

## Favorable assessment of the economy continues in the second quarter

### Overview

- **The negative surprise conferred by the IBC-BR did not change our favorable reading for economic activity in the second quarter.** The IBC-Br – monthly GDP proxy – dropped 0.4% between May and April, falling short of the market's forecast, which expected an upswing of 1.1%. Part of the surprise is explained by the revision of the series, especially in April, which shifted from a high of 0.4% to 0.9%. The result goes against the surveys released by the IBGE last week, which indicated growth in industry and retail, and this week, with services on the rise. Regarding the latter, the May service volume expanded by 1.2%, with the highlight being the 17.9% increase in services rendered to households and the 3.7% growth in transportation. We still expect the economy to recover in the coming months as vaccination continues to advance, thus allowing for a fuller reopening. We expect the GDP to remain stable in the second quarter and to increase 5.2% in 2021.
- **U.S. inflation was once again surprisingly high, mainly reflecting transitory factors.** This is in line with our expectation that stimuli will begin to be withdrawn by the end of this year, with a decrease in asset purchases. The June consumer inflation index climbed 0.9%, above market expectations (0.5%). In turn, the price index accumulated a 5.4% rise in the last twelve months. The result showed an advance in items linked to the reopening of the economy, such as accommodation and food services. The prices of industrial goods, especially vehicles, also remained under pressure, reflecting supply shocks resulting from the bottlenecks observed in the production chains. Inflationary risks should linger in the coming months. In turn, in a speech this week, Fed Chairman Jerome Powell reinforced the view that rising inflation is within the monetary policy framework, as it mainly reflects transitory factors. In any case, Powell also stated that there will be a new round of discussions about the beginning of stimulus reduction.
- **China's growth rate is expected to continue decelerating in the coming months.** The GDP increased by 7.9% in the second quarter in the year-over-year comparison, climbing 1.3% in relation to the first three months of the year. June results were a positive surprise. Both the expansion of industrial production (8.3%) and retail sales (10.8%) surpassed expectations in the month. On the other hand, year-to-date fixed asset investments decelerated from a year-over-year increase of 15.4% in May to 12.6% in June. This set of indicators points to a favorable transition from the second to the third quarter, mainly backed by the supply side, which has been benefited by the still heated external demand. In any case, the economy is gradually returning to its growth pattern observed before the pandemic. In fact, our growth estimate for the second half of the year is between 5 and 6% and the direction of economic policy, less restrictive than that seen in recent months, should smooth out this deceleration.

### The week ahead

- **Inflation and tax collection stand out on the domestic agenda.** Next week, we will learn about the IPCA-15 for July, which should show a 0.68% increase, reinforcing the unfavorable inflation dynamics in the short term. The week should also feature federal tax collection data for June, but without a specific date.
- **The spotlight on the foreign agenda will be on the monetary policy decision and PMI indices in Europe.** The European Central Bank will announce its monetary policy decision on Wednesday, when it should adjust its guidance for the coming months after announcing how its strategy changes (which now indicate a symmetrical target of 2%). On Thursday, we will have a preview of the PMI indices for July in European countries.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
<b>Monday 07/19</b>				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
08:25	Brazil	BCB: Focus Survey		
15:00	Brazil	Secex: Trade Balance (weekly)		
<b>Tuesday 07/20</b>				
08:00	Brazil	FGV: IGP-M (2nd preview) (Jul)		
<b>Wednesday 07/21</b>				
14:30	Brazil	BCB: Currency Flows (weekly)		
<b>Thursday 07/22</b>				
08:45	Eurozone	Central bank meeting		
09:30	USA	Initial Jobless Claims - Weekly		
<b>Friday 07/23</b>				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
09:00	Brazil	IBGE: Consumer Price Index (IPCA-15) (Jul)		
-	Brazil	CNI: Industrial Confidence (Jun)		
04:30	Germany	Markit: Composite PMI (Jul - P)		
05:00	Eurozone	Markit: Composite PMI (Jul - P)		
05:30	United Kingdom	Markit: Composite PMI (Jul - P)		
<b>During the week</b>				
-	Brazil	Tax Collections (Jun)	R\$ 141.7 bn	
-	Brazil	FGV: Consumer Confidence (Jul)		

	2019	2020	2021	2022
<b>GDP growth (%)</b>	1.4	-4.1	5.2	2.2
<b>Consumer inflation - IPCA (%)</b>	4.3	4.5	6.4	3.3
<b>Wholesale inflation - IGP-M (%)</b>	7.3	23.1	17.7	4.0
<b>Selic Rate (% eop)</b>	4.50	2.00	6.50	6.50
<b>Exchange Rate (BRL/USD, eop)</b>	4.03	5.20	4.70	5.30
<b>Industrial Production (%)</b>	-1.1	-4.5	6.0	2.5
<b>Retail Sales (%)</b>	3.9	-1.5	6.3	3.6
<b>Job Creation (in thousands)</b>	1816	-6619	2615	898
<b>Unemployment Rate (% of labor force, avg)</b>	11.9	13.2	13.8	12.8
<b>Outstanding Credit Growth (%)</b>	6.5	15.6	11.0	9.3
<b>Trade Balance (USD bn)</b>	40.5	43.2	75.5	60.5
<b>Current Account (USD bn)</b>	-50.7	-12.5	8.3	-16.0
<b>Primary Balance (BRL bn)</b>	-61.9	-703.0	-146	-97
<b>Gross Debt (% of GDP)</b>	74.3	88.8	82.1	83.1

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