

Brazil's GDP likely to have shrunk in the first quarter

Overview

- **In Brazil, the last relevant indicators regarding the first quarter confirmed that the economy remained weak in the early part of 2019.** Business activity in the manufacturing, trade and services sectors was down for the first three months of the year, which is compatible with our -0.2% GDP growth forecast compared to the fourth quarter of 2018. Growth forecasts for 2019 continue to be reduced, and the focus is now shifting to the period between April and June, when we expect to see a +0.3% growth.
- **The minutes of the Monetary Policy Committee (Copom) reaffirmed a cautionary stance towards monetary policy, underscoring fiscal issues.** The committee highlighted the adverse impacts of fiscal uncertainties on economic activity, stating that it is essential that the government continue to push through reforms in order to keep medium- and long-term inflation at low levels and to lower the structural interest rate. The minutes dismissed the chances of cuts in the next few months, but left open the possibility of slashing the benchmark interest rate in a scenario of sluggish economy, well-anchored inflation expectations and diminishing fiscal uncertainties if the reforms are approved. We expect three cuts to the benchmark rate in the second half of the year, which would bring the Selic rate down to 5.75% in December.
- **New tariff hikes by the U.S. and China confirmed the escalation of trade tensions between both countries and helped increase the chances of a sharper global slowdown.** Given the recent signals from both sides, a short-term agreement is unlikely. The tariff hikes should pose additional challenges to the Chinese economy, which has recently started a fragile recovery while economic activity worldwide – and especially in Europe – is mired in a slump. As a result, we believe that global GDP growth could be cut by approximately 0.5 p.p. in 2019 (from 3.3% to 2.8%).
- **More widespread frustration with the Brazilian economy's performance, the dollar's strengthening trend (boosted by a new escalation of tensions between the U.S. and China) and uncertainties regarding the outlook for the fiscal reforms all help explain the Brazilian currency's depreciation this week, beyond our peers'.**

The week ahead

- **In the domestic calendar, highlights include preliminary inflation data and the first numbers on formal employment for the month.** We expect the mid-month consumer inflation (IPCA-15) for May to come in at 0.40%, showing some moderation for food prices, while core prices are likely to remain stable and at comfortable levels. The Caged report for April will probably continue to show weak numbers, with approximately 90,000 new formal jobs created, against 115,000 new jobs created in April 2018. Several surveys (Industry, Trade and Consumer) for the month of May will also be released over the course of the week.
- **Internationally, the week's highlights include the minutes from the latest FOMC meeting and economic activity indicators from the U.S. and Europe.** We expect the FOMC minutes to reiterate the key points in its statement – that economic growth is solid and inflation remains below target –, indicating that the Fed will keep interest rates unchanged at its next few meetings. Meanwhile, activity indicators from the world's major economies could show that the slowdown seen in April is likely to have continued into May.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 05/20				
08:00	Brazil	FGV: IGP-M (2st preview) (May)		
08:25	Brazil	BCB: Focus Survey		
10:00	Brazil	CNI: Industrial Confidence (May)		
15:00	Brazil	MDIC: Trade Balance (weekly)		
09:30	Chile	GDP (1Q)		
-	Peru	GDP (1Q)		
Tuesday 05/21				
08:00	Brazil	FGV: Industrial Confidence (May - P)		
Wednesday 05/22				
12:30	Brazil	BCB: Currency Flows (weekly)		
-	Brazil	CNI: Industrial Confidence (Apr)		
15:00	USA	Fed Minutes		
Thursday 05/23				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:00	Brazil	FGV: Consumer Confidence (May)		
10:00	Brazil	CNI: Construction Confidence (Apr)		
03:00	Germany	GDP (1Q - F)		
04:30	Germany	Markit: Composite PMI (May - P)		
05:00	Eurozone	Markit: Composite PMI (May - P)		
05:00	Germany	IFO Business Climate (May)		
09:30	USA	Initial Jobless Claims - Weekly		
Friday 05/24				
08:00	Brazil	FGV: Retail Confidence (May)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (May)	0.43% (MoM)	0.40% (MoM)
10:00	Mexico	GDP (1Q - F)		
During the week				
-	Brazil	Caged: Formal Job Creation Total (Apr)		90 k
-	Brazil	Tax Collections (Apr)		R\$ 130 b

	2017	2018	2019
Consumer inflation - IPCA (%)	2.95	3.75	4.00
GDP growth (%)	1.1	1.1	1.1
Industrial Production (%)	2.5	1.1	1.0
Retail Sales (%)	4.0	5.0	5.0
Job Creation (in thousands)	264	1316	506
Unemployment Rate (% of labor force, avg)	12.7	12.3	12.7
Outstanding Credit Growth (%)	-0.5	5.0	7.5
Trade Balance (USD bn)	64.0	53.6	55.8
Current Account (USD bn)	-7.2	-14.5	-15.4
Exchange Rate (BRL/USD, eop)	3.31	3.87	3.80
Selic Rate (% eop)	7.00	6.50	5.75
Primary Balance (BRL bn)	-111	-108.3	-104.9
Gross Debt (% of GDP)	74.1	76.7	77.8

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