

Inflation surprises sustain expectations of higher rates

Overview

- **Consumer inflation continues to surprise to the upside.** The IPCA rose 0.87% in August, once again exceeding expectations. Inflationary pressure was widespread, with surprises not only in regulated prices, but also in core industrial goods and services. Food inflation also accelerated, reflecting the unfavorable weather conditions observed in late July. The 12-month change in the IPCA reached a high of 9.7%.
- **Inflation pressures will likely persist despite some relief in wholesale prices.** Driven by the decline in iron ore prices, the industrial IPA fell 2.1% in August, the effects of which were felt across the entire industrial chain. Although deflation suggests some accommodation of pressure on goods, risks to consumer inflation remain high for 2021. Consumer electricity tariffs were raised because of the surcharges related to the drought, while the reopening of the economy may exert some pressure on service prices. Considering the persistent risks of additional surprises and some contamination of inflation expectations for 2022, we expect the Selic rate to continue rising to levels above the neutral level of around 6.5%.
- **Supply bottlenecks also pose additional risks, including for economic activity.** The lack of inputs continues to impact the industry, especially the automobile sector, where production declined 4.3% in August. Vehicle inventories are at all-time lows, representing just 13 days of sales, compared to the 29-day historical average. We expect the gradual replenishment of inventories to begin over the next few months, thus providing a certain boost to the industry's results from then on.
- **Central economies continue to monitor the evolution of economic activity amid concerns about the delta variant.** In the U.S., the Beige Book indicated moderation in the economic growth rate in August, with partial service suspensions resulting from the new occasional Covid-19 outbreaks. Despite this impact, all regions reported growth in employment, an important variable to determine the beginning tapering. The European Central Bank signaled that it will make moderate adjustments to its asset purchase program, reflecting stronger signs of economic activity and expectations of strong growth ahead. However, unlike the North American case, the adjustments are only one-off and should not be read as a permanent tapering of the program.

The week ahead

- **The highlight of the domestic agenda will be the release of economic indicators.** The IBGE will release data on the services sector revenue and the Central Bank of Brazil will publish the IBC-Br economic activity index, both for July. We expect economic activity to have advanced at the beginning of the third quarter, in line with expectations of GDP growth at the margin in the same period.
- **Attention abroad will focus on inflation indicators.** August inflation figures will come out for both the U.S. and the Eurozone, which are important to assess the next steps for monetary policy, especially in the U.S. Chinese economic activity data will be released on Tuesday, also for last month.

Time	Country	Event	Forecast (Bloomberg)	Forecast (Depec)
Monday 09/13				
08:25	Brazil	BCB: Focus Survey (weekly)		
15:00	Brazil	Secex: Trade Balance (weekly)		
Tuesday 09/14				
09:00	Brazil	IBGE: Services Sector Volume (PMS) (Jul)		1.0% (MoM)
-	Brazil	CNI: Industrial Confidence (Sep)		
09:30	USA	CPI (Aug)	0.4% (MoM)	
23:00	China	Industrial Production (Aug)	13.4% (YoY)	
23:00	China	Fixed Assets Investments (Aug)	9.1% (YoY)	
Wednesday 09/15				
09:00	Brazil	BCB: Economic Activity Index (Jul)		0.4% (MoM)
14:30	Brazil	BCB: Currency Flows (weekly)		
06:00	Eurozone	Industrial Production (Jul)		
09:30	USA	Empire State Manufacturing Index (Sep)	18.6	
10:15	USA	Industrial Production (Aug)	0.5% (MoM)	
Thursday 09/16				
08:00	Brazil	FGV: Consumer Price Index (IPC-S) (weekly)		
08:00	Brazil	FGV: IGP-10 (Sep)		
09:30	USA	Initial Jobless Claims - Weekly		
09:30	USA	Fed Philadelphia Outlook (Sep)	20.0	
Friday 09/17				
05:00	Brazil	FIPE: Consumer Price Index (weekly)		
06:00	Eurozone	CPI (Aug - F)		
11:00	USA	University of Michigan Sentiment (Sep - P)	73.7	

	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

Technical Staff

Director of Economic Research and Studies

Fernando Honorato Barbosa

Economists

Ana Beatriz Moreira dos Santos / Constantin Jancsó / Ederson Luiz Schumanski / Fabiana D'Atri / Felipe Wajskop França / Myriã Tatiany Neves Bast / Priscila Pacheco Trigo / Renan Bassoli Diniz / Thiago Coraucci de Angelis / Vitor Vidal Costa Velho

Interns

Bruna Andreata Valentino / Henrique Monteiro de Souza Rangel / Lorena Pires Sene / Lucas Daniel Duarte / Rafaela de Sousa Silva

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