

Indicators hint to abrupt activity halt in March

Overview

- **More than 2 million people have been infected by the new coronavirus around the world**, but several countries seem to have already peaked in number of cases. There is still a lot of uncertainty regarding an eventual second wave of contagion, immunization period, and possible medical treatment protocols. In any case, the debate to loosen social distancing measures has advanced in some European countries, as they gradually resume activities.
- **Leading indicators in Brazil suggest an abrupt interruption in activities.** February data show positive results, with the IBC-Br growing 0.35% in the month. But the tables turned in March, as can be seen in the circulation of vehicles, power consumption and new vehicle licensing. In April confidence indicators dropped 39 points in the industry, 34.9 points in the service sector, and 26.8 points in retail. This should lead to a sharp drop in the GDP in the second quarter, followed by a gradual recovery throughout the rest of the year.
- **According to our estimates, the stimulus measures announced represent a fiscal impact of BRL 305 billion.** According to the Brazilian Treasury, the primary deficit should reach 6.6% of the GDP this year and 2% in 2021. Despite the expected impact on public debt, such stimuli are essential to guarantee household income and the sustainability of companies during these unprecedented times. This week, the House of Representatives approved an aid plan for the states and the War Budget bill should pass next week.
- **The lower GDP should limit inflationary pressures, despite the BRL depreciation.** Both the drop in global commodity prices and prospects of lower internal demand should help contain pass-through attempts. The industry is already seeing occasional pressures, maintaining the General Price Indexes change above 1%. On the other hand, consumer indicators remain stable around 0%. This stable IPCA scenario still gives room for monetary stimuli without compromising the 2021 inflation target.
- **China starts to recover in March but challenges remain present in the second quarter, which suggests more stimuli ahead.** After implementing restrictive circulation measures, China has started to loosen distancing rules in March, resulting in partial resumption of economic activity, led by the industry. In the month, exports and imports dropped 6.6% and 0.9%, respectively, compared to the same period in 2019, indicating a fast recovery of activities. GDP was down 6.8% year over year in the first quarter, as the industry decreased 1,1% and retail dropped 15.8%. Other countries are still under the strong negative impact of social distancing measures. In the US, more than 5.2 million people filed for unemployment benefits last week while retail sales dropped 8.7% and industrial output fell 5.4%, both in March.

The week ahead

- **The only information coming from the domestic agenda is the external sector data in March.** With a holiday on Tuesday, the agenda is empty and the market should focus on the Covid-19 situation, secondary indicators, international data, and the progress of the emergency agenda in Congress.
- **Preliminary indicators of activity in Europe and the U.S. are the highlights in the international agenda.** These are the first indicators in April and should help gauge the impact of social distancing measures in effect.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 04/20				
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
Tuesday 04/21				
-	Brazil	National Holiday - Closed markets		
06:00	Germany	ZEW Survey Expectations (Apr)	-41.5	
Wednesday 04/22				
14:30	Brazil	BCB: Currency Flows (weekly)		
Thursday 04/23				
-	Brazil	CNI: Industrial Confidence (Mar)		
04:30	Germany	Markit: Composite PMI (Apr - P)		
05:00	Eurozone	Markit: Composite PMI (Apr - P)		
05:30	United Kingdom	Markit: Composite PMI (Apr - P)		
09:30	USA	Initial Jobless Claims - Weekly		
Friday 04/24				
08:00	Brazil	FGV: Industrial Confidence (Apr - P)		
09:30	Brazil	BCB: Current Account Balance (Mar)		
05:00	Brazil	CNI: Construction Confidence (Mar)		
-	Brazil	Aneel: Tariff range (May)		
05:00	Germany	IFO Business Climate (Apr)	81.0	
11:00	USA	University of Michigan Sentiment (Apr - F)	69.0	
During the week				
-	Brazil	Tax Collections (Mar)		

	2017	2018	2019	2020
GDP growth (%)	1,3	1,3	1,1	-1,0
Consumer inflation - IPCA (%)	2,95	3,75	4,3	3,0
Wholesale inflation - IGP-M (%)	-0,5	7,5	7,3	4,9
Selic Rate (% eop)	7,00	6,50	4,50	3,00
Exchange Rate (BRL/USD, eop)	3,31	3,87	4,03	4,70
Industrial Production (%)	2,5	1,0	-1,1	-0,8
Retail Sales (%)	4,0	5,0	3,9	-1,7
Job Creation (in thousands)	1899	966	1816	-189
Unemployment Rate (% of labor force, avg)	12,7	12,3	12,1	13,3
Outstanding Credit Growth (%)	-0,5	5,1	6,5	4,0
Trade Balance (USD bn)	64,0	53,0	39,4	46,2
Current Account (USD bn)	-15,0	-41,5	-50,8	-30,1
Primary Balance (BRL bn)	-111	-108,3	-62	-350
Gross Debt (% of GDP)	74,1	76,5	75,8	85,8

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