



Economic Outlook

Diretoria Estratégia e Organização
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International Economy





Global growth and major economies will gradually continue its growth for 2020



Year GDP*

2018: 3.6%
2019: 3.0%
2020: 3.4%



Year GDP*

2018: 2.9%
2019: 2.4%
2020: 2.1%



Year GDP*

2018: 6.7%
2019: 6.1%
2020: 5.8%



Year GDP*

2018: 2.2%
2019: 1.5%
2020: 1.6%



Year GDP*

2018: 1.1%
2019: 0.9%
2020: 2.0%

Although the world economy has shown signs of stabilization in the deceleration process that began in 2018, the international environment is still surrounded by a high level of uncertainty that should continue to negatively impact a growth until at least mid-2020. As the International Monetary Fund (IMF) projects a slight acceleration in global GDP, driven mainly by emerging economies, including thereof Brazil, which is gradually recovering from the 2014/2016 recession driven by a stimulating monetary policy environment.














Standard & Poor's revises Brazilian rating outlook from stable to positive

The rating agency Standard & Poor's changed its outlook for Brazil from “stable” to “positive”. Despite this change, Brazil's credit rating is still BB-, considered as a speculative grade. However, this change favors new reclassifications of the Brazilian risk.

Rating Credit Risk

	S&P		Moody's		Fitch	
Investment Grade	AAA		Aaa		AAA	
	AA+		Aa1		AA+	
	AA		Aa2		AA	
	AA-		Aa3		AA-	
	A+		A1		A+	
	A		A2		A	
	A-		A3		A-	
	BBB+		Baa1		BBB+	
	BBB		Baa2		BBB	
BBB-		Baa3		BBB-		
Speculative Grade	BB+		Ba1		BB+	
	BB		Ba2		BB	
	BB-		Ba3		BB-	
	B+		B1		B+	
	B		B2		B	
	B-		B3		B-	
	CCC+		Caa1		CCC+	
	CCC		Caa2		CCC	
	CCC-		Caa3		CCC-	
	CC		Ca		CC	
	C		C		C	
	D		-		D	

Source: Bloomberg
Update in 03/12/2019

Positive perspective
 Stable perspective
 Negative perspective

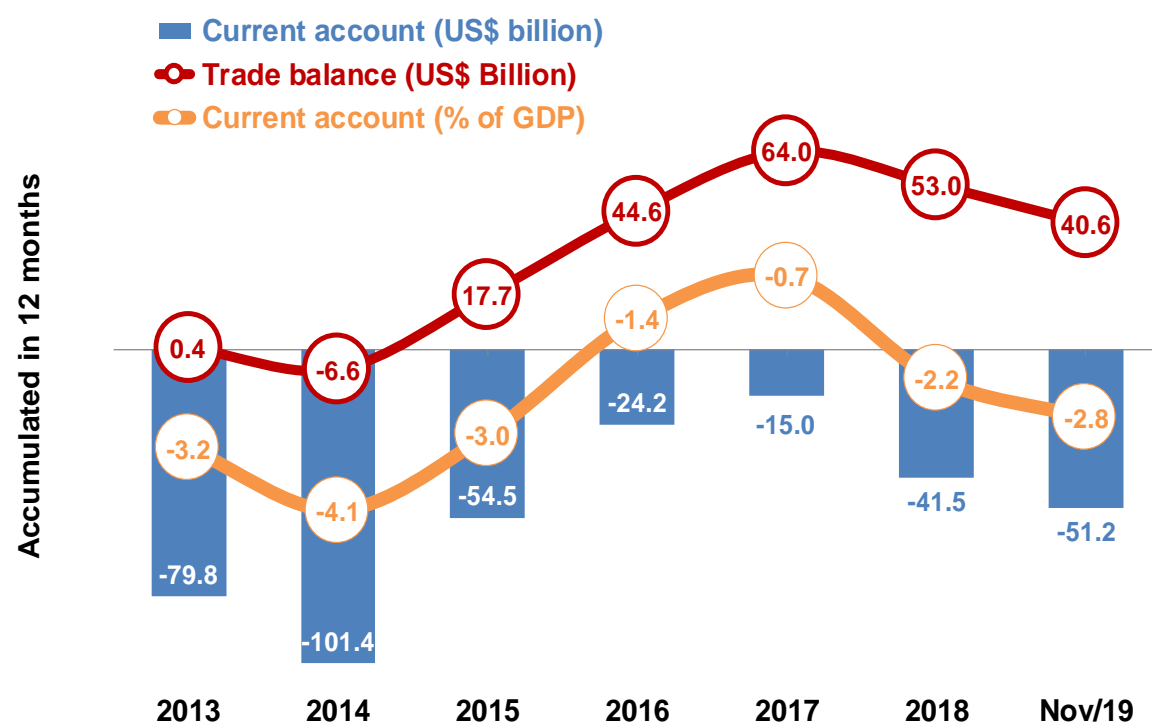
Rating Scale of Major Rating Agencies

Fitch Ratings	Moody's	Standard & Poor's	Meaning in scale
AAA	AAA	Aaa	Investment grade with high quality and low risk
AA+	AA+	Aa1	
AA	AA	Aa2	
AA-	AA-	Aa3	
A+	A+	A1	
A	A	A2	
A-	A-	A3	Investment grade with medium quality
BBB+	BBB+	Baa1	
BBB	BBB	Baa2	
BBB-	BBB-	Baa3	
BB+	BB+	Ba1	Speculation grade, low rating
BB	BB	Ba2	
BB-	BB-	Ba3	
B+	B+	B1	
B	B	B2	
B-	B-	B3	
CCC+	CCC	Caa1	High risk of default and low interest.
CCC	CC	Caa2	
CCC-	C	Caa3	
CC	RD	Ca	
C	D	C	
D			



