

2019 IPCA comes in at 4.3% with no contagion to core measures

Overview

- **The week was marked by tensions between Iran and the U.S., which added volatility to key markets.** Iran responded to the death of General Soleimani last week by attacking 2 military bases in Iraq. Brent Crude oil prices rose past USD 70/barrel, but have since retreated after a public statement by Donald Trump, who said that he will retaliate with economic sanctions. The central scenario is shrouded in uncertainty, but it continues to point to continuing tensions in the region, but without further escalation. That environment would be compatible with oil prices at close to USD 65/barrel.
- **Pressured by food prices, inflation reached 4.31% in 2019.** The Broad Consumer Price Index (IPCA) came in at 1.15% in December, driven by an increase in protein prices that was due to a rise in exports to China, impacted by swine fever cases. Core prices, which reflect inflation trends, remain muted at approximately 2.5%. We expect a significant part of the shock from meat prices to dissipate before the end of January, without any signs of contagion affecting core measures, showing that inflation is well anchored. Our end-2020 IPCA forecast is 3.6%.
- **Driven by consumer spending, we expect Q4 2019 GDP growth to come in at 0.7%** The decline in manufacturing output for November (-1.2% at the margin) did not affect our forecast. The result was dragged down by lower auto manufacturing numbers, which was due to inventory drawdowns and weak external demand. We have kept our 2020 GDP growth forecast unchanged at 2.5%, with credit and an improved labor market being key growth drivers.
- **There are signs that the global economy is stabilizing and a trade deal between the U.S. and China is likely to be finalized next week.** The U.S. labor market remains heated, with the net creation of 145,000 jobs in December. The services sector has also been posting strong numbers, with the ISM index showing considerable gains in December. There has been a mismatch in consumer spending and manufacturing numbers for both the U.S. and other world economies, with manufacturing indicating that the global economy is starting to recover slowly, as trade tensions decrease.

The week ahead

- **November sales and service sector data will be important for Q4 2019 GDP estimates.** Back in November, our forecasts called for annual growth of 1.8% in services and 3.4% in retail sales (excluding vehicles and building supplies). In the early part of 2020, with the effects of the FGTS stimulus behind us, growth will slow to 0.5% at the margin.
- **The international calendar features China's GDP and U.S. trade data for December.** China's GDP growth is expected to have stood at 6% in the fourth quarter of 2019. In the U.S., all eyes are on inflation and retail sales indicators for December, which should continue to show the resilience of the U.S. economy.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 01/13				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:25	Brazil	BCB: Focus Survey (weekly)		
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	China	Trade Balance (Dec)	US\$ 45.7 B	
*The indicator will be released on January, 12th				
Tuesday 01/14				
09:00	Brazil	IBGE: Industrial Production - regional (Nov)		
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Nov)		-0.5% (MoM)
10:30	USA	CPI (Dec)	0.2% (MoM)	
Wednesday 01/15				
09:00	Brazil	IBGE: Retail sales (PMC) (Nov)		0.9% (MoM)
10:00	Brazil	CNI: Capacity Utilization (Nov)		
14:30	Brazil	BCB: Currency Flows (weekly)		
10:30	USA	Índice Empire Manufacturing de atividade (Jan)		
16:00	USA	Fed: Beige Book		
Thursday 01/16				
08:00	Brazil	FGV: IGP-10 (Jan)		1.03% (Mom)
09:00	Brazil	BCB: Economic Activity Index (Nov)		
10:30	USA	Initial Jobless Claims (weekly)		
10:30	USA	Fed Philadelphia Outlook (Jan)	3.4	
23:00	China	Industrial Production (Dec)	5.6% (YoY)	
23:00	China	Fixed Assets Investments (Dec)		
23:00	China	GDP (4Q - P)	6.0% (YoY)	6.0% (YoY)
Friday 01/17				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
07:00	Eurozone	CPI (Dec - F)	0.3% (MoM)	
11:15	USA	Industrial Production (Dec)		
12:00	USA	University of Michigan Sentiment (Jan - P)	99.2	

	2017	2018	2019	2020
GDP growth (%)	1.3	1.3	1.2	2.5
Consumer inflation - IPCA (%)	2.95	3.75	4.3	3.6
Wholesale inflation - IGP-M (%)	-0.5	7.5	7.3	4.5
Selic Rate (% eop)	7.00	6.50	4.50	4.25
Exchange Rate (BRL/USD, eop)	3.31	3.87	4.03	4.00
Industrial Production (%)	2.5	1.1	-1.0	2.0
Retail Sales (%)	4.0	5.0	4.4	4.5
Job Creation (in thousands)	1899	966	1298	1528
Unemployment Rate (% of labor force, avg)	12.7	12.3	11.9	11.2
Outstanding Credit Growth (%)	-0.5	5.0	5.9	9.4
Trade Balance (USD bn)	64.0	53.0	39.6	36.1
Current Account (USD bn)	-15.0	-41.5	-49.7	-55.3
Primary Balance (BRL bn)	-111	-108.3	-81	-91
Gross Debt (% of GDP)	74.1	76.7	77.8	78.4

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