

Domestic activity and U.S. inflation contributed to a reduction of risk premiums this week

Highlights

- **Service activity weakened further in November**

In November, the Monthly Service Survey (PMS) recorded a 0.9% contraction, below expectations, in line with weaker industrial and retail sector surveys. The decline was primarily driven by transportation and administrative services, reversing the strong numbers of the previous month. In October, lower airfare prices boosted the transportation segment with growth near 30%, a trend reversed in November. Meanwhile, the administrative services segment faced downward pressure from legal and business consulting activities. On the other hand, family-related services performed positively due to more holidays in November, driving growth in accommodation, food services, recreation, and cultural activities. Additionally, the information services segment benefited from telecommunications. Overall, leading indicators suggest continued cooling for the months ahead.

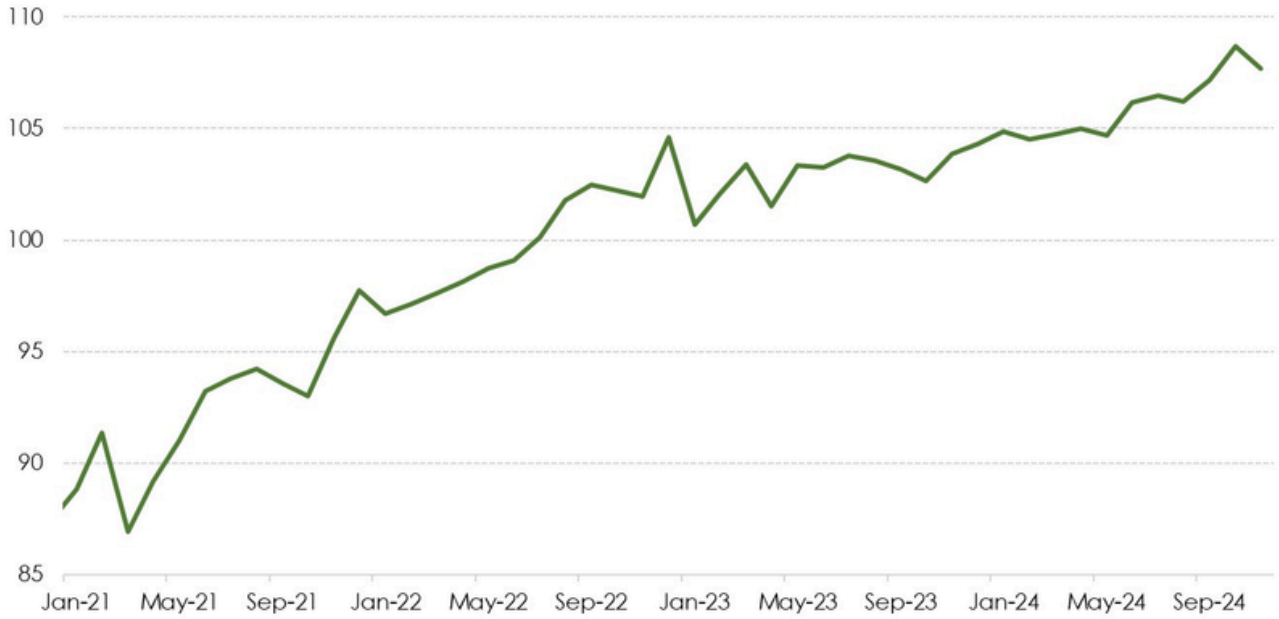
- **In contrast, the IBC-Br showed marginal positive growth**

The Central Bank's economic activity index (IBC-Br) rose 0.10% m/m in November. Despite this, perceptions of a weaker economy in Q4 2024 persist. With a statistical carryover of 0.7% for the quarter, the data alone suggests an upward bias for GDP growth forecasts, currently around 0.5%. However, based on IBGE sectoral performance data for November and business outlooks, December activity levels are expected to remain subdued, reinforcing the deceleration trend. Nevertheless, annual growth is expected to remain robust, driven by cyclical sectors and strong household consumption. For now, we keep our GDP growth forecasts of 3.4% for 2024 and 1.8% for 2025.

