

5.2% GDP forecast maintained for this year

Overview

- **The GDP result for the second quarter is compatible with our forecast for 2021.** The GDP dropped 0.1% between the first and second quarters, with the service sector gaining 0.7% in the margin. On the demand side, household consumption was stable in the margin, while gross fixed capital formation dropped 3.6% and exports grew 9.6%. In our assessment, the worsening of the pandemic between the first and second quarters contributed towards more moderate results in the period. Therefore, as vaccination rollout advances and consequently leads to better population mobility, we should see an improvement in third-quarter results. Thus, we reaffirm our GDP growth forecast of 5.2% for this year.
- **Industry is still recovering slowly due to the shortage in supplies.** Industrial output dropped 1.3% between June and July. The biggest decline was seen in the automotive industry, recording a 2.8% drop over last month. Such underwhelming performance sheds light onto the industry's struggle with the shortage of supplies, placing a bearish risk for the growth rate this year.
- **Looking ahead, even if the Selic rate does not rise far above our 7.5% forecast, tighter financial conditions affect the economy.** Domestic uncertainties, which include rationing risks, are added to the chances of a weaker commodity and global impulse. Therefore, we have revised our 2022 GDP forecast from 2.2% to 1.8%.
- **Deflation of industrial products drove the IGP down this month.** The IGP-M was up 0.66% in August, a moderate increase compared to July (0.78%), reflecting the deflation of industrial products in wholesale, especially amidst the drop in iron ore prices. Agriculture and livestock prices, on the other hand, had a sharp upturn due to less favorable conditions for the grain harvest. The performance in wholesale prices sends a more favorable, albeit still incipient, sign for consumer inflation indicators, which remain pressured by successive shocks accumulated over the past year.
- **In the U.S., Powell has been admitting that job market prospects have improved significantly in recent months, even though the maximum employment goal has not been met.** In fact, 235,000 jobs were created in August, well below expectations and the monthly average of 832,000 jobs this year. Even though June and July data have been revised upwards, there are still 5.5 million jobs for the economy to return to pre-pandemic employment. The unemployment rate dropped to 5.2% in August, but it is still almost 2 percentage points above February 2020 and the labor market participation rate is still far from returning to normal.

The week ahead

- **Consumer inflation is the domestic agenda's highlight next week.** IBGE will release the IPCA for August next Thursday. We estimate a 0.69% increase over the previous month. We believe that August and September will represent the peak of prices under this metric, after which a decompression in commodities and industrial goods will add to the effects of monetary policy adjustments, favoring a deceleration of inflation.
- **Abroad, amidst a weaker agenda, attentions will turn to the Eurozone.** The final reading of the GDP for the second quarter will be released on Tuesday, and the ECB's monetary policy meeting will take place on Thursday. Finally, the release of the Beige Book in the U.S. on Wednesday should help take the pulse of the economy.

Monday 09/06

08:25	Brazil	BCB: Focus Survey (weekly)
15:00	Brazil	Secex: Trade Balance (weekly)

Tuesday 09/07

03:00	Germany	Industrial Production (Jul)	
06:00	Germany	ZEW Survey Expectations (Sep)	
06:00	Eurozone	GDP (2Q - F)	
20:50	Japan	GDP (2Q - F)	0.4% (QoQ)

Wednesday 09/08

08:00	Brazil	FGV: IGP-DI (Aug)	
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)	
10:00	Brazil	Anfavea: Vehicle Production (Aug)	
14:30	Brazil	BCB: Currency Flows (weekly)	
15:00	USA	Fed: Beige Book	
22:30	China	CPI (Aug)	1.1% (YoY)

Thursday 09/09

09:00	Brazil	IBGE: Consumer Price Index (IPCA) (Aug)	0.70% (MoM)	0.69% (MoM)
09:00	Brazil	Conab: 12th Grains crop survey 2020/2021 (Sep)		
09:00	Brazil	IBGE: Agricultural production Survey (Aug)		
09:00	Brazil	IBGE: Industrial Production - regional (Jul)		
08:45	Eurozone	Central bank meeting		
09:30	USA	Initial Jobless Claims - Weekly		
20:00	Peru	Central bank meeting		

Friday 09/10

05:00	Brazil	FIPE: Consumer Price Index (weekly)		
09:00	Brazil	IBGE: Retail sales (PMC) (Jul)	0.5% (MoM)	0.6% (MoM)
03:00	Germany	CPI (Aug - F)		
-	USA	USDA: World Agricultural Supply and Demand Estimates		

During the week

-	China	Trade Balance (Aug)	US\$ 55.3 bn
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	2019	2020	2021	2022
GDP growth (%)	1.4	-4.1	5.2	1.8
Consumer inflation - IPCA (%)	4.3	4.5	7.8	3.3
Wholesale inflation - IGP-M (%)	7.3	23.1	18.6	4.0
Selic Rate (% eop)	4.50	2.00	7.50	7.50
Exchange Rate (BRL/USD, eop)	4.03	5.20	5.00	5.50
Industrial Production (%)	-1.1	-4.5	5.4	1.5
Retail Sales (%)	3.9	-1.5	6.0	3.6
Job Creation (in thousands)	1816	-8373	5601	2753
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	71.4	83.0
Current Account (USD bn)	-50.7	-12.5	9.0	10.9
Primary Balance (BRL bn)	-61.9	-703.0	-110	-102
Gross Debt (% of GDP)	74.3	88.8	81.5	83.2

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