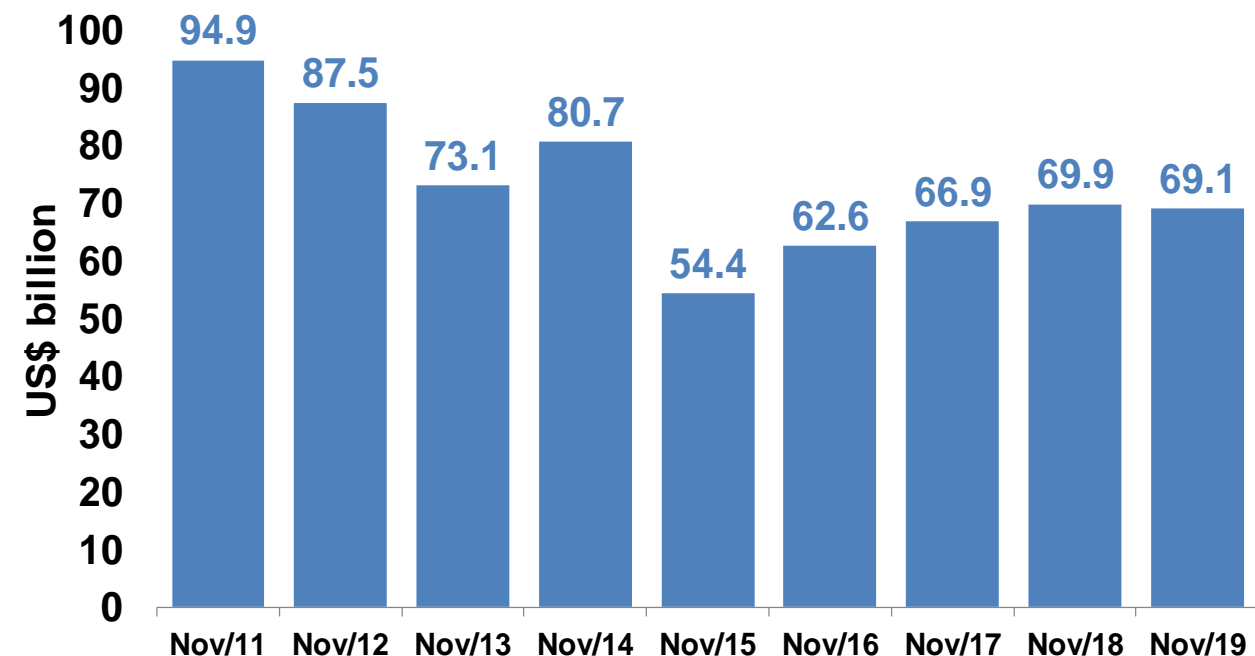
In November, current transactions registered a deficit of US\$ 2.2 billion

In November, current transactions had a **deficit of US\$ 2.2 billion**, compared to a deficit of US\$ 3.1 billion in November 2018. In 12 months, the current account accumulates a deficit of US\$ 51.2 billion, equivalent to 2.78% of GDP, compared to US\$ 52.1 billion through October (2.83% of GDP). As for Foreign Direct Investment in the country, the value accumulated in the year was US\$ 69.1 billion, lower than the same period last year US\$ 69.9 billion, but sufficient to cover the current account deficit.



Source: BCB

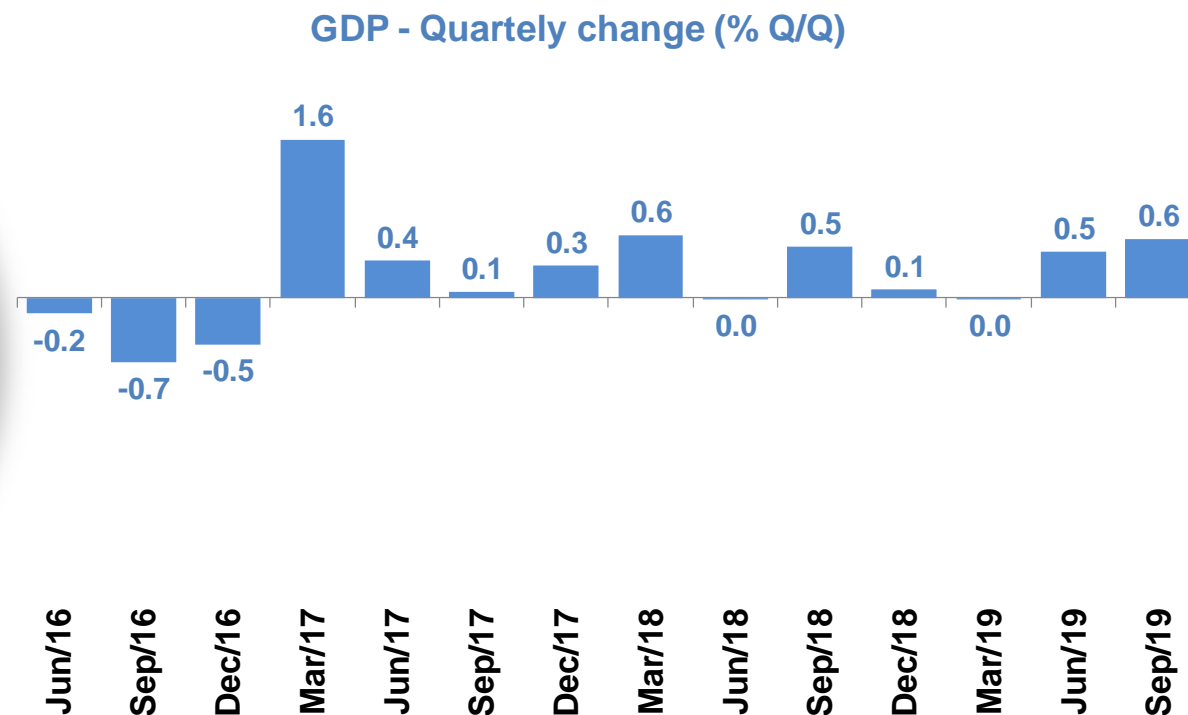
Foreign Direct Investment - 12-months change



