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Domestic activity loses momentum amid escalating trade tensions

Highlights

In Brazil, the week was marked by the release of the main activity indicators for May, reinforcing the view that economic momentum continued to weaken throughout the second quarter. Sectoral surveys came in softer than expected across both services and retail, while the IBC-Br pointed to a virtually stagnant economy. Services output declined 0.4% MoM, below market expectations, partially reversing April's increase, with transportation and other services accounting for most of the weakness. Although professional services and household services continued to expand, the overall result reinforces the ongoing moderation in the sector, amid still restrictive interest rates, elevated household debt burdens, and softer domestic demand. Retail activity also showed only limited improvement. Core retail sales increased just 0.1% MoM, well below expectations, while broad retail sales declined 0.2%. Although five out of the eight surveyed segments posted monthly gains, the composition was less favorable, reflecting weaker supermarket sales, the largest component of core retail, as well as temporary support from World Cup-related purchases in segments such as apparel and stationery, an effect that is unlikely to persist in the coming months. Consistent with this backdrop, the IBC-Br remained broadly unchanged in May, declining 0.07% according to the Central Bank's seasonally adjusted series. The result was largely driven by a pullback in agricultural activity following its strong performance in previous months, while industry remained relatively resilient and services were broadly flat. Excluding agriculture, the activity index increased 0.23% MoM, but still reinforced the perception of an economy growing at a very moderate pace. Overall, the latest indicators confirm that monetary tightening continues to weigh on domestic activity and support our expectation of a continued slowdown over the remainder of the year. Accordingly, we maintain our forecast of 0.1% QoQ SA GDP growth in the second quarter.

On the trade policy front, escalating tensions between Brazil and the United States returned to the spotlight following the confirmation by the U.S. government of an additional 25% tariff on Brazilian imports under the Section 301 investigation. The final regulation clarified that the new tariff will be cumulative to the existing 12.5% universal tariff already applied to Brazilian products, raising the effective tariff to 37.5% for goods not covered by the exemptions. At the same time, a broad set of exclusions was preserved, covering key Brazilian exports such as fuels, coffee, beef, orange juice, and several industrial inputs, while products already subject to Section 232 tariffs, including steel, aluminum, copper, vehicles, and auto parts, remain exempt from the new measure. Based on Brazil's export basket to the United States, we estimate that roughly 31% of exports remain effectively subject to the 37.5% tariff, implying an average effective tariff rate of approximately 24.1%. In response, the Brazilian government announced that it will initiate the procedures required for the potential use of the Economic Reciprocity Law, enacted in 2025, which authorizes retaliatory measures against unilateral trade restrictions. Although the legislation allows for measures such as retaliatory tariffs and other trade restrictions, its implementation involves consultation and negotiation procedures aimed at minimizing adverse effects on the domestic economy. As a result, market attention is now shifting toward the evolution of negotiations between the two countries and the possibility of additional trade measures in the coming weeks.

On the international front, U.S. economic data pointed, at the margin, to a more favorable inflation backdrop alongside a gradual cooling in economic activity. Both the CPI and the PPI surprised to the downside in June, largely reflecting the sharp decline in energy prices following the retreat in international oil prices throughout the month. Beyond the direct impact of gasoline on headline inflation, core inflation measures remained well behaved, with continued disinflation across both goods and services, while evidence suggests that the inflationary impact of tariffs remains limited to a relatively small number of sectors. On the activity side, industrial production posted only a marginal increase in June, signaling a loss of momentum following stronger readings in previous months. Nevertheless, sectors linked to technology infrastructure, artificial intelligence, and defense continue to underpin manufacturing growth on a year-over-year basis, while consumer goods industries remain comparatively weaker. Overall, incoming data surprised positively at the margin, although the renewed escalation of tensions in the Middle East and the recent rebound in oil prices continue to pose upside risks to the outlook for energy prices and inflation in the months ahead.

Economic Calendar

In Brazil, the economic calendar will be relatively light, with no major activity or inflation releases. The main highlights will be the Focus Survey and weekly trade balance.

On the international front, attention will turn to the ECB's monetary policy decision and the release of the preliminary July PMIs across the major economies. In the United States, the focus will also be on weekly jobless claims and regional activity surveys, which should provide further signals on the pace of the U.S. economy.

Date	Country	Event	Period	Survey	Prior
07/20/26	Monday				
8:25	Brazil	Central Bank Weekly Economist Survey (Focus)	-	-	-
15:00	Brazil	Weekly Trade Balance	-	-	-
07/21/26	Tuesday				
9:30	US	Philadelphia Fed Non-Manufacturing Activity Index	jul/26	-	-25,8
07/22/26	Wednesday				
11:30	US	EIA Crude Oil Inventories	jul/26	-	-
14:30	Brazil	Weekly FX Flow	jul/26	-	-
07/23/26	Thursday				
9:15	Euro Area	**ECB Monetary Policy Decision**	jul/26	2,50%	2,25%
9:30	US	Initial Jobless Claims	jul/26	212k	-
9:30	US	Chicago Fed National Activity Index (CFNAI)	jun/26	0,14%	-0,10%
11:00	Euro Area	Consumer Confidence	jul/26	-	-17,7
12:00	US	Kansas City Fed Manufacturing Activity Index	jul/26	-	11
07/24/26	Friday				
4:30	Germany	PMI Composite	jul/26	50	49,5
5:00	Euro Area	PMI Composite	jul/26	50,9	50
10:45	US	**PMI Composite**	jul/26	51,5	51,9
12:00	US	Kansas City Fed Services Activity Index	jul/26	9	5

Macroeconomic projections	2019	2020	2021	2022	2023	2024	2025	2026
Brazil GDP (%)	1,2	-3,3	4,8	3,0	2,9	3,4	2,3	**1,9**
Unemployment Rate (average, %)	12,0	13,8	13,2	9,3	8,0	6,6	5,6	**5,5**
IPCA (Consumer Price Index) (%)	4,3	4,5	10,1	5,8	4,6	4,8	4,3	**5,2**
Selic Rate (end of period, %)	4,50	2,00	9,25	13,75	11,75	12,25	15,00	**14,0**
Exchange Rate (end of period, R$/US$)	4,03	5,20	5,58	5,22	4,84	6,19	5,50	**5,15**
Current Account Transactions (US$ billion)	-68,0	-28,2	-46,4	-53,6	-28,6	-66,2	-68,8	**-52,9**
Current Account Transactions (% of GDP)	-3,6	-1,7	-2,9	-2,8	-1,4	-3,0	-3,0	**-2,3**
Trade Balance - BCB (US$ billion)	26,5	32,4	36,4	44,2	80,5	66,2	60,0	**78,0**
Foreign Direct Investment (US$ billion)	69,2	37,8	46,4	87,2	62,0	71,1	77,7	**75,0**
Foreign Direct Investment (% of GDP)	3,7	2,6	2,8	4,5	2,8	3,2	3,4	**3,3**
Primary Result of the Central Government (% of GDP)	-1,3	-9,8	-0,4	0,5	-2,3	-0,4	-0,4	**-0,2**
Gross Public Debt (% of GDP)	74,4	86,9	77,3	71,7	74,3	76,1	78,7	**83,7**
United States - GDP (%)	2,5	-2,2	6,1	2,5	2,9	2,8	2,2	**2,3**
United States - PCE (%)	1,4	1,1	4,1	6,6	3,8	2,5	2,9	**3,1**
United States - Fed Funds Rate (end of period, %)	1,8	0,3	0,3	4,0	5,5	4,5	3,75	**3,8**

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