

Data confirms strong impact of the pandemic on economic activity

Overview

- **The GDP fell 1.5% in the first quarter of this year compared to the last quarter of last year, reflecting the impacts of the pandemic.** It is important to note the 2.0% drop in consumption and the 3.1% upswing in investments. We expect the second quarter to show an even more sluggish result, since restrictive measures were still in effect for at least two of its months. Recovery will become more evident from now on as everything gradually returns to normal. A phased reopening plan was submitted this week for activities in the state of São Paulo, starting in June, which is also underway in other states.
- **The unemployment rate climbed to 11.9% in April (seasonally adjusted) and 948,000 formal vacancies were closed during the year.** Even with worker protection measures, formal vacancies dropped significantly and employment as a whole retracted 3.3% in April. As a result, the wage bill fell 0.8% compared to April last year, even with earnings being preserved. The contraction in the wage bill is a limiting factor for a rapid growth in consumption following the quarantine.
- **The downturn in activity and the strong exchange rate depreciation in the year are beginning to affect external accounts.** Current transactions totaled USD 3.8 billion in April, with a significant contribution from the balance of trade and adjustments to some items such as travel and profit/dividend remittances. We estimate that an exchange rate above BRL/USD 5.5 would bring the current account into balance in early 2021 – which corroborates the scenario of additional appreciation until next year.
- **Inflation remains muted, with a negative change of 0.4% in the core over the last three months.** The IPCA-15 registered deflation of 0.59% in May, with the relief attributed to food and fuel prices. Core inflation continue to recede, indicating that inflation will tend to remain low in the coming months. This scenario and the weak GDP pace provide a comfortable situation for the Central Bank to continue its strategy to cut interest rates, leading to 2.25% this year.
- **Emergency aid measures affected April's primary balance, with a deficit of BRL 92.9 billion.** The same behavior – an increase in spending and a drop in tax collection – should be observed in coming months, leading the deficit to exceed BRL 600 billion this year.
- **The pandemic also affected the first quarter US GDP, which fell by 5%.** The second quarter drop is expected to be even more intense. Nonetheless, there is evidence that activities have started to pick up in the country, including consumption. News on reopening in Europe remains positive, with cases of Covid-19 contained – a good sign for resumption and recovery. Escalating tensions between China and the USA are an additional risk to the scenario and must be closely monitored.

The week ahead

- **The main highlight of the domestic agenda will be the release of industrial production results.** We expect another significant drop in April. The May IGP-DI will also be released, which is important to monitor the effects of exchange rate depreciation on prices.
- **Highlights abroad include employment data for May in the US and the ECB meeting.** The number of layoffs is expected to reach nearly 8 million. Other important indicators will be retail sales and unemployment in the Eurozone and China's May PMI index.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 06/01				
08:25	Brazil	BCB: Focus Survey		
10:00	Brazil	Markit: PMI Manufacturing (May)		
15:00	Brazil	MDIC: Trade Balance - monthly (May)		
--	Brazil	Fenabreve: Vehicle sales (May)		
--	Brazil	CNI: Capacity Utilization (Apr)	0.6	
05:30	United Kingdom	Markit: Manufacturing PMI (May - F)		
11:00	USA	ISM Manufacturing (May)	43.3	
--	China*	Manufacturing PMI (May)	51	
*The indicator will be released on May, 30th				
Terça-Feira 02/06				
04:55	Germany	Markit: Manufacturing PMI (May - F)		
05:00	Eurozone	Markit: Manufacturing PMI (May - F)		
Wednesday 06/03				
05:00	Brazil	FIPE: Consumer Price Index - monthly (May)		-0.30% (MoM)
09:00	Brazil	IBGE: Industrial Production (PIM) (Apr)		
10:00	Brazil	Markit: Composite PMI (May)		
14:30	Brazil	BCB: Commodity Price Index		
14:30	Brazil	BCB: Currency Flows (weekly)		
05:30	United Kingdom	Markit: Composite PMI (May - F)		
09:15	USA	Employment Change (ADP) (May)	-9000k	
11:00	USA	ISM Services (May)	44.7	
Thursday 06/04				
--	Brazil	Anfavea: Vehicle Production (May)		
04:55	Germany	Markit: Composite PMI (May - F)		
05:00	Eurozone	Markit: Composite PMI (May - F)		
08:45	Eurozone	Central bank meeting		
09:30	USA	Initial Jobless Claims - Weekly		
Friday 06/05				
08:00	Brazil	FGV: IGP-DI (May)		0.91% (MoM)
09:30	USA	Unemployment Rate (May)	19.7%	
09:30	USA	Change in Nonfarm Payrolls (May)	-8000k	

	2017	2018	2019	2020
GDP growth (%)	1.3	1.3	1.1	-5.9
Consumer inflation - IPCA (%)	2.95	3.75	4.3	1.5
Wholesale inflation - IGP-M (%)	-0.5	7.5	7.3	5.1
Selic Rate (% eop)	7.00	6.50	4.50	2.25
Exchange Rate (BRL/USD, eop)	3.31	3.87	4.03	5.10
Industrial Production (%)	2.5	1.0	-1.1	-7.5
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	14.0
Outstanding Credit Growth (%)	-0.4	5.1	6.5	5.0
Trade Balance (USD bn)	64.0	53.0	39.4	50.5
Current Account (USD bn)	-15.0	-41.5	-50.8	-7.2
Primary Balance (BRL bn)	-111	-108.3	-62	-750
Gross Debt (% of GDP)	74.1	76.5	75.8	93.8

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