Source: BCB, Banco do Brasil/Direo



Activity: GDP exceeds expectations and rises 0.6% in 3Q/2019



Result came in higher than expected by market analysts - up 0.4% (Q/Q-1) according to a Bloomberg survey.

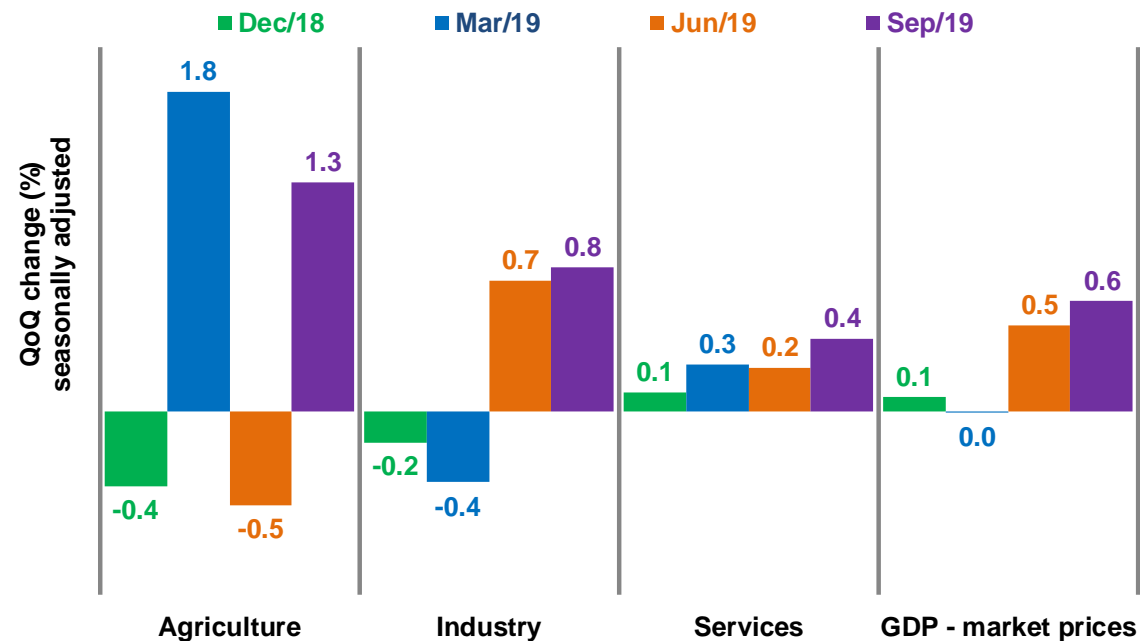
We also revised the 2018 GDP data and for the first and second quarters of this year. Due to this movement, there was a 20bps increase in last year's result, from 1.1% to 1.3%.

