

## Economic activity in moderate transition to 2020

### Overview

- **The last indicators of 2019 revealed an underwhelming performance in Brazil – pointing towards a 0.5% growth in the fourth quarter.** Following the weak industrial output in December, both the service volume and retail sales also dropped in the margin. Holding the Selic rate at a low level, stimulating loans, and the job market's recovery will all be key drivers for the economic activity in 2020.
- **The interruption in interest rate cuts is explained by uncertainties surrounding the impacts of stimuli adopted so far.** With no surprises in the announcement of the decision, the minutes of the Monetary Policy Committee released this week confirmed that doubts regarding the lag and the extension of the Selic rate reduction led the Central Bank to halt the monetary easing process. The committee acknowledged that recovery is still gradual, and underlined that the effects of the coronavirus may lead to an even steeper downturn in global growth, suggesting that the next steps will depend on the data. Considering the balance risk, we expect the Selic rate to remain stable throughout the year.
- **Coronavirus outbreak continues to take a toll on markets.** The evolution of coronavirus cases and the speed of China's economic recovery continue to dictate the markets' behavior. Throughout the week, the improvement of asset prices and the lower number of new daily cases was replaced by a new downturn, after a revision of the number of people infected in the Hubei province – epicenter of the disease. The number of cases should continue to rise over the next few weeks, but the actual impact on the global economy remains uncertain, as the information available suggests that China's economic recovery is still very sluggish.
- **Most countries' economic indicators in the beginning of the year should show some disturbance.** While lower risks stemming from trade tensions and Brexit should boost the economy, concerns surrounding the epidemic and deceleration of China's economy postpone a potential recovery to future quarters.

### The week ahead

- **Brazil's agenda includes inflation and external accounts.** The week's highlight will be the announcement of preliminary inflation results for February, which should continue to show that the recent shock did not affect core measures, confirming a favorable inflation scenario for 2020. We forecast a monthly growth of 0.23%.
- **February surveys are the international agenda's highlight.** Preliminary survey results both in the U.S. and in Europe will gauge the impact of the coronavirus on the dynamics of global activity. The FOMC's minutes could also bring more insights into the Fed's perspective regarding this shock.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 02/17</b>				
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
-	Japan	GDP (4Q - P)*	-1% (QoQ)	
-	USA	National Holiday - Closed markets		
*The indicator will be released on February, 16th				
<b>Tuesday 02/18</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:00	Brazil	FGV: IGP-M (2nd preview) (Feb)		
07:00	Germany	ZEW Survey Expectations (Feb)	21.2	
10:30	USA	Índice Empire Manufacturing de atividade (Feb)	5	
<b>Wednesday 02/19</b>				
08:00	Brazil	FGV: Industrial Confidence (Feb - P)		
10:00	Brazil	CNI: Industrial Confidence (Feb)		
14:30	Brazil	BCB: Currency Flows (weekly)		
10:10	USA	Fed Atlanta: R. Bostic's speech		
10:30	USA	Fed Cleveland: L. Mester's speech		
13:45	USA	Fed Minneapolis: N. Kashkari's speech		
15:30	USA	Fed Dallas: R. Kaplan's speech		
16:00	USA	Fed Minutes		
18:30	USA	Fed Richmond: T. Barkin's speech		
<b>Thursday 02/20</b>				
08:00	Brazil	FGV: Consumer Confidence (Feb)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Feb)		0.23% (MoM)
-	Brazil	CNI: Industrial Confidence (Dec)		
10:30	USA	Fed Philadelphia Outlook (Feb)	10	
10:30	USA	Initial Jobless Claims - Weekly	212k	
15:20	USA	Fed Richmond: T. Barkin's speech		
<b>Friday 02/21</b>				
08:00	Brazil	FGV: Construction Costs (Feb)		
08:00	Brazil	FGV: Construction Confidence (Feb)		
08:00	Brazil	FGV: Retail Confidence (Feb)		
09:30	Brazil	BCB: Current Account Balance (Jan)		-US\$ 9.3 b
09:30	Brazil	BCB: Foreign Direct Investment (Jan)		US\$ 4.9 b
-	Brazil	Federal Debt Total (Jan)		
05:30	Germany	Markit: Composite PMI (Feb - P)	50.8	
06:00	Eurozone	Markit: Composite PMI (Feb - P)	51	
06:30	United Kingdom	Markit: Composite PMI (Feb - P)	52.8	
07:00	Eurozone	CPI (Jan - F)	-1% (MoM)	
11:35	USA	Fed Dallas: R. Kaplan's speech		
12:15	USA	Fed: L. Brainard's speech		
<b>During the week</b>				
-	Brazil	Caged: Formal Job Creation Total (Jan)		74k
-	Brazil	Tax Collections (Jan)		R\$ 160.9 b
-	Peru	GDP (4Q - P)		

	2017	2018	2019	2020
<b>GDP growth (%)</b>	1.3	1.3	1.2	2.5
<b>Consumer inflation - IPCA (%)</b>	2.95	3.75	4.3	3.6
<b>Wholesale inflation - IGP-M (%)</b>	-0.5	7.5	7.3	4.5
<b>Selic Rate (% eop)</b>	7.00	6.50	4.50	4.25
<b>Exchange Rate (BRL/USD, eop)</b>	3.31	3.87	4.03	4.00
<b>Industrial Production (%)</b>	2.5	1.0	-1.1	2.0
<b>Retail Sales (%)</b>	4.0	5.0	3.9	4.5
<b>Job Creation (in thousands)</b>	1899	966	1816	1536
<b>Unemployment Rate (% of labor force, avg)</b>	12.7	12.3	11.9	11.2
<b>Outstanding Credit Growth (%)</b>	-0.5	5.0	6.5	9.4
<b>Trade Balance (USD bn)</b>	64.0	53.0	39.4	36.1
<b>Current Account (USD bn)</b>	-15.0	-41.5	-50.8	-55.3
<b>Primary Balance (BRL bn)</b>	-111	-108.3	-62	-91
<b>Gross Debt (% of GDP)</b>	74.1	76.5	75.8	74.3

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