

Economic activity continues to beat expectations

Overview

- **Economic activity continues to show positive surprises, particularly when it comes to job growth.** In fact, the Caged survey pointed to a much lower net destruction of formal jobs than previously expected, with a decrease in layoffs and an increase in new hires. In that sense, total credit recorded a strong growth in June. Results were driven by the ongoing economic recovery and credit stimulus measures, which have alleviated the economic impacts of the pandemic.
- **July data released so far suggests that the recovery will remain on course in the third quarter.** Business and consumer confidence indicators continued the recovery trend that started in May. Cielo's weekly nominal revenue indicator also points to an economic recovery in services and especially in retail, although it has started to show some moderation.
- **Brazil's external accounts continue to undergo adjustments, and the country posted a USD 2.2 billion current account surplus in June.** That number is largely explained by strong trade balance data buoyed by commodity exports, and by a drop in domestic demand that has limited imports. The capital account also offered some positive news: an increase in foreign direct investments (USD 4.8 billion) and the net inflow of capital in fixed income and the stock market.
- **Strong GDP contractions both in the U.S. and the Eurozone in the second quarter reflected the effects of business closures due to the pandemic.** The first estimates showed annualized declines of 34.6% and 40.3% on the margin, respectively. Because of the unprecedented fiscal and monetary stimulus and the partial reopening of the economy, the contraction was less severe than earlier expected. Leading indicators suggest that global recovery remains on course, especially in China and Europe.
- **As for monetary stimulus, the Fed has extended its asset purchase program and signaled that more stimulus will be granted if necessary.** The measures are aimed at providing liquidity to companies to support economic recovery, as the number of COVID-19 cases continues to increase and the U.S. economic recovery begins to show signs of winding down.

The week ahead

- **This week, the market will turn its attention to the Monetary Policy Committee (Copom) decision and consumer inflation for July.** We expect the benchmark Selic rate to remain at 2.25% due to the large volume of stimulus in the economy, which makes future growth and inflation forecasts more uncertain and causes the Central Bank to rely more on the balance of risks than on inflation forecasts. In any case, we recognize that, in its central scenario, models indicate that there is room for a residual cut. Also worth noting are manufacturing output for June and automotive sector data for July, which are expected to confirm a persisting recovery as we enter the third quarter.
- **Abroad, we expect final PMI readings for July to confirm an improvement in global activity.** Also on the radar are China's trade balance data, Japan's second-quarter GDP growth and the monetary policy decision by the Bank of England.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 08/03				
08:25	Brazil	BCB: Focus Survey		
10:00	Brazil	Markit: PMI Manufacturing (Jul)		
15:00	Brazil	MDIC: Trade Balance - monthly (Jul)		
--	Brazil	Fenabrave: Vehicle sales (Jul)		
04:55	Germany	Markit: Manufacturing PMI (Jul - F)		
05:00	Eurozone	Markit: Manufacturing PMI (Jul - F)		
05:30	United Kingdom	Markit: Manufacturing PMI (Jul - F)		
11:00	USA	ISM Manufacturing (Jul)	53.6	
20:50	Japan	GDP (1Q - F)	-0.7% (q/q)	
(*) The indicator will be released on August, 2nd				
Tuesday 08/04				
05:00	Brazil	FIPE: Consumer Price Index - monthly (Jul)		
09:00	Brazil	IBGE: Industrial Production (PIM) (Jun)		
Wednesday 08/05				
10:00	Brazil	Markit: Composite PMI (Jul)		
14:30	Brazil	BCB: Commodity Price Index		
14:30	Brazil	BCB: Currency Flows (weekly)		
--	Brazil	BCB: Central bank meeting	2.25%	2.25%
04:55	Germany	Markit: Composite PMI (Jul - F)		
05:00	Eurozone	Markit: Composite PMI (Jul - F)		
05:30	United Kingdom	Markit: Composite PMI (Jul - F)		
09:15	USA	Employment Change (ADP) (Jul)	1250k	
11:00	USA	ISM Services (Jul)	55	
Thursday 08/06				
08:00	Brazil	FGV: IGP-DI (Jul)		
08:00	Brazil	FGV: Employment Indicators (Jul)		
09:00	Brazil	IBGE: Unemployment Change (Jun)	13.3%	13.1%
08:00	United Kingdom	Central bank meeting		
09:30	USA	Initial Jobless Claims - Weekly		
08/07	China	Trade Balance (Jul)		
Friday 08/07				
09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Jul)		
--	Brazil	Anfavea: Vehicle Production (Jul)		
03:00	Germany	Industrial Production (Jun)		
09:30	USA	Unemployment Rate (Jul)	10.5%	
09:30	USA	Change in Nonfarm Payrolls (Jul)	1875k	

	2017	2018	2019	2020
GDP growth (%)	1,3	1,3	1,1	-4,5
Consumer inflation - IPCA (%)	2,95	3,75	4,31	1,9
Wholesale inflation - IGP-M (%)	-0,5	7,5	7,3	8,5
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	-4,5
Retail Sales (%)	4,0	5,0	3,9	-6,0
Job Creation (in thousands)	1899	966	1816	-5200
Unemployment Rate (% of labor force, avg)	12,7	12,3	12,1	13,5
Outstanding Credit Growth (%)	-0,4	5,1	6,5	5,0
Trade Balance (USD bn)	64,0	53,0	39,4	58,0
Current Account (USD bn)	-15,0	-41,5	-50,8	-7,7
Primary Balance (BRL bn)	-111	-108,3	-61,9	-862
Gross Debt (% of GDP)	74,1	76,5	75,8	96,0

Technical Staff

Department of Economic Research and Studies Fernando Honorato Barbosa

Economists Ariana Stephanie Zerbinatti / Constantim Jancsó / Fabiana D'Atri / Myriã Tatiany Neves Bast / Priscila Pacheco Trigo / Robson Rodrigues Pereira / Thiago Coraucci de Angelis / Thomas Henrique Schreurs Pires

Interns Gustavo Rostelato de Miranda / Henrique Monteiro de Souza Rangel / Lucas Daniel Duarte / Lucas Oliveira Costa da Silva / Marcelo Henrique Leite Alonso

economiaemdia.com.br

DEPEC – BRADESCO may not be held liable for any acts/decisions taken on the basis of the information available through its publications and projections. The information and opinions provided herein are carefully checked and prepared by fully qualified professionals, but should not be taken as a basis, support, guidance or standard for any document, assessment, judgment or decision of formal or informal nature, under any circumstances. Therefore, the user hereby undertakes sole responsibility for all consequences arising from the use of the data or analyses hereof, hereby exempting BRADESCO from all claims thereof. Upon accessing the information hereof, users hereby accept these terms of use and responsibility. Total or partial reproduction of this publication is strictly prohibited, except upon due authorization from Banco BRADESCO or full citation of the source (including the authors, the publication, and Banco BRADESCO).