

## Current inflation rises with regulated prices, although underlying services ease at the margin.

### Highlights

- ▶ **With the change in the tariff flag to Red Level 1, electricity was the main driver of the 0.44% increase in the September IPCA.** The result was above our expectations (0.39%) but below market projections (0.46%), which experienced downward surprises concentrated mainly in underlying services. In this metric, the sub-item cinema, theater, and concerts drove the decline, reflecting the effects of promotional prices practiced by national networks throughout September, which are expected to return to positive variations in the upcoming October releases. In food at home, the highlight was the increase in meat prices compared to the IPCA-15, with reduced supply due to climatic factors, such as drought and dry spells, already impacting prices. Although a recovery in rainfall volume is expected in the second half of October, wholesale data for cattle already show an upward trend, which could indicate more pressure on prices in the coming months. Thus, incorporating the September result, we expect the IPCA to close the year at 4.4%, based on assumptions of gasoline price reductions in November and a red level 1 tariff flag in December.
- ▶ **In economic activity, monthly surveys corroborate the narrative of gradual deceleration in the year's third quarter.** Retail sales in August showed declines in both readings, with widespread contraction across sectors. The movement was driven by credit-related metrics, with notable drops in vehicles, furniture, and office supplies, while personal use items stood out in the decline of income-related products. The PMS showed a 0.4% drop at the margin, reflecting the effects of adjustments in the historical series of administrative services, which had deviated in the last release due to the correction of underestimated revenues. In the breakdowns, the decline was concentrated in the information services sector, reversing the stronger momentum in cinema driven by the school holidays. On the other hand, the services sector continues to show widespread growth throughout the year, reflecting stronger labor market data, although some accommodation is expected in the coming months.
- ▶ **On the political front, the week was marked by the repercussions of the first-round results of the municipal elections.** In general, the electorate's movement towards the center-right confirmed the signals of voter preference for parties and politicians. Thus, the performance of PSD, founded by Gilberto Kassab, stood out, gaining enough ground to surpass the MDB in the number of municipalities. At the same time, despite its position in the government, PT struggled to elect mayors for its party and ideological allies. Equally important, on the fiscal front, President Lula's statements about income tax exemption for those earning up to BRL 5,000, combined with the confirmation of new aircraft purchases for the Presidency, were poorly received by the market. The reaction indicated, once again, a perceived lower commitment from the government to public finances.
- ▶ **In the United States, the September CPI surprised the upside, with an increase in goods and services.** The overall index rose by 0.2%, while the core advanced to 0.3%, both above market expectations. The data composition was more negative, with widespread pressure coming from goods excluding food and energy, alongside the acceleration of the underlying services, driven by airfare and medical services. With the FED's continued emphasis on the labor market dynamics, the rise in weekly unemployment claims helped offset the negative inflation surprise, although upward revisions to the next Core PCE data are likely. For now, the isolated CPI result does not alter our trajectory for the FED's monetary policy, as the members remain dependent on the entire data set until the next meeting.



## Economic Calendar

» Next week, the lighter domestic agenda will be marked by the release of the **August IBC-Br**, which is expected to show relative stability at the margin, along with secondary inflation data, such as the **October IGP-10**.

» Abroad, the focus will be on the **September activity data in the United States**, including retail sales and industrial production. In **China**, the main highlight will be the **third-quarter GDP**, along with employment and external sector data.