Source: IBGE



Breakdown result: Supply & Demand

Offering Perspective



Source: Instituto Brasileiro de Geografia e Estatística

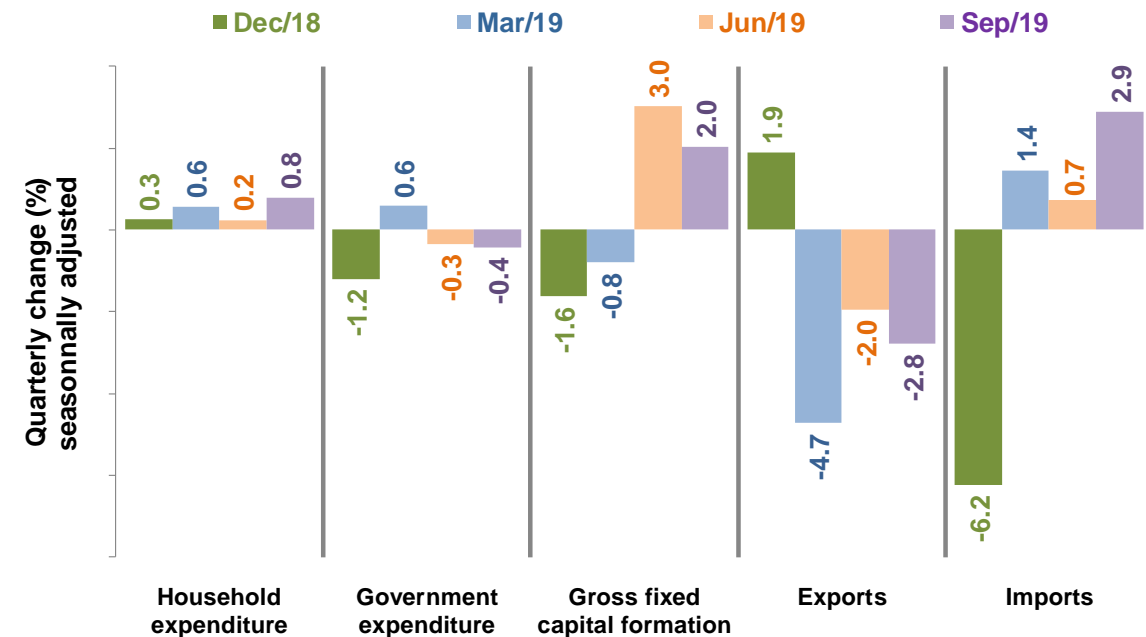


The highlight was agriculture, which advanced 1.3% quarter-on-quarter.



There was no negative performance in any sector, unlike what occurred in the second quarter when a sector (agriculture) recorded a quarterly decline.

Demand Perspective



Source: IBGE



From the Demand Perspective, the growth of Gross Fixed Capital Formation was the highlight, with a variation of 2.0%.



On the other hand, Exports maintained a downward trend (-2.8%).



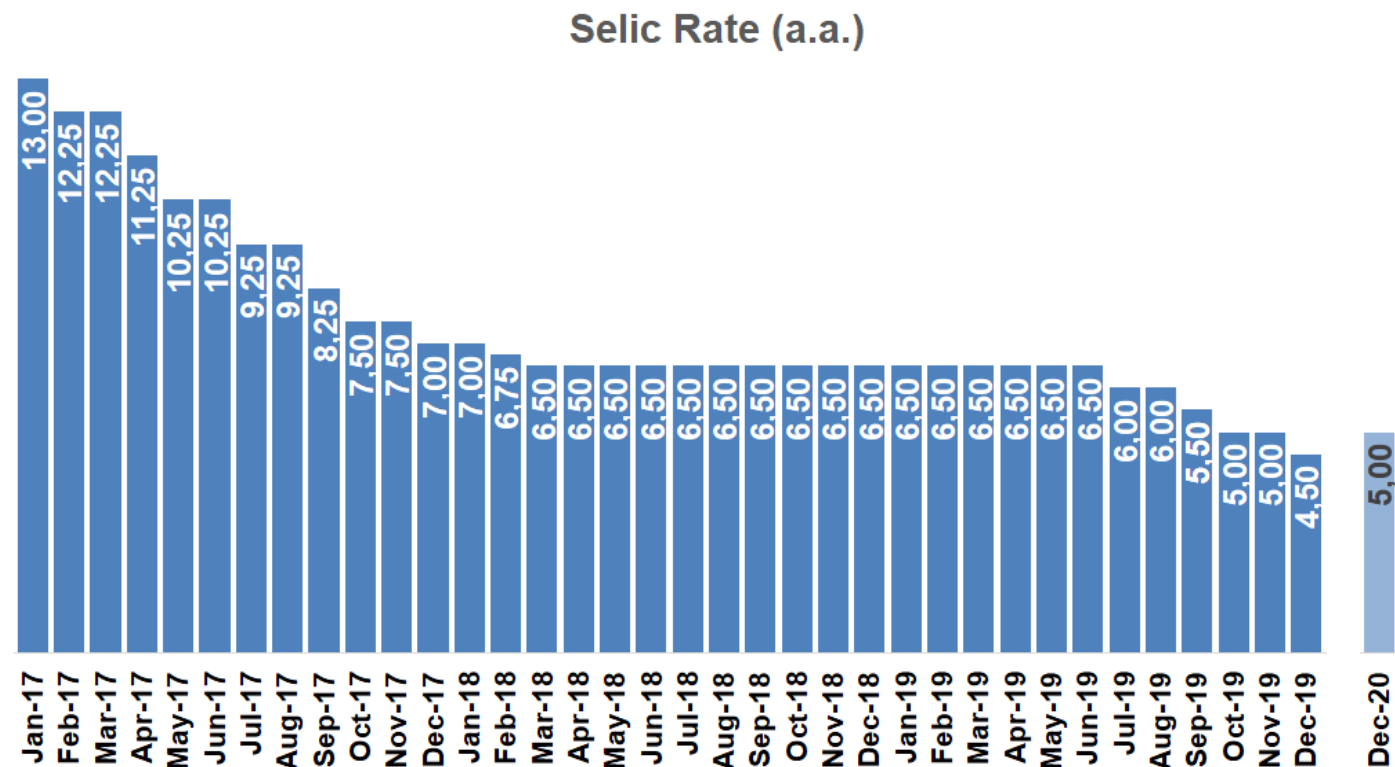
Interest: After fourth consecutive reductions in the Selic rate, the Monetary Policy Committee (COPOM) signals caution for further cuts

On December 11, Central Bank of Brazil reduced the SELIC rate by 50 basis points from 5.00% to 4.50% per annum. It was the fourth consecutive cut, thus reaching a new historical floor.