- **Externally, the week before Donald Trump's inauguration saw moderated U.S. inflation data**

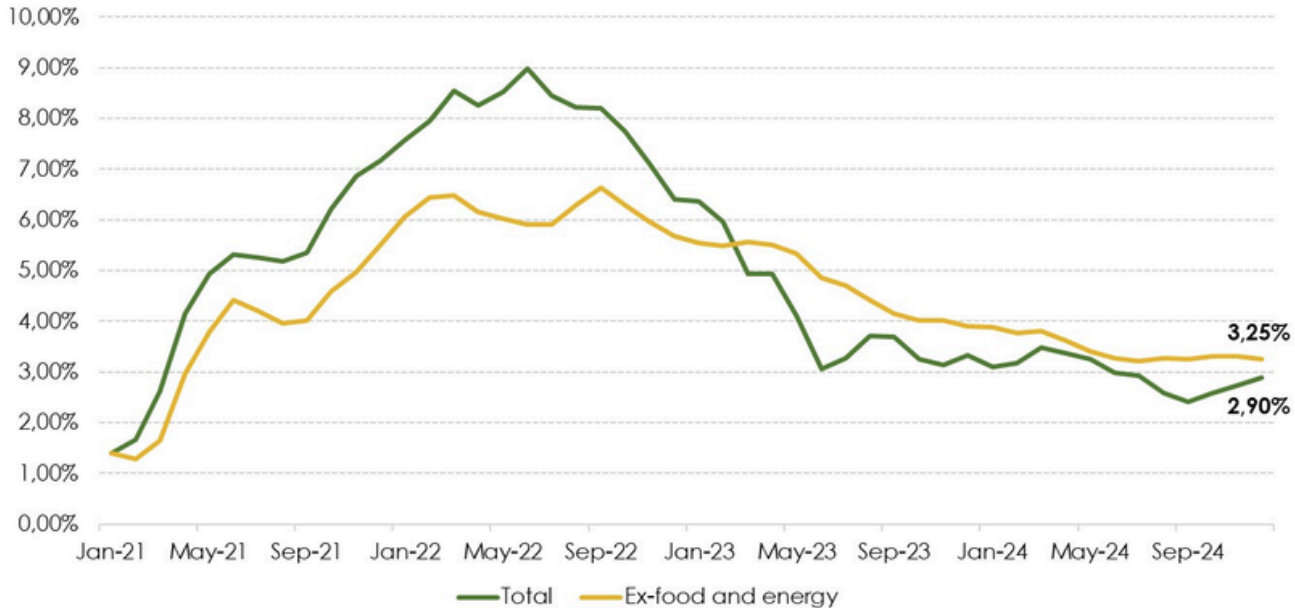
Following stronger labor market data that delayed expectations of Fed Funds rate cuts, inflation figures surprised on the downside. This was contrary to expectations of higher figures after the release of the latest ISM Services price data. December's Producer Price Index (PPI) surprised to the downside for both headline (0.2% m/m) and core (0.0% m/m), with slower price growth for goods and services despite higher transportation costs driven by airfare price hikes. Similarly, the Consumer Price Index (CPI) showed favorable composition, with core inflation slowing to 0.2% m/m—the lowest level since July 2024. This slowdown was evident in goods and services, despite airfare pressures. On an annual basis, core inflation slowed from 3.3% to 3.2%, although services remained high above 4.0%. U.S. consumer inflation ended 2024 at 2.9%, down from 3.1% in the previous year, indicating progress in the disinflationary process, albeit slow and volatile in recent months. Given potential inflationary pressures from the incoming Trump administration, we keep our expectation of a 0.25pp rate cut in June for now. Our estimates depend significantly on the actions and measures of the incoming president, to be outlined next week, which will guide market direction.

Services - IBGE Index (SA)



Source: IBGE, Buysidebrazil

CPI US (12M)



Source: BLS, Buysidebrazil

Economic calendar

- The highlight in domestic agenda will be the release of January's **IPCA-15**, with a focus on electricity inflation, which is expected to show a negative variation due to changes in the tariff flag system and the Itaipu bonus. Additionally, the Central Bank will publish the **External Sector Statistics** for December.
- The external calendar will be lighter on relevant indicators. However, significant asset movements may occur following the **inauguration of President-elect Donald Trump in the U.S.** on Monday.