| Date                        | Country  | Event  | Period  | Survey   | Prior    |
|-----------------------------|----------|--|---------|----------|----------|
| <b>10/14/2024 Monday</b>    |          |  |         |          |          |
| 8:25 AM                     | Brazil   | Focus (Central Bank Weekly Economist Survey) | -       | -        | -        |
| 9:00 AM                     | Brazil   | <b>Economic Activity (MoM)</b>               | Aug     | -        | -0.40%   |
| 3:00 PM                     | Brazil   | Trade Balance Weekly                         | -       | -        | -        |
| 4:00 PM                     | USA      | J. Waller Speech                             | -       | -        | -        |
| -                           | China    | <b>Exports (YoY)</b>                         | Sep     | 6.0%     | 8.7%     |
| -                           | China    | <b>Imports (YoY)</b>                         | Sep     | 0.6%     | 0.5%     |
| -                           | China    | <b>Trade Balance Monthly</b>                 | Sep     | \$91.40b | \$91.02b |
| <b>10/15/2024 Tuesday</b>   |          |  |         |          |          |
| 6:00 AM                     | Eurozone | <b>Industrial Production (MoM)</b>           | Aug     | 1.8%     | -0.3%    |
| 9:30 AM                     | USA      | <b>Empire Manufacturing</b>                  | Oct     | 3.3      | 11.5     |
| 10:15 AM                    | Brazil   | <b>GDP Monitor (FGV)</b>                     | Aug     | -        | 0.1%     |
| 12:30 PM                    | USA      | M. Daly Speech                               | -       | -        | -        |
| <b>10/16/2024 Wednesday</b> |          |  |         |          |          |
| 9:30 AM                     | USA      | Import Price Index (MoM)                     | Sep     | -0.3%    | -0.3%    |
| 9:30 AM                     | USA      | Export Price Index (MoM)                     | Sep     | -0.6%    | -0.7%    |
| 9:30 AM                     | USA      | New York Fed Services Business Activity      | Oct     | -        | 0.5      |
| 2:30 PM                     | Brazil   | Foreign Exchange Flow Weekly                 | -       | -        | -        |
| <b>10/17/2024 Thursday</b>  |          |  |         |          |          |
| 5:00 AM                     | Brazil   | FIPE CPI (MoM)                               | -       | -        | 0.29%    |
| 6:00 AM                     | Eurozone | <b>Trade Balance</b>                         | Aug     | 17.7b    | 15.5b    |
| 6:00 AM                     | Eurozone | <b>CPI (MoM)</b>                             | Sep (F) | -0.1%    | -0.1%    |
| 8:00 AM                     | Brazil   | IGP-10 (PPI MoM)                             | Oct     | -        | 0.18%    |
| 9:15 AM                     | Eurozone | <b>ECB Main Refinancing Rate</b>             | -       | 3.25%    | 3.5%     |
| 9:30 AM                     | USA      | <b>Retail Sales (MoM)</b>                    | Sep     | 0.3%     | 0.1%     |
| 9:30 AM                     | USA      | Philadelphia Fed Business Outlook            | Oct     | 4.0      | 1.7      |
| 9:30 AM                     | USA      | Initial Jobless Claims                       | -       | 240k     | 258k     |
| 10:15 AM                    | USA      | <b>Industrial Production (MoM)</b>           | Sep     | -0.1%    | 0.8%     |
| 11:00 AM                    | USA      | NAHB Housing Market Index                    | Oct     | 43       | 41       |
| 10:30 PM                    | China    | <b>New Home Prices (MoM)</b>                 | Sep     | -        | -0.73%   |
| 10:30 PM                    | China    | <b>Used Home Prices (MoM)</b>                | Sep     | -        | -0.95%   |
| 11:00 PM                    | China    | <b>GDP (YoY)</b>                             | 3Q      | 4.6%     | 4.7%     |
| 11:00 PM                    | China    | <b>GDP (QoQ)</b>                             | 3Q      | 1.1%     | 0.7%     |
| 11:00 PM                    | China    | <b>Industrial Production (YoY)</b>           | Sep     | 4.6%     | 4.5%     |
| 11:00 PM                    | China    | <b>Retail Sales (YoY)</b>                    | Sep     | 2.5%     | 2.1%     |
| 11:00 PM                    | China    | <b>Fixed AsSepts Ex-Rural (YoY)</b>          | Sep     | 3.3%     | 3.4%     |
| 11:00 PM                    | China    | <b>Property Investment (YoY)</b>             | Sep     | -10.0%   | -10.2%   |
| 11:00 PM                    | China    | <b>Residential Property Sales (YoY)</b>      | Sep     | -        | -25.0%   |
| 11:00 PM                    | China    | <b>Unemployment Rate</b>                     | Sep     | 5.3%     | 5.3%     |
| <b>10/18/2024 Friday</b>    |          |  |         |          |          |
| 9:30 AM                     | USA      | Housing Starts                               | Sep     | 1350k    | 1356k    |
| 9:30 AM                     | USA      | Building Permits                             | Sep     | 1450k    | 1475k    |
| 9:30 AM                     | USA      | Housing Starts                               | Sep     | -0.5%    | 9.6%     |
| 9:30 AM                     | USA      | Building Permits (MoM)                       | Sep     | -1.4%    | 4.9%     |
| 11:00 AM                    | USA      | N. Kashkari Speech                           | -       | -        | -        |