In the minutes of the meeting, the Monetary Policy Committee (Copom) highlighted the traction gain of economic activity from the second quarter onwards compared to the beginning of this year.

Despite this, the committee stressed that the scenario is still one of gradual recovery for the coming months. For now, the Copom still sees that the “Brazilian economy continues to operate with a high level of idleness of production factors, reflected in the low rates of traditional measures of industry capacity utilization and, especially, in the unemployment rate”.

With this, we expect the basic interest rate to remain at 4.50% at least until the last quarter of 2020, when the monetary authority should start raising interest rates.



Source: BCB
Forecasts: Banco do Brasil



Inflation: November's Broad Consumer Price Index (IPCA) shows a greater variation in the month since 2015

The IPCA changed 0.51% in November, the highest result for the month since 2015, when it stood at 1.01%. The accumulated index for the year was 3.12% and 3.27% in the last 12 months, up from 2.54% in the immediately preceding 12 months.

Seven of the nine groups surveyed rose across November, with **Personal Expenses (1.24%)** and **Food Products (0.72%)** being the highlight, where the acceleration of the group was mainly due to an increase in meat (8.09%), influenced by a raise in exports of this item to China.

IPCA

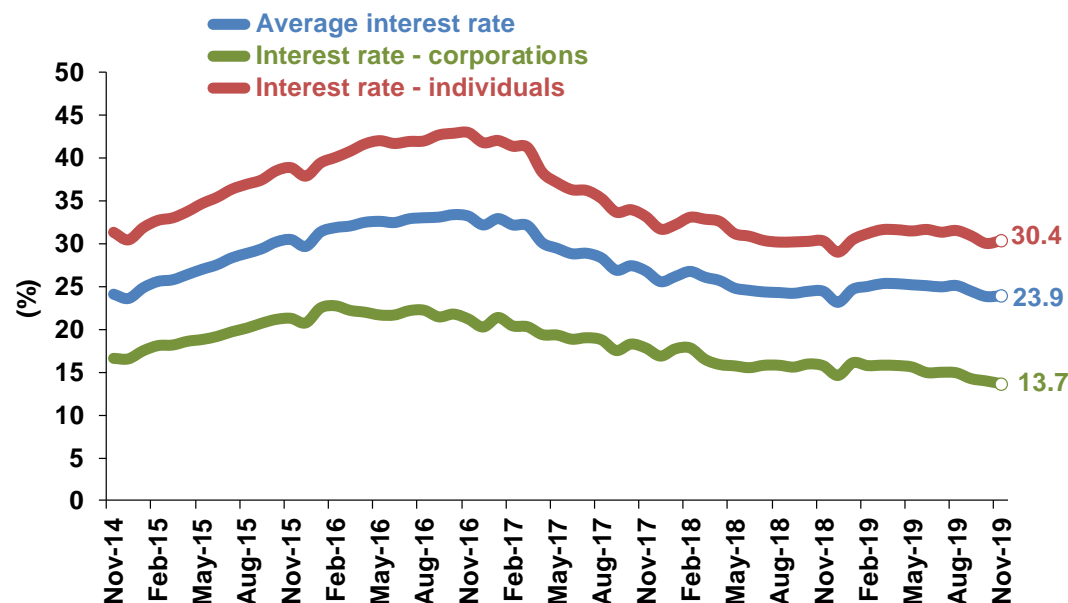
Group	MoM Change (%)		Impact (P.P)	
	Oct-19	Nov-19	Oct-19	Nov-19
Index	0.10	0.51	0.10	0.51
Food Products	0.05	0.72	0.01	0.18
Housing	-0.61	0.71	-0.10	0.11
Household Items	-0.09	-0.36	0.00	-0.01
Clothing	0.63	0.35	0.04	0.02
Transport	0.45	0.30	0.08	0.05
Health Care	0.40	0.21	0.05	0.03
Personal Expenses	0.20	1.24	0.02	0.13
Education	0.03	0.08	0.00	0.00
Communication	-0.01	-0.02	0.00	0.00

Looking ahead, we project that the **IPCA should accelerate in December**, a dynamic already signaled by the indicator (IPCA-15), which recorded a **1.05%** change. This movement continues to be influenced by the pressure of animal protein prices, contributing to the IPCA ending 2019 at **3.9%**. It is worth noting that this value is significantly lower than the target set by the National Monetary Council for this year (4.25%).