| Date | Country | Event | Period | Survey | Prior |
|----------------------------|----------|--|----------------|---------------|--------------|
| 1/20/2025 Monday | | | | | |
| 5:00 AM | Brazil | IPC-Fipe (MoM) | Jan (2P) | - | 0.25% |
| 7:00 AM | Eurozone | Construction Output (YoY) | Nov | - | 0.2% |
| 8:25 AM | Brazil | Central Bank Weekly Economist Survey (Focus) | - | - | - |
| 3:00 PM | Brazil | Weekly Trade Balance | - | - | - |
| 1/21/2025 Tuesday | | | | | |
| 7:00 AM | Germany | ZEW Survey Expectations | Jan | 15.2 | 15.7 |
| 8:00 AM | Brazil | IGP-M - 2nd Preview (MoM) | Jan | - | 0.99% |
| 10:30 AM | US | Philadelphia Fed Non-Manufacturing Activity | Jan | - | -6.0 |
| 1/22/2025 Wednesday | | | | | |
| 12:00 PM | US | Leading Index (MoM) | Dec | -0.1% | 0.3% |
| 2:30 PM | Brazil | Foreign Exchange Transactions | - | - | - |
| 1/23/2025 Thursday | | | | | |
| 10:30 AM | US | Initial Jobless Claims | - | 215k | 217k |
| 12:00 PM | Eurozone | Consumer Confidence | Jan (P) | -14.0 | -14.5 |
| 1:00 PM | US | Kansas City Fed Manufacturing Activity | Jan | - | -4.0 |
| - | Brazil | National Monetary Council Meeting | - | - | - |
| 1/24/2025 Friday | | | | | |
| 6:00 AM | Eurozone | PMI | Jan (P) | | |
| | | Manufacturing | | 45.5 | 45.1 |
| | | Services | | 51.5 | 51.6 |
| | | Composite | | 49.7 | 49.6 |
| 8:30 AM | Brazil | External Sector Statistics | Dec | | |
| | | Current Account | | - | US\$ -3.1 bi |
| | | FDI | | - | US\$ 7.0 bi |
| 9:00 AM | Brazil | IPCA-15 (MoM) | Jan | -0.10% | 0.34% |
| 11:45 AM | US | PMI | Jan (P) | | |
| | | Manufacturing | | 49.8 | 49.4 |
| | | Services | | 56.3 | 56.8 |
| | | Composite | | - | 55.4 |
| 12:00 PM | US | U. of Michigan Sentiment | Jan (F) | 73.5 | 73.2 |
| 12:00 PM | US | Existing Home Sales | Dec | 4.20 mi | 4.15 mi |
| 1:00 PM | US | Kansas City Fed Services Activity | Jan | - | 2.0 |
| - | Japan | BoJ Target Rate | - | 0.50% | 0.25% |
| In the week | | | | | |
| - | Brazil | Tax Collections | Dez | - | R\$ 209 bi |

Macroeconomic projections

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|--|-------|--------|-------|-------|--------|--------------|--------------|
| GDP (%) | 1,2 | -3,3 | 4,8 | 3,0 | 2,9 | 3,4 | 1,8 |
| Unemployment Rate (average, %) | 12,0 | 13,8 | 13,2 | 9,3 | 8,0 | 6,8 | 7,1 |
| IPCA (Consumer Price Index) (%) | 4,3 | 4,5 | 10,1 | 5,8 | 4,6 | 4,8 | 4,8 |
| Selic Rate (end of period, %) | 4,50 | 2,00 | 9,25 | 13,75 | 11,75 | 12,25 | 15,00 |
| Exchange Rate (end of period, R\$/US\$) | 4,03 | 5,20 | 5,58 | 5,22 | 4,84 | 6,19 | 6,10 |
| Current Account Transactions (US\$ billion) | -68,0 | -28,2 | -46,4 | -53,6 | -28,6 | -58,8 | -62,8 |
| Current Account Transactions (% of GDP) | -3,6 | -1,7 | -2,9 | -2,8 | -1,4 | -2,7 | -3,0 |
| Trade Balance - BCB (US\$ billion) | 26,5 | 32,4 | 36,4 | 44,2 | 80,5 | 66,2 | 60,1 |
| Foreign Direct Investment (US\$ billion) | 69,2 | 37,8 | 46,4 | 87,2 | 62,0 | 69,3 | 72,0 |
| Foreign Direct Investment (% of GDP) | 3,7 | 2,6 | 2,8 | 4,5 | 2,8 | 3,1 | 3,5 |
| Primary Result of the Central Government (R\$ billion) | -95,1 | -743,3 | -35,1 | 54,1 | -249,1 | -45,2 | -65,3 |
| Primary Result of the Central Government (% of GDP) | -1,3 | -9,8 | -0,4 | 0,5 | -2,3 | -0,4 | -0,6 |
| Primary Result of the Public Sector (R\$ billion) | -61,9 | -703,0 | 64,7 | 126,0 | -249,1 | -58,8 | -55,6 |
| Primary Result of the Public Sector (% of GDP) | -0,8 | -9,2 | 0,7 | 1,3 | -2,3 | -0,5 | -0,5 |
| Gross Public Debt (% of GDP) | 74,4 | 86,9 | 77,3 | 71,7 | 74,3 | 77,8 | 82,3 |

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