brazil	MDIC: Trade Balance - monthly (Mar)		
04:55	Germany	Markit: Manufacturing PMI (Mar - F)		
05:00	Eurozone	Markit: Manufacturing PMI (Mar - F)		
05:30	United Kingdom	Markit: Manufacturing PMI (Mar)		
11:00	USA	ISM Manufacturing (Mar)	54.0	
Tuesday 04/02				
09:00	Brazil	IBGE: Industrial Production (PIM) (Feb)		0.8% (MoM)
-	Brazil	CNI: Capacity Utilization (Feb)		
Wednesday 04/03				
05:00	Brazil	FIPE: Consumer Price Index - monthly (Mar)		0.47% (MoM)
10:00	Brazil	Markit: Composite PMI (Mar)		
12:30	Brazil	BCB: Commodity Price Index (Mar)		
12:30	Brazil	BCB: Currency Flows (weekly)		
04:55	Germany	Markit: Composite PMI (Mar - F)		
05:00	Eurozone	Markit: Composite PMI (Mar - F)		
05:30	United Kingdom	Markit: Composite PMI (Mar)		
09:15	USA	Employment Change (ADP) (Mar)	160K	
11:00	USA	ISM Services (Mar)	58.0	
Thursday 04/04				
11:20	Brazil	Anfavea: Vehicle Production (Mar)		
09:30	USA	Initial Jobless Claims - Weekly		
Friday 04/05				
03:00	Germany	Industrial Production (Feb)		
09:30	USA	Change in Nonfarm Payrolls (Mar)	175K	
09:30	USA	Unemployment Rate (Mar)	3.8%	

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	3.80
GDP growth (%)	1.1	1.1	2.4
Industrial Production (%)	2.5	1.1	2.0
Retail Sales (%)	4.0	5.0	5.0
Job Creation (in thousands)	263.5	1316.1	1103.6
Unemployment Rate (% of labor force, avg)	12.7	12.3	12.1
Outstanding Credit Growth (%)	-0.5	5.1	8.9
Trade Balance (USD bn)	64.0	53.6	56.1
Current Account (USD bn)	-7.2	-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	-94.9
Gross Debt (% of GDP)	-2669.8	76.7	77.8

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

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