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Brazilian economy slows in the second quarter while weaker U.S. labor market data increases the likelihood of additional Fed Funds cuts

Highlights

Despite the result coming in above expectations, the GDP composition does not trigger further revisions for the year.

Brazilian GDP expanded 0.4% QoQ s.a. in the second quarter of 2025, surpassing both our forecast and the market median. Growth was mainly supported by services and industry, while agriculture contributed negatively after the strong boost from the early-year bumper harvest. On the demand side, domestic absorption contracted, reflecting declines in investment and government spending, while household consumption still added to growth but at a slower pace compared with the first quarter. Looking ahead, the first indicators for the third quarter reinforce the narrative that the economy remains on a moderating path. July's industrial production posted a 0.2% MoM s.a. drop, slightly better than expected but still pointing to a fragile composition. The decline was driven by manufacturing, which reversed earlier gains, while mining provided some relief with 0.8% growth. Among economic categories, only intermediate goods advanced, while capital goods and durable consumer goods showed more pronounced declines. We therefore expect economic activity to continue losing momentum in the second half of the year, converging toward our forecast of 2.1% growth in 2025. In terms of monetary policy, the result is unlikely to prompt changes in the Central Bank's communication. The slowdown in domestic consumption, already highlighted in recent minutes, should be underscored as confirmation that monetary policy is weighing on activity, a necessary condition for inflation convergence to the target. We maintain our expectation of the beginning of rate cuts in January 2026.

On the political front, Bolsonaro's trial begins and raises questions over Trump's stance.

The trial of former president Jair Bolsonaro began in the First Panel of the Supreme Federal Court on September 2, marking a historic moment as the first since redemocratization in which a former president faces trial for an attempted coup d'état. In the opening session, Justice Alexandre de Moraes reaffirmed the Court's independence and stressed that there will be no room for impunity, highlighting its commitment to an impartial review of the case. Prosecutor General Paulo Gonet presented the main evidence, including meetings with the military, attacks on electronic voting, the use of the Federal Highway Police and intelligence agency, and the January 8 riots, arguing for Bolsonaro's conviction alongside other defendants as part of a coup plot. The defense, in turn, denied the accusations, claimed there is no concrete evidence of the former president's involvement, and questioned the credibility of Mauro Cid's plea bargain. The trial is expected to extend through the following week and will be decisive for institutional and legal accountability of those involved. In this context, after U.S. trade tariffs motivated by political considerations, the possible conviction of the former president raises uncertainties about new restrictive measures by Donald Trump, such as an expanded Magnitsky Act and tighter enforcement by banks.

In the United States, weaker Payroll data increases the likelihood of additional Fed Funds cuts.

The August Payroll reinforced the picture of a slowing U.S. labor market, with net job creation of only 22 thousand, well below the market median of 75 thousand. The release came alongside significant revisions, with a sharp downward adjustment for June and a modest upward revision for July, pointing to reduced consistency in employment gains. Both the private and public sectors weakened: in the private sector, momentum faded across goods and services, with several segments posting net losses; in the public sector, federal and state levels also cut jobs. Industry maintained its negative trend, with declines in manufacturing, construction, and mining, while services, which had been sustaining job creation, slowed more broadly, with notable contractions in professional, information, and financial segments. Wages also softened at the margin, while the unemployment rate rose to 4.3%, in line with expectations. Overall, the data indicate a weaker labor market, increasing the likelihood of a less restrictive stance by the Federal Reserve in upcoming monetary policy decisions. For now, we maintain our scenario of two Fed Funds cuts in 2025, though the weaker August release raises the probability of an additional reduction in October as well as the risk of more aggressive cuts.

Economic Calendar

In **Brazil**, the domestic agenda will be highlighted by the release of the **August IPCA,** which we project to fall 0.18% MoM. In addition, the July sectoral activity surveys will also be published.

On the **international front**, the focus will be on the **August inflation data in the United States**. In China, beyond the price indicators, attention will center on the monthly trade balance figures.

Date	Country	Event	Period	Survey	Actual	Prior
09/08/25	**Monday**					
3:00	Germany	Industrial Production (MoM)	Jul	1,0%		-1.9%
8:00	Brazil	**IGP-DI (MoM)**	Ago	0.27%		-0.07%
8:25	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-		-
15:00	Brazil	Weekly Trade Balance	-	-		-
16:00	US	Consumer Credit	Jul	-		$7.371b
09/09/25	**Tuesday**					
5:00	Brazil	IPC-Fipe (MoM)	1ª q (set)	-		0.1%
7:00	US	Small Business Optimism	Ago	100.5		10030,00%
22:30	China	PPI (YoY %)	Ago	-2.9%		-3.6%
22:30	China	CPI (YoY %)	Ago	-0.2%		0,0%
09/10/25	**Wednesday**					
8:00	Brazil	IGP-M (1st Preview)	Set	-		0.38%
9:00	Brazil	**IPCA (MoM)**	Ago	-0.15%		0.26%
9:00	Brazil	Quarterly Survey of Animal Slaughter	2T 2025	-		-
9:30	US	**PPI (MoM)**	Ago	0.3%		0.9%
		Core (MoM)		0.3%		0.9%
11:30	US	Crude oil stocks		-		-
14:00	US	10-year bond auction		-		
14:30	Brazil	Foreign Exchange Transactions		-		-
09/11/25	**Thursday**					
9:00	Brazil	**Retail Sales (MoM)**	Jul	-		-0.1%
		Broad Retail Sales (MoM)		-		-2.5%
9:00	Brazil	Systematic Survey of Agricultural Production	Ago	-		-
9:15	Eurozone	**Monetary Policy Decision**	Set	2,0%		2,00%
9:30	US	**CPI (MoM)**	Ago	0.3%		0.2%
		Core (MoM)		0.3%		0.3%
9:30	US	Initial Jobless Claims		-		-
15:00	US	Federal Budget Balance	Ago	-		-$380.1b
09/12/25	**Friday**					
3:00	Germany	CPI (MoM)	Ago F	0.1%		0.1%
9:00	Brazil	**Services Volume (MoM)**	Jul	-		0.3%
11:00	US	U. of Mich. Sentiment	Set P	58,0		58.2
		U. of Mich. 1yr inflation		-		4.8%
		U. of Mich. 5-10 yr inflation		-		3.5%
In the week						
-	China	Trade Balance	Ago	$99.3b		$98.24b

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	**4,7**	**4,2**
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