buysidebrazil

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Domestic activity and inflation data reinforce the slowdown narrative, while the government unveils a package to offset the impact of U.S. tariff hikes

Highlights

Consolidating second-quarter data, the IBGE's monthly surveys for June reinforced the picture of a weakening economy.
In industry, released earlier in the month, output rose 0.1% MoM (est. 0.4%), disappointing market expectations due to sharp declines in mining, reflecting lower iron ore production, alongside moderate growth in manufacturing, driven mainly by advances in automobile and metallurgy output, although the food sector made a negative contribution. In retail sales, performance was well below market forecasts, with the core retail index down 0.1% MoM (est. 0.8%) and the broad measure dropping 2.5% MoM s.a. (est. 0.1%). Weakness was broad-based, with notable declines in credit-sensitive segments such as vehicles, construction materials, and furniture, as well as in income-sensitive categories, frustrating expectations for improvement, particularly in supermarkets. In services, activity grew 0.3% MoM, above market projections (cons. 0.0%), but gains were concentrated in the transportation segment, while all other components posted declines, notably the ongoing downtrend in services to households. Taken together, the aggregated data point to a sharper-than-previously-expected slowdown in Q2 activity. We have therefore revised our quarterly GDP growth forecast to 0.2% QoQ (from 0.4%), updating our annual projection to 2.1%.

As highlighted in the previous report, we believe that the combination of a more moderate growth pace and lower inflation projections supports the narrative of an initial rate cut in January 2026. On inflation quality, July's IPCA data reinforced this view. The headline index rose 0.26% MoM, below our projection (0.41%) and the market median (0.36%), with the slowdown in the average of core measures (0.27% MoM) driven mainly by industrial goods. Within this category, the IPI's impact on new car prices stood out, alongside weaker numbers for personal care items. Conversely, the underlying services subgroup exceeded expectations, though gains were heavily concentrated in food away from home. Excluding this item, underlying services decelerated from June, a trend likely to persist given lower pass-through from fresh produce prices. We therefore believe that the upside surprise in this item does not offset the improvement in the other components.

On the fiscal front, the government unveils a package to mitigate the impact of Trump's tariff hikes

Announced by President Lula and cabinet ministers, the "Plano Brasil Soberano" comprises a broad set of measures to cushion the impact of U.S. tariff increases on Brazilian exporters, combining credit injections, tax incentives, regulatory easing, and stronger trade diplomacy. The central pillar is the allocation of BRL 30 billion from the Export Guarantee Fund (FGE) as funding for credit lines at affordable rates, targeting the most affected companies, subject to conditions such as job retention. This operation entails an immediate BRL 4.5 billion Treasury contribution to guarantee funds, excluded from the fiscal target. On the tax side, measures include a temporary expansion of the Reintegra program through December 2026 (estimated fiscal cost of BRL 5 billion, also outside the fiscal target), a one-year extension of the deadline for exporting goods using imported inputs purchased under tax suspension, and a two-month deferral of federal tax payments for the most affected firms. Additional actions include more flexible public procurement of impacted products, modernization of export credit guarantees with greater coverage, and risk-sharing with the private sector. Altogether, the measures have an estimated fiscal impact of BRL 9.5 billion in 2025–26, with limited direct budgetary effect, though they marginally worsen qualitative perceptions of fiscal accounts.

In the United States, tariff effects have yet to feed into inflation, while retail sales remain supported

July CPI data came in line with market expectations, with the headline up 0.20% MoM and the core up 0.32% MoM, reflecting softer goods prices and stronger services inflation. The slowdown in the headline index was driven by food disinflation and falling energy prices, while core goods posted modest gains, supported by new and used vehicles, with smaller increases in imported items, suggesting limited pass-through from Trump's tariffs. Services prices accelerated more broadly, led by airfares, medical services, and rents, with the supercore posting its strongest rise since January. At the wholesale level, the PPI surprised to the upside, with both headline and core up 0.9%, driven by food, energy, and services, while goods posted more contained gains. In durables, vehicle prices were virtually flat, while furniture, appliances, and computers rose moderately. On a year-over-year basis, headline PPI accelerated from 2.3% to 3.3% and core from 2.6% to 3.7%, pointing to stronger pipeline pressures, though with still-limited impact from tariffs on final prices. On the activity side, July data were weaker than expected for both retail sales and industrial production. Retail sales rose 0.5% MoM, short of the 0.6% forecast and slowing from 0.9% in June, with the control group also losing momentum. Sales were supported by ongoing recovery in vehicle purchases, still shielded from tariff impacts, and gains in furniture, department stores, and gasoline stations. In contrast, building materials, electronics, and miscellaneous stores saw declines, as did food services, a proxy for services consumption. Industrial production fell 0.12% MoM, weighed down by declines in utilities and mining and a marginal drop in manufacturing, where weakness in nondurable goods outweighed gains in durables. Overall, softer activity data and contained inflation figures strengthen our expectation for a first Fed rate cut in September.

