

## Retail and service sectors picked up in July

### Overview

- **The retail and service sectors outperformed expectations in July, but the IBC-Br fell 0.2% in the month due to a poor showing in the manufacturing sector.** Meanwhile, the first few pieces of data released so far for August has shown mixed trends, suggesting a still moderate economy heading into the second half of 2019. Monetary policy is beginning to have an impact, despite some uncertainties about the pace of recovery. For the time being, our third-quarter GDP growth forecast stands at 0.1%.
- **US and China have signaled a potential willingness to de-escalate trade tensions.** On the Chinese side, the government has announced that it will exempt 16 U.S. goods from additional tariffs. The Trump administration responded saying that an increase in duties will be postponed from October 1 to October 15. These signals do not guarantee that a lasting deal will be reached, but they do provide some short-term relief that can reduce market volatility and have a positive impact on emerging currencies.
- **As the global slowdown deepens and becomes more widespread, central banks continue to loosen monetary policy.** Amid rising recession risks, the ECB introduced a rather aggressive package to stimulate the economy: further cuts to the deposit rate (already in negative territory), a resumption of asset purchases, and committing to an accommodative monetary policy until inflation moves back towards the 2% target (which may extend beyond 2020). In addition, Mario Draghi emphasized that countries with room to do so should use fiscal policy to drive growth.
- **The main change that the Monetary Policy Committee (Copom) is likely to incorporate into its scenario is a reassessment of the global environment. We expect the Selic rate to be cut to 5.5% next week.** This worsening of the external environment could hamper Brazil's economic recovery. At the same time, the decline in commodity prices has offset a significant part of recent foreign exchange pressure. Therefore, we believe that the global environment has further reduced inflation expectations for Brazil over the past few weeks. Muted core inflation – which are expected to stay well below target at around 2.5% – should support continued interest rate cuts in Brazil.

### The week ahead

- **Next week's highlights include the Selic rate decision and preliminary economic activity data for September.** All eyes will be on the statement by the Monetary Policy Committee (Copom) regarding its next moves. FGV will release its preliminary Industry Survey reading for September, which will help determine whether or not the pick-up in the retail and service sectors in July were one-off events.
- **Overseas, the focus will be on the Fed's monetary policy meeting and China's activity indicators.** The U.S. central bank is expected to cut interest rates by 0.25 p.p., reacting to rising risks to global and domestic growth.

| Time                   | Country        | Event  | Forecast (Bloomberg) | Forecast (Depec) |
|------------------------|----------------|--|----------------------|------------------|
| <b>Monday 09/16</b>    |                |  |                      |                  |
| 08:00                  | Brazil         | FGV: IGP-10 (Sep)                              |                      | -0.39% (MoM)     |
| 08:25                  | Brazil         | BCB: Focus Survey                              |                      |                  |
| 15:00                  | Brazil         | MDIC: Trade Balance (weekly)                   |                      |                  |
| 09:30                  | USA            | Índice Empire Manufacturing de atividade (Sep) | 4.0                  |                  |
| <b>Tuesday 09/17</b>   |                |  |                      |                  |
| 06:00                  | Germany        | ZEW Survey Expectations (Sep)                  | -38.0                |                  |
| 06:00                  | Eurozone       | ZEW Survey Expectations (Sep)                  |                      |                  |
| 10:15                  | USA            | Industrial Production (Aug)                    | 0,2% (MoM)           |                  |
| <b>Wednesday 09/18</b> |                |  |                      |                  |
| 05:00                  | Brazil         | FIPE: Consumer Price Index (weekly)            |                      |                  |
| 08:00                  | Brazil         | FGV: IGP-M (2nd preview) (Sep)                 |                      |                  |
| 14:30                  | Brazil         | BCB: Currency Flows (weekly)                   |                      |                  |
| 18:00                  | Brazil         | BCB: Central bank meeting                      | 5.50%                | 5.50%            |
| 06:00                  | Eurozone       | CPI (Aug)                                      | 0.2% (MoM)           |                  |
| 15:00                  | USA            | Central bank meeting                           |                      | 2.0%             |
| 15:30                  | USA            | Fed: J. Powell's speech                        |                      |                  |
| <b>Thursday 09/19</b>  |                |  |                      |                  |
| 10:00                  | Brazil         | CNI: Industrial Confidence (Sep)               |                      |                  |
| 00:00                  | Japan          | Central bank meeting                           |                      |                  |
| 08:00                  | United Kingdom | Central bank meeting                           |                      |                  |
| 09:30                  | USA            | Fed Philadelphia Outlook (Sep)                 | 10.8                 |                  |
| 09:30                  | USA            | Initial Jobless Claims - Weekly                |                      |                  |
| 16:00                  | Argentina      | GDP (2Q)                                       |                      |                  |
| <b>Friday 09/20</b>    |                |  |                      |                  |
| 08:00                  | Brazil         | FGV: Industrial Confidence (Sep)               |                      |                  |
| <b>During the week</b> |                |  |                      |                  |
| -                      | China          | Industrial Production (Aug)                    |                      |                  |
| -                      | China          | Fixed Assets Investments (Aug)                 |                      |                  |

|   | 2017   | 2018   | 2019   | 2020   |
|---|--------|--------|--------|--------|
| Consumer inflation - IPCA (%)             | 2.95   | 3.75   | 3.5    | 3.9    |
| GDP growth (%)                            | 1.1    | 1.1    | 0.8    | 1.9    |
| Industrial Production (%)                 | 2.5    | 1.1    | 0.6    | 1.8    |
| Retail Sales (%)                          | 4.0    | 5.0    | 4.0    | 4.5    |
| Job Creation (in thousands)               | 1,899  | 966    | 742    | 1,066  |
| Unemployment Rate (% of labor force, avg) | 12.7   | 12.3   | 12.5   | 12.3   |
| Outstanding Credit Growth (%)             | -0.5   | 5.0    | 7.5    | 9.4    |
| Trade Balance (USD bn)                    | 64.0   | 53.1   | 48.1   | 54.1   |
| Current Account (USD bn)                  | -7.2   | -15.0  | -28.5  | -34.3  |
| Exchange Rate (BRL/USD, eop)              | 3.31   | 3.87   | 4.00   | 3.80   |
| Selic Rate (% eop)                        | 7.00   | 6.50   | 4.75   | 4.75   |
| Primary Balance (BRL bn)                  | -110.6 | -108.3 | -134.8 | -100.0 |
| Gross Debt (% of GDP)                     | 74.1   | 76.7   | 77.8   | 79.4   |

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