

Economic activity continues to recover in the beginning of the third quarter

Overview

- **Surveys released throughout the week by FGV indicate steady economic recovery in the third quarter.** Both consumer and business confidence indexes continued to improve in July. The Consumer Confidence Index rose 1.3 points – the highest rate since October last year. Similarly, industry, construction, trade and service indicators rose 0.8, 3.3, 5.1 and 4.2 points in July, respectively. Although the overall assessment of the current scenario remains favorable, the main driver behind the improvement in confidence this month was the expectations component. This trend can be explained by the progress in Brazilian vaccination rollout and subsequent expectations of an economic reopening process in the second half of the year. In fact, these favorable signs reinforce our still preliminary expectation of a GDP growth above 0.5% in the third quarter, after stabilizing for the last three months.
- **Credit expansion and the job market's recovery tend to continue to favor an economic recovery.** According to data released by the Central Bank of Brazil (BC), the total credit portfolio of the National Financial System rose 16.3% in June, year over year. This is the biggest leap since June 2013, in this basis of comparison. The main highlight were individual loans, with a year-over-year increase of 17.5% driven primarily by mortgage and payday loans. In the same period, the country recorded a creation of 309,000 formal jobs. In addition to the economy's resilience amidst the worsened pandemic scenario in the first quarter, the reedition of the Emergency Benefit for Preserving Employment and Income (BEm) helped mitigate the number of layoffs throughout the year. A total of 1.5 million jobs were created during the first half of the year. Therefore, as the economy reopens at a faster pace, the continued improvement in employment and credit expansion should continue to drive the recovery process.
- **Abroad, the Fed recognized steady economic improvement, but maintained an accommodative monetary policy.** The FOMC decided not to make any changes to the monetary policy, keeping the benchmark interest rate and asset purchase programs unchanged. Upon a scenario assessment, in turn, the board highlighted improvements in the U.S. economy's recovery, while still considering the acceleration of inflation to be temporary. However, the announcement suggests that the economy's progress towards the monetary policy targets was still unsubstantial, which requires maintaining monetary support. In any case, the Fed's acknowledgment of improvement in the economic scenario indicates that the beginning of the normalization process is being discussed and may happen earlier than expected.

The week ahead

- **The BC's monetary policy meeting is the highlight of next week's domestic agenda.** In our opinion, the Monetary Policy Committee (Copom) will ultimately speed up the monetary policy normalization pace, in light of the recent speedup in inflation and expectations. We expect a 100-b.p. increase in the Selic rate, totaling 5.25%. Still, the reaction to shocks pressuring consumer inflation in the short term should take into account their nature, the unprecedented nature of the pandemic and uncertainties carried into forecasts, in addition to the risk of spreading, which is apparently low. In this sense, we do not believe it is likely that interest normalization will converge to a process of conventional monetary tightening.
- **The main highlight in the global scenario are U.S. job market data in July.** Payroll and the unemployment rate have been important elements to predict the Fed's next steps in terms of the monetary policy. In this sense, after initiating discussions regarding the withdrawal of stimuli this week, the data to be released next Friday, related to July, should help calibrate the Fed's next steps.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 08/02				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:25	Brazil	BCB: Focus Survey (weekly)		
10:00	Brazil	Markit: PMI Manufacturing (Jul)		
15:00	Brazil	Secex: Trade Balance - monthly (Jul)	US\$ 9.3 bn	US\$ 8.8 bn
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)	60.7	
22:00	China	Manufacturing PMI (Jul)*	51.0	
*The indicator will be released on Aug, 1st				
Tuesday 08/03				
05:00	Brazil	FIPE: Consumer Price Index - monthly (Jul)		
09:00	Brazil	IBGE: Industrial Production (PIM) (Jun)	0.3% (MoM)	0.6% (MoM)
Wednesday 08/04				
10:00	Brazil	Markit: Composite PMI		
10:00	Brazil	Markit: PMI Services		
14:30	Brazil	BCB: Commodity Price Index (Jul)		
14:30	Brazil	BCB: Currency Flows (weekly)		
18:30	Brazil	BCB: Central bank meeting	5.25%	5.25%
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)	650k	
11:00	USA	ISM Services (Jul)	61.0	
Thursday 08/05				
08:00	United Kingdom	Central bank meeting	0.1%	
09:30	USA	Initial Jobless Claims - Weekly		
Friday 08/06				
03:00	Germany	Industrial Production (Jun)		
09:30	USA	Unemployment Rate (Jul)	5.7%	
09:30	USA	Change in Nonfarm Payrolls (Jul)	926k	
During the week				
-	Brazil	Fenabreve: Vehicle sales (Jul)		
-	Brazil	Anfavea: Vehicle Production (Jul)		
-	China	Trade Balance (Jul)		

	2019	2020	2021	2022
GDP growth (%)	1,4	-4,1	5,2	2,2
Consumer inflation - IPCA (%)	4,3	4,5	7,1	3,3
Wholesale inflation - IGP-M (%)	7,3	23,1	20,2	4,0
Selic Rate (% eop)	4,50	2,00	7,00	7,00
Exchange Rate (BRL/USD, eop)	4,03	5,20	4,70	5,30
Industrial Production (%)	-1,1	-4,5	6,0	2,5
Retail Sales (%)	3,9	-1,5	6,3	3,6
Job Creation (in thousands)	1816	-6619	2615	898
Unemployment Rate (% of labor force, avg)	11,9	13,2	13,8	12,4
Outstanding Credit Growth (%)	6,5	15,6	12,0	9,3
Trade Balance (USD bn)	40,5	43,2	76,2	74,3
Current Account (USD bn)	-50,7	-12,5	11,6	-1,7
Primary Balance (BRL bn)	-61,9	-703,0	-131	-87
Gross Debt (% of GDP)	74,3	88,8	81,8	82,7

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