

The economy remains sluggish while price shocks fade away

Overview

- **The economy lost momentum, and the consensus now is that it will miss growth expectations of the beginning of the year.** GDP shrank by 0.2% q/q in the first quarter, while household spending continue to rise, albeit at a modest pace (0.4%). On the other hand, however, investment fell by 1.7% in the quarter. The global economic slowdown, a lack of domestic demand drivers and signs that the equilibrium interest rate has fallen are some of the reasons for the economy's lackluster performance. In addition, uncertainty regarding the reform agenda has kept confidence levels down. Thus, the poor performance of the economy at the beginning of the year – which has largely extended into May – reinforces our expectations for interest-rate cuts in the second half of the year.
- **Price shocks are fading away, making room for cuts to the benchmark Selic rate.** As expected, agricultural prices fell last month. On the other hand, fuels and iron ore continue to put some upward pressure on wholesale prices. But with international oil prices falling and the iron ore supply climbing back to normal levels in the next few months, some of this effect should fade away.
- **Congress made some progress on the reform agenda this past week, improving the outlook for some of the government's reform proposals.** Led by the Brazilian real, which outperformed every other emerging currency over the week, the performance of Brazilian assets reflected this improving outlook.
- **Trade tensions have flared up again, posing a downside risk to global growth.** China has escalated its rhetoric in response to the U.S. raising tariffs. In addition to a new round of tariff hikes, Beijing could also impose other trade restrictions, such as limits on soybean imports and on rare earth exports. As an agreement seems further out of reach in the short-term, the Chinese economy begins to cool off — as indicated by the May PMI, which went back into contractionary territory. We expect Beijing to ramp up stimulus measures, while economic indicators for the rest of the world should begin to lose some traction.

The week ahead

- **Manufacturing output and consumer inflation readings are the highlights on the domestic calendar.** We expect Brazil's industrial sector to bounce back slightly and post 0.2% growth in April — yet another indication of the slow pace of economic recovery. IPCA consumer inflation for May will probably show negative inflation for food items and moderating fuel prices, and is expected to come in at 0.22%.
- **On the international front, all eyes will be on U.S. activity data and the latest monetary policy decision for the Eurozone.** U.S. activity indicators include the ISM and net job creation for May (expected to show 200,000 jobs were created in the month). In the Eurozone, the ECB may unveil details of the new round of quantitative easing.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 06/03				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey		
10:00	Brazil	Markit: PMI Manufacturing (May)		
15:00	Brazil	MDIC: Trade Balance - monthly (May)		
-	Brazil	CNI: Capacity Utilization (Apr)		
-	Brazil	Fenabreve: Vehicle sales (May)		
04:55	Germany	Markit: Manufacturing PMI (May - F)		
05:00	Eurozone	Markit: Manufacturing PMI (May - F)		
05:30	United Kingdom	Markit: Manufacturing PMI (May)		
11:00	USA	ISM Manufacturing (May)	53.3	
Tuesday 06/04				
05:00	Brazil	FIPE: Consumer Price Index - monthly (May)		
09:00	Brazil	IBGE: Industrial Production (PIM) (Apr)		0.2% (QoQ)
Wednesday 06/05				
10:00	Brazil	Markit: Composite PMI (May)		
12:30	Brazil	BCB: Commodity Price Index (Jun)		
12:30	Brazil	BCB: Currency Flows (weekly)		
04:55	Germany	Markit: Composite PMI (May - F)		
05:00	Eurozone	Markit: Composite PMI (May - F)		
05:30	United Kingdom	Markit: Composite PMI (May)		
09:15	USA	Employment Change (ADP) (May)	180 k	
11:00	USA	ISM Services (May)	56.2	
15:00	USA	Fed: Beige Book		
Thursday 06/06				
11:20	Brazil	Anfavea: Vehicle Production (May)		
06:00	Eurozone	GDP (1Q - F)		
08:45	Eurozone	Central bank meeting		0.0%
09:30	USA	Initial Jobless Claims - Weekly		
Friday 06/07				
08:00	Brazil	FGV: IGP-DI (May)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (May)		0.22% (MoM)
03:00	Germany	Industrial Production (Apr)		
09:30	USA	Change in Nonfarm Payrolls (May)	195 k	
09:30	USA	Unemployment Rate (May)	3.6%	
19:00	Chile	Central bank meeting		

	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	-105
Gross Debt (% of GDP)	74.1	76.7	77.8

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