

Data indicates stronger growth in 2025, but inflation allows interest rates to remain unchanged

Highlights

First-quarter GDP grew 1.4% QoQ, in line with our projection, indicating that the economic slowdown is likely to be milder.

From the supply side, the highlight was the dynamics of agriculture, whose significant growth on the margin (12.2%) was explained by the expectation of a record grain harvest for the year. Although to a lesser extent, services also contributed positively. On the demand side, the highlight was the resumption of growth in domestic absorption – especially due to the performance of household consumption, which reflected the increase in the wage bill and available credit – in addition to stronger investments. Overall, there was more moderate growth in the more cyclical openings, but excluding agriculture, there was growth of 0.5% QoQ. This dynamic reflects the resilience of the labor market, whose data came back strong in April. According to the Ministry of Labor, 257 thousand formal jobs were created last month, well above expectations (170k), concentrated in the services and trade sectors. The PNAD data showed an unemployment rate of 6.6% (vs. est. 6.9%), with a record number of formally employed workers. In turn, incomes also remained strong: entry-level wages increased marginally, as did the usual PNAD incomes. Thus, these consolidated data and the government's recent stimulus to consumption led us to revise our growth expectation for 2025 from 1.9% to 2.3%. For 2026, we expect growth of 1.8%.

In this sense, we also expect a worse current account deficit, taking into account the Central Bank's actual results up to April and the MDIC's trade balance previews.

In April, current transactions were in deficit by US\$ 1.3 billion, above market expectations (US\$ -1.9 billion), corresponding to -3.2% of GDP in 12 months. In services, the main driver of the deficit was the opening of transportation, despite weaker oil prices – which contributed to our revision of the year. The goods balance recorded a surplus of US\$ 7.4 billion, in line with the recovery of soybean outflows, which were compromised in the first months of the year. In any case, imports remain quite robust. Even with the drop in prices, the volume imported remained firm, which has kept import values high. In May, this dynamic was maintained, according to preliminary data from the MDIC. Additionally, the drop in prices of exported goods, especially after Trump's tariff announcements, has also compromised the result. Therefore, we also revised our expectation for the goods balance, to US\$ 58.1 billion in 2025. This means that the current account deficit should close the year at 3.1%.

Despite this, consumer inflation brought a more constructive outlook in the May preview, with a widespread bearish surprise in the underlying measures.

The IPCA-15 for May recorded an increase of 0.36% m/m, against expectations of 0.43%. The surprise mainly reflected a lower level of food prices at home, especially for fresh products and meats. However, industrial goods also performed better in terms of composition, with clothing and personal hygiene products below expectations. Furthermore, within services, the deflation of airfares was accompanied by more moderate numbers of underlying openings, such as eating out and car repairs. The average of the cores, on the other hand, remains under pressure and should bring caution to the next steps in monetary policy. In any case, this data reinforces our projection that the Central Bank should keep interest rates unchanged.

Finally, the fiscal scenario remained in focus this week, still due to the developments of the decision to increase the IOF, but also due to statistical releases.

The news was permeated by speculation about alternatives for removing the IOF increase, after the government's partial withdrawal. For now, the most likely option is that the measure will be maintained in 2025, but that there will be negotiations for 2026. According to the Treasury Secretary himself, there would be no other options to resolve the lack of these revenues, such as funds - already used to compensate for the partial withdrawal of funds. Rogério Ceron spoke in an interview, after the release of the central government's primary result, which showed a primary surplus of R\$17.8 billion in April - corresponding to -0.02% of GDP. The number was mainly benefited by stronger revenues at the margin, but also by the shift in the 12-month window, which removed a significant impact from last year's court-ordered payments. This dynamic also appeared in the data for the consolidated public sector, which recorded a R\$14.1 billion primary surplus (0.0% of GDP). However, concerns revolve around the second half of the year, when new court-ordered payments will be made. For now, we maintain our projections, but we understand that the bias is negative for this field.

Economic Calendar

In **Brazil**, the agenda will be highlighted by the release of the April **Industrial Production**, which should show an increase of 0.4% m/m according to our estimate. In addition, the monthly **Trade Balance** result for May will be released.

On the **international** scene, the **US** will have a busy agenda, with the release of the **ISMs** and labor market data, with emphasis on the **Payroll**. In the **Eurozone**, the **CPI**, **PPI**, **Retail Sales** and also a **monetary policy decision** will be released. Finally, in **China**, we will have the results of the **Caixin PMI**.