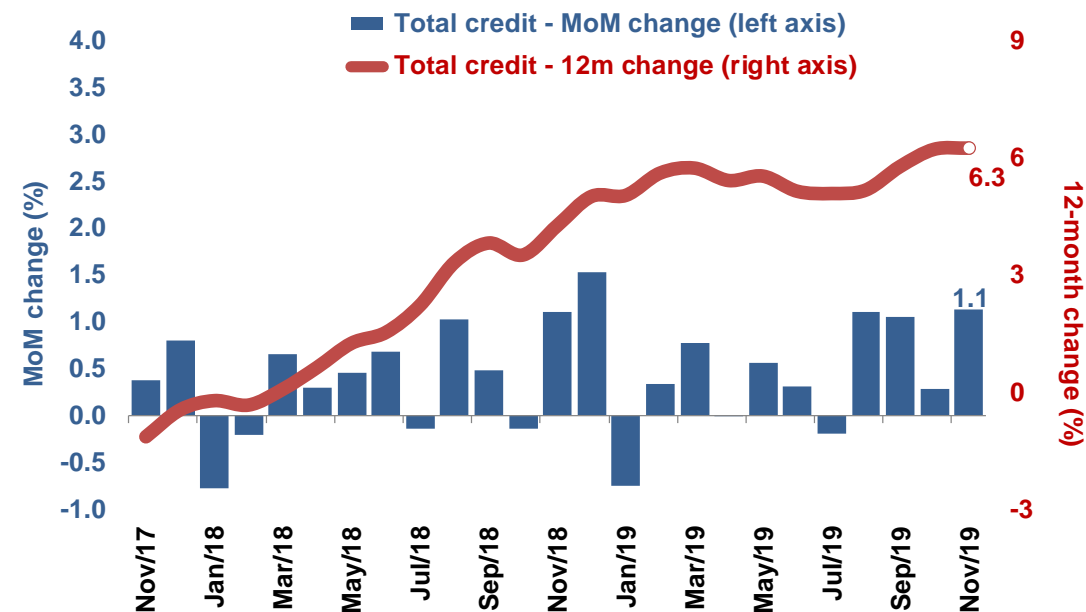


Brazilian Financial System: Total Credit Volume Expands 1.1% in November

According to information from the Central Bank, the balance of the National Financial System (SFN) total loan portfolio reached **R\$ 3.4 trillion** in November this year, advancing **1.1%** in comparison to October. Regarding the delinquency rates, these decreased, a sign that partly reflects an improvement in the prospect of an economic activity recovery during the last quarter of the year.



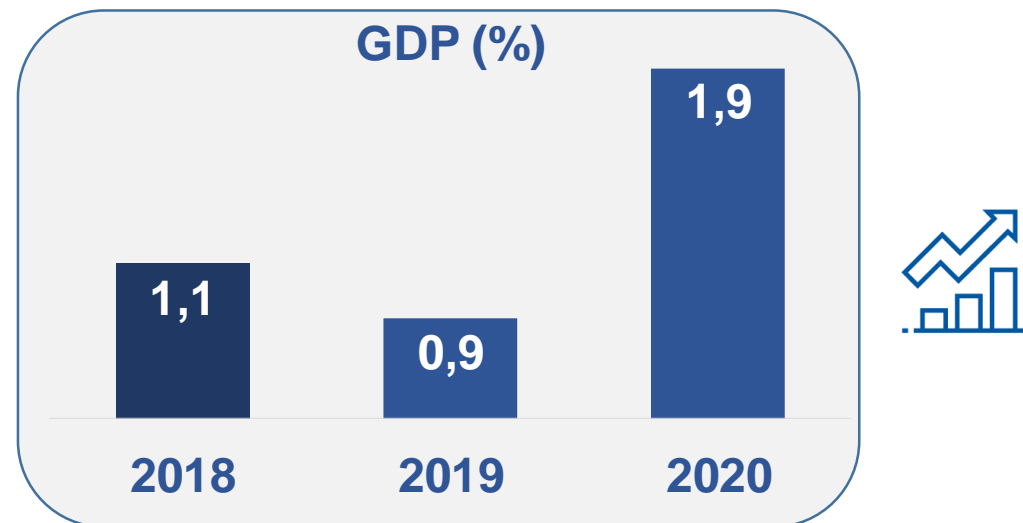
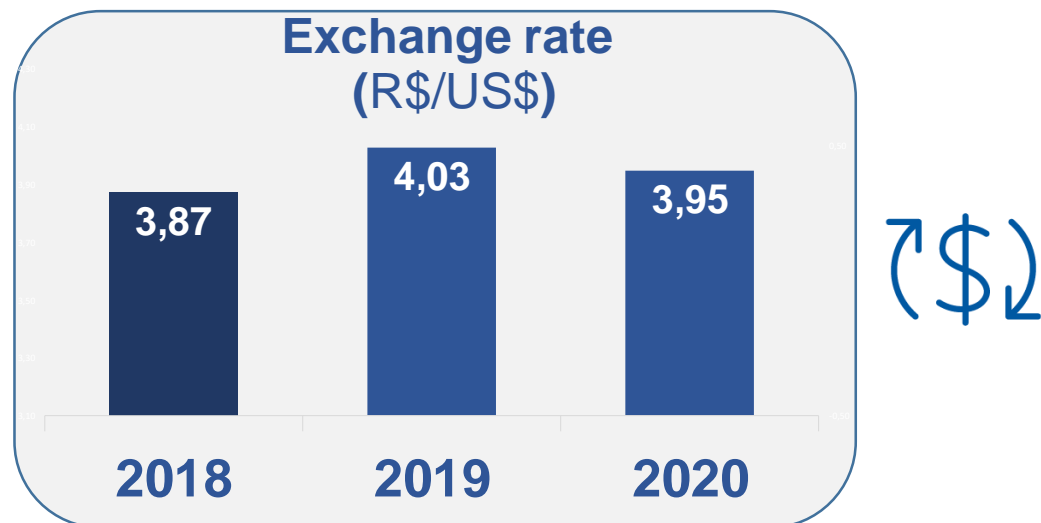
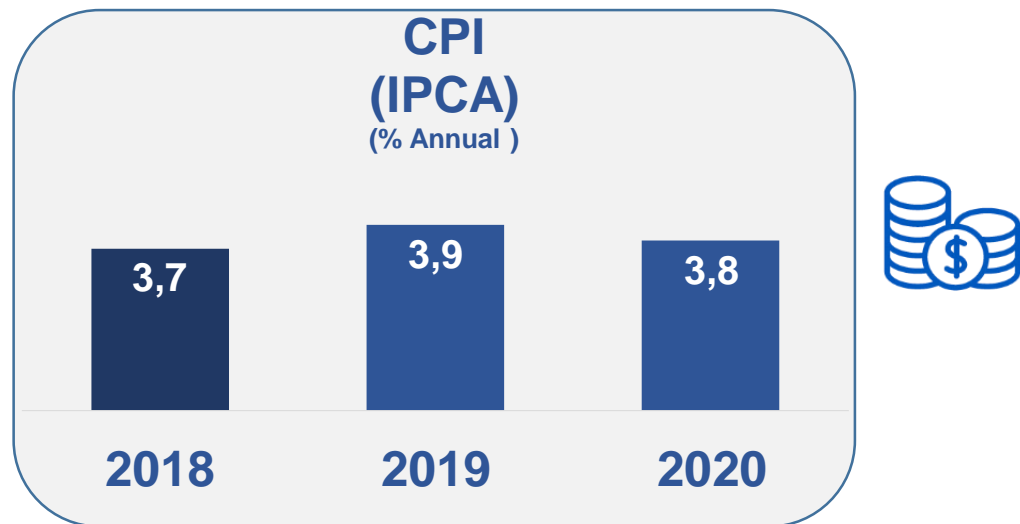
Source: Banco Central do Brasil