## Macroeconomic projections

|  | 2019  | 2020   | 2021  | 2022  | 2023   | 2024         | 2025         |
|--|-------|--------|-------|-------|--------|--------------|--------------|
| GDP (%)  | 1,2   | -3,3   | 4,8   | 3,0   | 2,9    | <b>2,9</b>   | <b>1,8</b>   |
| Unemployment Rate (average, %)                         | 12,0  | 13,8   | 13,2  | 9,3   | 8,0    | <b>7,6</b>   | <b>7,8</b>   |
| IPCA (Consumer Price Index) (%)                        | 4,3   | 4,5    | 10,1  | 5,8   | 4,6    | <b>4,4</b>   | <b>3,5</b>   |
| Selic Rate (end of period, %)                          | 4,50  | 2,00   | 9,25  | 13,75 | 11,75  | <b>11,75</b> | <b>12,50</b> |
| Exchange Rate (end of period, R\$/US\$)                | 4,03  | 5,20   | 5,58  | 5,22  | 4,86   | <b>5,50</b>  | <b>5,40</b>  |
| Current Account Transactions (US\$ billion)            | -68,0 | -28,2  | -46,4 | -53,6 | -28,6  | <b>-54,1</b> | <b>-47,6</b> |
| Current Account Transactions (% of GDP)                | -3,6  | -1,7   | -2,9  | -2,8  | -1,4   | <b>-2,4</b>  | <b>-2,0</b>  |
| Trade Balance - BCB (US\$ billion)                     | 26,5  | 32,4   | 36,4  | 44,2  | 80,5   | <b>69,0</b>  | <b>65,6</b>  |
| Foreign Direct Investment (US\$ billion)               | 69,2  | 37,8   | 46,4  | 87,2  | 62,0   | <b>74,6</b>  | <b>73,0</b>  |
| Foreign Direct Investment (% of GDP)                   | 3,7   | 2,6    | 2,8   | 4,5   | 2,8    | <b>3,3</b>   | <b>3,1</b>   |
| Primary Result of the Central Government (R\$ billion) | -95,1 | -743,3 | -35,1 | 54,1  | -249,1 | <b>-79,5</b> | <b>-54,5</b> |
| Primary Result of the Central Government (% of GDP)    | -1,3  | -9,8   | -0,4  | 0,5   | -2,3   | <b>-0,6</b>  | <b>-0,4</b>  |
| Primary Result of the Public Sector (R\$ billion)      | -61,9 | -703,0 | 64,7  | 126,0 | -249,1 | <b>-67,5</b> | <b>-55,6</b> |
| Primary Result of the Public Sector (% of GDP)         | -0,8  | -9,2   | 0,7   | 1,3   | -2,3   | <b>-0,5</b>  | <b>-0,5</b>  |
| Gross Public Debt (% of GDP)                           | 74,4  | 86,9   | 77,3  | 71,7  | 74,3   | <b>77,8</b>  | <b>78,3</b>  |

## Our team

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