

Indicators suggest sharper GDP contraction in the first quarter

Overview

- **Economic activity data suggests a sharper decline in first-quarter GDP than previously expected.** The IBC-Br, a monthly proxy for GDP, fell 5.9% in March as the manufacturing, service and retail sectors posted major losses for the month. Combined, these figures point toward a 2% drop in activity for the Brazilian economy in the first quarter. The continued shutdown of several industries, along with a sharp decline in business and consumer confidence, suggest an even deeper contraction in this second quarter. In our view, the reopening of the economy still depends on a reduction in the number of new cases and deaths from COVID-19, and questions about immunization and the spread of the virus are likely to persist until an effective treatment or a vaccine is developed.
- **The Monetary Policy Committee (Copom) minutes confirm a cautious approach by the Central Bank regarding next steps.** Despite the current disinflationary environment, which reflects a severe domestic and global recession, the Central Bank reaffirmed that its current roadmap consists of one last reduction of the interest rate, not greater than 0.75 pp. The document raised concerns about how markets will respond to sharper rate cuts, in addition to discussing limits for these rate cuts due to fiscal concerns. We believe there is still room for trimming the Selic rate by 0.75 pp, depending on how the situation evolves until the next meeting, especially the exchange rate.
- **External and domestic factors help explain the depreciation of the BRL in recent weeks.** Uncertainties in the local and world economies and a narrowing of the interest rate differential are some of the elements behind the Brazilian currency's slide against the dollar, which was more pronounced than that of its peers.
- **Additionally, questions about the extent of the recession and the possibility of other waves of COVID-19 infection rattled world markets and international authorities this week.** In a speech, the Fed chairman said that recovery could be more gradual than expected, with more lasting effects on the job market. News of a resurgence in coronavirus cases in Germany, South Korea and China after these economies began to take steps to reopen also prompted caution, even if April's data suggests that recovery is underway in China, driven mainly by the manufacturing sector, which grew 3.9% last month.

The week ahead

- **In a slow week, all eyes will be on the preliminary reading of the Industry Confidence Index for May.** Given the level of uncertainty surrounding the size of the retraction and the pace of the subsequent recovery, the leading indicators become even more important.
- **Abroad, the markets will be on the lookout for previews of Europe's PMI readings for May.** The indicators are expected to show a slight improvement this month, reflecting the gradual reopening of European economies, but still at historically low levels.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 05/18				
08:00	Brazil	FGV: IGP-10 (May)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	MDIC: Trade Balance (weekly)		
09:30	Chile	GDP (1Q)		-1.7% (YoY)
--	Japan	GDP (1Q - P)	-1.1% (QoQ)	
Terça-Feira 19/05				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
06:00	Germany	ZEW Survey Expectations (May)	30	
Wednesday 05/20				
08:00	Brazil	FGV: IGP-M (2nd preview) (May)		
10:00	Brazil	CNI: Industrial Confidence (Apr)		
06:00	Eurozone	CPI (Apr - F)		
15:00	USA	Fed Minutes		
--	Peru	GDP (1Q)		-0.7% (YoY)
Thursday 05/21				
08:00	Brazil	FGV: Industrial Confidence (May - P)		
05:30	United Kingdom	Markit: Composite PMI (May - P)		
09:30	USA	Fed Philadelphia Outlook (May)	-40	
09:30	USA	Initial Jobless Claims - Weekly		
Friday 05/22				
10:00	Brazil	CNI: Construction Confidence (Apr)		
-	Brazil	National treasure: Revenues and expenses report		
04:30	Germany	Markit: Composite PMI (May - P)	25	
05:00	Eurozone	Markit: Composite PMI (May - P)		
During the week				
--	Brazil	Tax Collections (Apr)		R\$ 99.5 b

	2017	2018	2019	2020
GDP growth (%)	1.3	1.3	1.1	-4.0
Consumer inflation - IPCA (%)	2.95	3.75	4.3	2.2
Wholesale inflation - IGP-M (%)	-0.5	7.5	7.3	4.6
Selic Rate (% eop)	7.00	6.50	4.50	2.25
Exchange Rate (BRL/USD, eop)	3.31	3.87	4.03	4.90
Industrial Production (%)	2.5	1.0	-1.1	-3.0
Retail Sales (%)	4.0	5.0	3.9	-6.5
Job Creation (in thousands)	1899	966	1816	-1418
Unemployment Rate (% of labor force, avg)	12.7	12.3	12.1	13.7
Outstanding Credit Growth (%)	-0.5	5.1	6.5	1.0
Trade Balance (USD bn)	64.0	53.0	39.4	43.4
Current Account (USD bn)	-15.0	-41.5	-50.8	-27.6
Primary Balance (BRL bn)	-111	-108.3	-62	-645
Gross Debt (% of GDP)	74.1	76.5	75.8	89.9

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