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
06/02/25 Monday						
5:00 AM	Eurozone	PMI Manufacturing	May (F)	49.4	-	49.4
8:25 AM	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-	-
10:45 AM	USA	PMI Manufacturing	May (F)	52.2	-	52.3
11:00 AM	USA	ISM Manufacturing	May	49.2	-	48.7
11:00 AM	USA	Construction Spending (MoM)	Apr	0.4%	-	-0.5%
1:45 PM	USA	A. Golsbee' Speech (Fed Chicago)	-	-	-	-
10:45 PM	China	PMI Manufacturing (Caixin)	May	50.7	-	50.4
06/03/25 Tuesday						
5:00 AM	Brazil	IPC-Fipe	May	-	-	0.45%
6:00 AM	Eurozone	CPI (YoY)	May (P)			
		Total		2.0%	-	2.2%
		Core		2.4%	-	2.7%
6:00 AM	Eurozone	Unemployment Rate	Apr	6.2%	-	6.2%
9:00 AM	Brazil	Industrial Production (MoM)	Apr	-	0.4%	1.2%
11:00 AM	USA	Factory Orders (MoM)	Apr	-3.1%	-	4.3%
11:00 AM	USA	JOLTS	Apr	7100k	-	7192k
1:45 PM	USA	A. Golsbee' Speech (Fed Chicago)	-	-	-	-
06/04/25 Wednesday						
5:00 AM	Eurozone	PMI	May (F)			
		Services		48.9	-	48.9
		Composite		49.5	-	49.5
9:15 AM	USA	ADP	May	110k	-	62k
9:30 AM	USA	R. Bostic' Speech (Fed Atlanta)	-	-	-	-
10:45 AM	USA	PMI	May (F)			
		Services		52.3	-	52.3
		Composite		52.1	-	52.1
11:00 AM	USA	ISM Services	May	52.0	-	51.6
2:30 PM	Brazil	Foreign Exchange Transactions	-	-	-	-
3:00 PM	USA	Livro Bege	-	-	-	-
10:45 PM	China	PMI (Caixin)	May			
		Services		51.0	-	50.7
		Composite		-	-	51.1
06/05/25 Thursday						
6:00 AM	Eurozone	PPI (MoM)	Apr	-1.8%	-	-1.6%
9:15 AM	Eurozone	ECB Deposit Facility Rate	-	2.00%	2.00%	2.25%
9:30 AM	USA	Trade Balance	Apr	\$-117.3b	-	\$-140.5b
9:30 AM	USA	Labor Productivity (QoQ)	1Q (F)	-0.8%	-	-0.8%
9:30 AM	USA	Labor Cost (QoQ)	1Q (F)	5.7%	-	5.7%
9:30 AM	USA	Initial Jobless Claims	-	-	-	240k
3:00 PM	Brazil	Monthly Trade Balance	May	-	R\$8.5b	R\$8.2b
06/06/25 Friday						
6:00 AM	Eurozone	Retail Sales (MoM)	Apr	0.2%	-	-0.1%
6:00 AM	Eurozone	GDP (QoQ)	1Q (F)	0.4%	-	0.3%
6:00 AM	Eurozone	Employment (YoY)	1Q (F)	-	-	0.8%
8:00 AM	Brazil	IGP-DI (MoM)	May	-	-	0.30%
9:30 AM	USA	Payroll	May	130k	-	177k
9:30 AM	USA	Unemployment Rate	May	4.2%	-	4.2%
9:30 AM	USA	Average Hourly Earning (MoM)	May	0.3%	-	0.2%
4:00 PM	USA	Consumer Credit	Apr	-	-	\$10.2b

Macroeconomic projections

	2019	2020	2021	2022	2023	2024	2025	2026
GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	1,9	1,6
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,6	7,1	7,5
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	5,4	4,6
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	14,75	12,75
Exchange Rate (end of period, R\$/US\$)	4,03	5,20	5,58	5,22	4,84	6,19	5,85	5,95
Current Account Transactions (US\$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-56,0	-67,4	-69,4
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,6	-3,1	-3,0
Trade Balance - BCB (US\$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	58,1	57,9
Foreign Direct Investment (US\$ billion)	69,2	37,8	46,4	87,2	62,0	71,1	72,0	75,0
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,2	3,3	3,3
Primary Result of the Central Government (R\$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-43,0	-61,0	-51,0
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	-0,5	-0,4
Primary Result of the Public Sector (R\$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-47,6	-52,3	-50,0
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	-0,4	-0,4	-0,4
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	76,1	80,0	84,4

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