Economic Calendar

In **Brazil**, a lighter agenda will feature the release of the Central Bank's Economic Activity Index, for which we project flat growth on the month, alongside GDP Monitor data from Fundação Getúlio Vargas, consolidating second-quarter results.

On the **international front**, key releases include the minutes from the July FOMC meeting and August PMI figures. Additionally, inflation data for the Euro Area and Germany's GDP will be published.

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
08/18/25	**Monday**					
8:00 AM	Brazil	IGP-10 (MoM)	Aug	-	-	
8:25 AM	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-	-
9:00 AM	**Brazil**	**Economic Activity Index (MoM)**	**Jun**	**0.1%**	**0.0%**	
9:30 AM	USA	New York Fed Services Business Activity	Aug	-		
10:15 AM	**Brazil**	**GDP Monitor (MoM)**	**Jun**	**-**		
3:00 PM	Brazil	Weekly Trade Balance	-	-	-	-

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
08/19/25	**Tuesday**					
5:00 AM	Brazil	IPC-Fipe (MoM)	2ª q	-		0.29%
9:30 AM	USA	Housing Starts	Jul	1290k		1321k
9:30 AM	USA	Building Permits	Jul P	1390k		1393k

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
08/20/25	**Wednesday**					
6:00 AM	Eurozone	CPI (YoY)	Jul F			
		Total		2,00%		2,00%
		Núcleo		2.3%		2.3%
8:00 AM	Brazil	IGP-M (2nd Preview)	Aug	-		-0.89%
12:00 PM	USA	Speech by J. Waller (St. Louis Fed)	-	-		-
2:30 PM	Brazil	Foreign Exchange Transactions	-	-		-
3:00 PM	**USA**	**FOMC Minutes**	**Jul**	**-**		**-**
4:00 PM	USA	Speech by R. Bostic (Fed Atlanta)	-			-

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
08/21/25	**Thursday**					
4:30 AM	Germany	PMI Composite	Aug P	50.4		50.6
5:00 AM	Eurozone	PMI Composite	Aug P	50.6		50.9
9:30 AM	**USA**	**PMI Composite**	**Aug P**	**-**		**55.1**
9:30 AM	USA	Initial Jobless Claims		-		
9:30 AM	USA	Philadelphia Fed Business Outlook	Aug	8.0		15,9
11:00 AM	USA	Leading Index	Jul	-0.1%		-0.3%
11:00 AM	Eurozone	Consumer Confidence	Aug P			14.7
11:00 AM	USA	Existing Home Sales	Jul	3.90m		3.93m

Date	Country	Event	Period	Survey	Buysidebrazil	Prior
08/22/25	**Friday**					
3:00 AM	Germany	PIB (QoQ a.s.)	2Q F	-0.1%		-0.1%
3:00 AM	Germany	PIB (YoY)	2Q F	0,00%		0.4%

Macroeconomic projections	2019	2020	2021	2022	2023	2024	2025	2026
Brazil GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	**2,1**	**1,8**
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,6	**6,3**	**6,7**
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	**4,8**	**4,3**
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	**15,00**	**12,75**
Exchange Rate (end of period, R$/US$)	4,03	5,20	5,58	5,22	4,84	6,19	**5,65**	**5,70**
Current Account Transactions (US$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-56,0	**-76,3**	**-74,9**
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-2,6	**-3,5**	**-3,3**
Trade Balance - BCB (US$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	**52,6**	**53,6**
Foreign Direct Investment (US$ billion)	69,2	37,8	46,4	87,2	62,0	71,1	**66,8**	**75,0**
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,2	**3,1**	**3,3**
Primary Result of the Central Government (R$ billion)	-95,1	-743,3	-35,1	54,1	-249,1	-43,0	**-73,9**	**-67,8**
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	**-0,6**	**-0,5**
Primary Result of the Public Sector (R$ billion)	-61,9	-703,0	64,7	126,0	-249,1	-47,6	**-42,5**	**-37,8**
Primary Result of the Public Sector (% of GDP)	-0,8	-9,2	0,7	1,3	-2,3	-0,4	**-0,3**	**-0,3**
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	76,1	**79,4**	**83,7**
United States - GDP (%)	2,5	-2,2	6,1	2,5	2,9	2,8	**1,7**	**2,0**
United States - PCE (%)	1,4	1,1	4,1	6,6	3,8	2,5	**3,5**	**2,8**
United States - Fed Funds Rate (end of period, %)	1,8	0,3	0,3	4,0	5,5	4,5	**4,0**	**3,50**

Our team

Andrea Bastos Damico
Chief Economist and CEO
andrea@buysidebrazil.com

Mirella Hirakawa
Research Coordinator and Partner
mirella@buysidebrazil.com

Rita Milani
Economist
rita@buysidebrazil.com

Thaís Rodrigues
Economist and Partner
thais@buysidebrazil.com

Rafaela de Sousa
Economist
rafaela@buysidebrazil.com

Henrique Miareli
Economist
henrique@buysidebrazil.com

Marcelo Alonso
Economist
marcelo@buysidebrazil.com

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