

Deceleration of Core Services Eases Additional Inflation Pressure on the Central Bank

Highlights

- » **The August IPCA-15 presented a more positive composition, with surprises concentrated in more volatile items.** The result was in line with market expectations (0.19%) and above our forecast (0.08%), which factored in a larger deflation of airline tickets offset by a more intense increase in gasoline prices. This release's main highlight was the core services metric, with a reversal of the significant increase in voluntary vehicle insurance recorded in July, as well as declines in bank services and beauty services. Thus, although the level of airline tickets prevented a more significant easing of service inflation, the underlying perspective contributed to a more constructive outlook for the overall August inflation. Including recurring items, the headline should get closer to 0.05%, mitigating the pressures seen in the July IPCA figures.
- » **Regarding the labor market, the deceleration in labor-intensive service inflation is a relevant factor from this release, given that employment data remain strong on the margin.** CAGED recorded 188,000 formal job creation in July, along with an upward revision of the previous month's data. The strong performance was primarily driven by the industrial sector job creation, bringing the total accumulated balance so far above the figure recorded for the entire year of 2023. In the PNAD, the unemployment rate in the quarter ending in July dropped to 6.8%, with an increase in the employed people level, primarily impacted by formal jobs. The most positive news came from the real average earnings stability, halting a cycle of continuous advances in recent releases. Thus, given the Central Bank's explicit concern about the potential impacts of the labor market on service inflation, the data on the margin make the environment somewhat more favorable for the committee, especially when looking at the labor-intensive metrics.
- » **Still, on the central bank, Monetary Policy Director Gabriel Galípolo was officially nominated for the position of Central Bank President.** The announcement was made by Finance Minister Fernando Haddad and reiterated by President Lula in an interview, where he praised Director Galípolo's competence and emphasized that the Central Bank President should not be a market representative. The confirmation hearing in the Senate does not have a set date yet, raising doubts about whether the session will occur before or after the next monetary policy meeting on September 18. So far, the most speculated period in the media is that the hearing will take place in the first weeks of September, before the COPOM meeting.
- » **Finally, to avoid exchange rate dysfunctions, the Central Bank conducted foreign exchange swap auctions this Friday.** Initially, the Central Bank had announced a \$1.5 billion sale in spot dollars to rebalance the MSCI portfolio adjustment, which now includes Brazilian stocks listed abroad and would generate a dollar outflow to be offset by the auction's magnitude. Despite the measure, the dollar peaked at R\$5.69 during the day, leading the Central Bank to announce an additional auction of the same value, injecting new contracts into the market with maturities in March and August 2025. This intervention helped contain the dollar, which now trades closer to R\$5.65 than R\$5.70. It is worth noting that in their speeches, Central Bank directors reinforced that in cases of dysfunctionality, the authority will intervene in the foreign exchange market.



Economic Calendar

» The domestic agenda will be highlighted by July's industrial data release, the August consolidated trade balance, and the **second quarter of 2024 GDP**, which we expect to show a **0.9% QoQ** increase.

» Abroad, attention will be on the employment data release in the U.S., particularly the **August Payroll**, as well as the **ISM data for manufacturing and services**. In the Eurozone, the second quarter GDP will be released.

Date	Country	Event	Period	Survey	Prior
9/2/2024 Monday					
5:00 AM	Eurozone	Manufacturing PMI	Aug (F)	45.6	45.6
8:25 AM	Brazil	Focus (Central Bank Weekly Economist Survey)	-	-	-
9/3/2024 Tuesday					
5:00 AM	Brazil	FIPE CPI - Monthly	-	-	0.06%
9:00 AM	Brazil	GDP (QoQ)	2Q	0.9%	0.8%
10:45 AM	USA	Manufacturing PMI	Aug (F)	48.1	48.0
11:00 AM	USA	Construction Spending (MoM)	Jul	0.1%	-0.3%
11:00 AM	USA	ISM Manufacturing	Aug	47.5	46.8
10:45 PM	China	PMI	Aug	-	51.2
		Composite		52.1	52.1
		Non-manufacturing			
9/4/2024 Wednesday					
5:00 AM	Eurozone	PMI	Aug (F)		
		Non-manufacturing		53.3	53.3
		Composite		51.2	51.2
6:00 AM	Eurozone	PPI (MoM)	Jul	0.3%	0.5%
9:00 AM	Brazil	Industrial Production	Jul	-0.8%	4.1%
9:30 AM	USA	Trade Balance	Jul	-\$78.9b	-\$73.1b
11:00 AM	USA	JOLTs Job Openings	Jul	8100k	8184k
11:00 AM	USA	Factory Orders (MoM)	Jul	4.7%	-3.3%
2:30 PM	Brazil	Foreign Exchange Flow Weekly	-	-	-
3:00 PM	USA	Federal Reserve Releases Beige Book	-	-	-
9/5/2024 Thursday					
6:00 AM	Eurozone	Retail Sales (MoM)	Jul	0.2%	-0.3%
9:15 AM	USA	ADP Employment Change	Aug	138k	122k
9:30 AM	USA	Nonfarm Productivity	2Q F	2.5%	2.3%
9:30 AM	USA	Unit Labor Costs	2Q F	0.8%	0.9%
9:30 AM	USA	Initial Jobless Claims	-	228k	231k
10:45 AM	USA	PMI	Aug (F)	-	55.2
		Non-manufacturing		-	54.1
		Composite		50.9	51.4
11:00 AM	USA	ISM Services Index	Aug	50.9	51.4
3:00 PM	Brazil	Trade Balance Monthly	Aug	-	\$7640m
9/6/2024 Friday					
6:00 AM	Eurozone	GDP (QoQ)	2Q F	0.3%	0.3%
6:00 AM	Eurozone	Employment (QoQ)	2Q F	-	0.2%
8:00 AM	Brazil	FGV Inflation IGP-DI (MoM)	Aug	-	0.83%
9:30 AM	USA	Nonfarm Payrolls	Aug	165k	114k
9:30 AM	USA	Unemployment Rate	Aug	4.2%	4.3%
9:30 AM	USA	Average Hourly Earnings (MoM)	Aug	0.3%	0.2%
9:45 AM	USA	Speech J. Williams (Fed New York)	-	-	-
TBA					
-	Brazil	Central Govt Budget Balance	Jul	-8.6b	-38.8b
-	Brazil	Federal Debt Total	Jul	-	7068b



Macroeconomic projections

	2019	2020	2021	2022	2023	2024	2025
GDP (%)	1,2	-3,3	4,8	3,0	2,9	2,1	2,0
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	7,6	7,8
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,5	3,8
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	10,50	10,50
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,86	5,50	5,40
Current Account Transactions (US\$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-46,5	-47,5
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,0	-2,0
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	69,0	65,7
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	71,5	73,0
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,1	3,1
Primary Result of the Central Government (R\$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-75,4	-54,5
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,5	-0,4
Primary Result of the Public Sector (R\$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-53,4	-70,5
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	-0,5	-0,6
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	77,1	79,7

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