Source: Banco Central do Brasil
Elaboration: Direo

2019 forecasts (% p.a.)

PF	PJ	Overall credit
11.7	0.8	6.8

Projections - Base Scenario







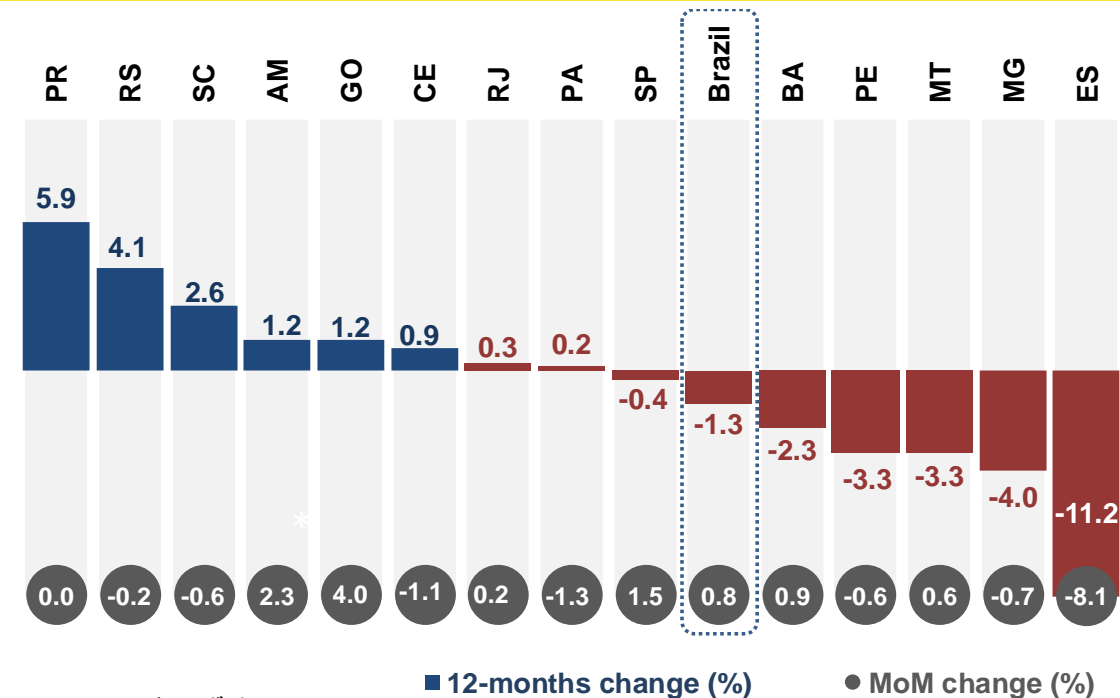
In October, seven states showed a growth in its industrial activity

The national industry grew by **0.8%** from September to October, driven by seven states that **showed a positive variation** in the month (seasonally adjusted data).

From
September
To
October

Highest Growth: **Goiás (4.0%)**

Largest decline: **Espírito Santo (-8.1%)**



Source: IBGE, Banco do Brasil/Direo
Update: October/2019

Accumulated industrial activity in last 12 months:

↑ **Paraná (5.9%)** was the positive highlight, stimulated by its vehicle and food sector.

↓ **Espírito Santo** remained in the worst position, with a drop of -11.2%, due to an underperformance in extractive industries



In agriculture, the Brazilian Institute of Geography and Statistics estimates a production record for 2020







In the **second forecast for 2020**, Brazilian Institute of Geography and Statistics (IBGE) reversed its forecast and now anticipates a record harvest of **240.9 million tons**.

The grain harvest in **2019** in the country should be **6.4%** higher than in 2018.



The **Midwest** should have the largest variation (**10.2%**), driven mainly by the second peanut crop and the cotton crop.



		Production*		millions tons
		2018	2019	Change (%) 2018/2019
	Brazil	226,5	240,9	6,4
	Southeast	22,9	23,4	2,3
	South	74,5	77,3	3,7
	Midwest	101,0	111,3	10,2
	North	8,9	9,8	9,3
	Northeast	19,1	19,1	0,2

Source: IBGE, BB/Direo

Update: nov/2019

* Cereal production, vegetables, and oilseeds

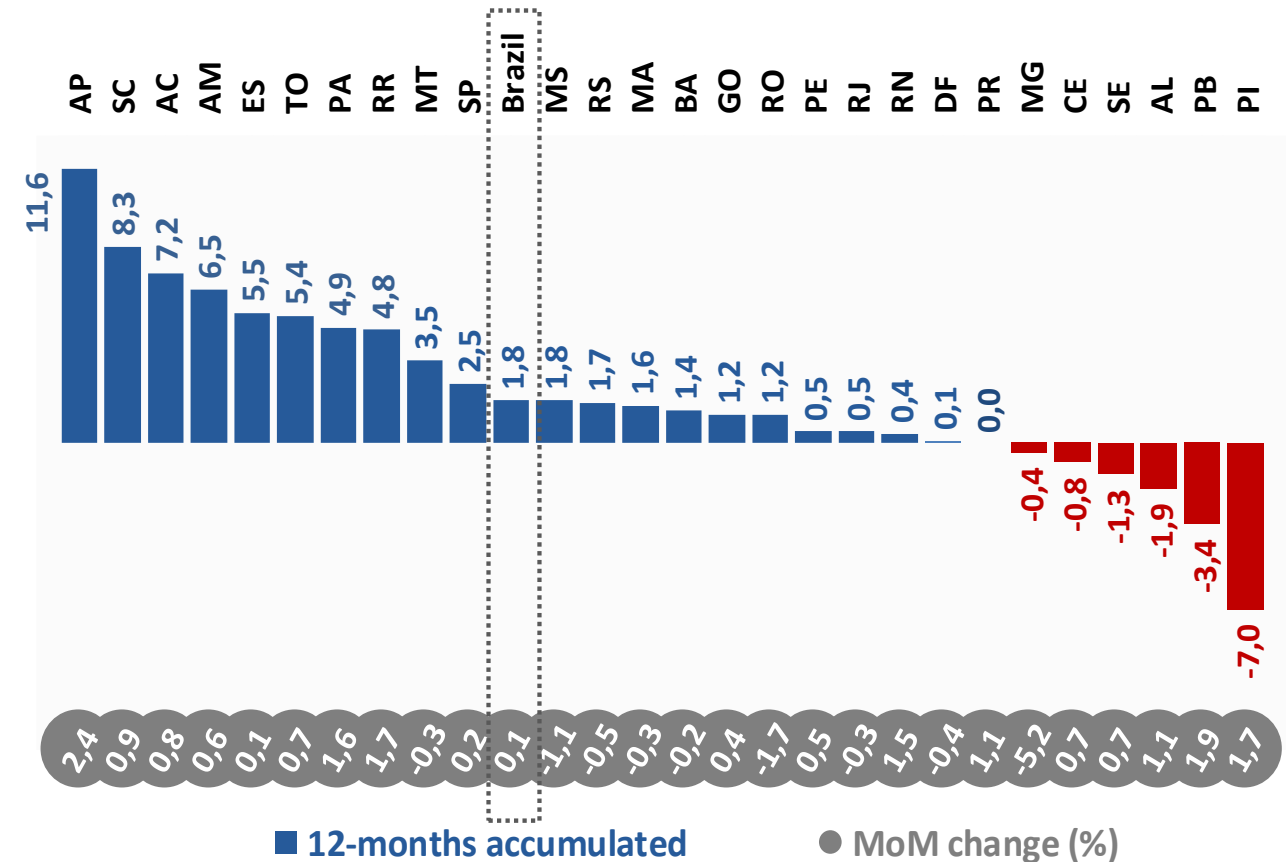
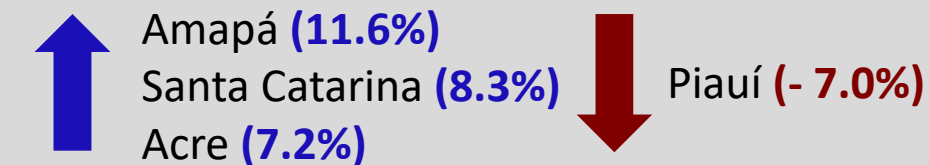


Increased retail sales in 18 states during the month of October

Highlights on monthly variations (seasonally adjusted)



Highlights accumulated in last 12 Month



Source: IBGE

Update: sep/2019 *Seasonally adjusted

In the expanded retail trade, which also considers sales related to the automotive and construction markets, only Piauí (-0.4%) and Rio Grande do Sul (-0.1%) presented negative results.



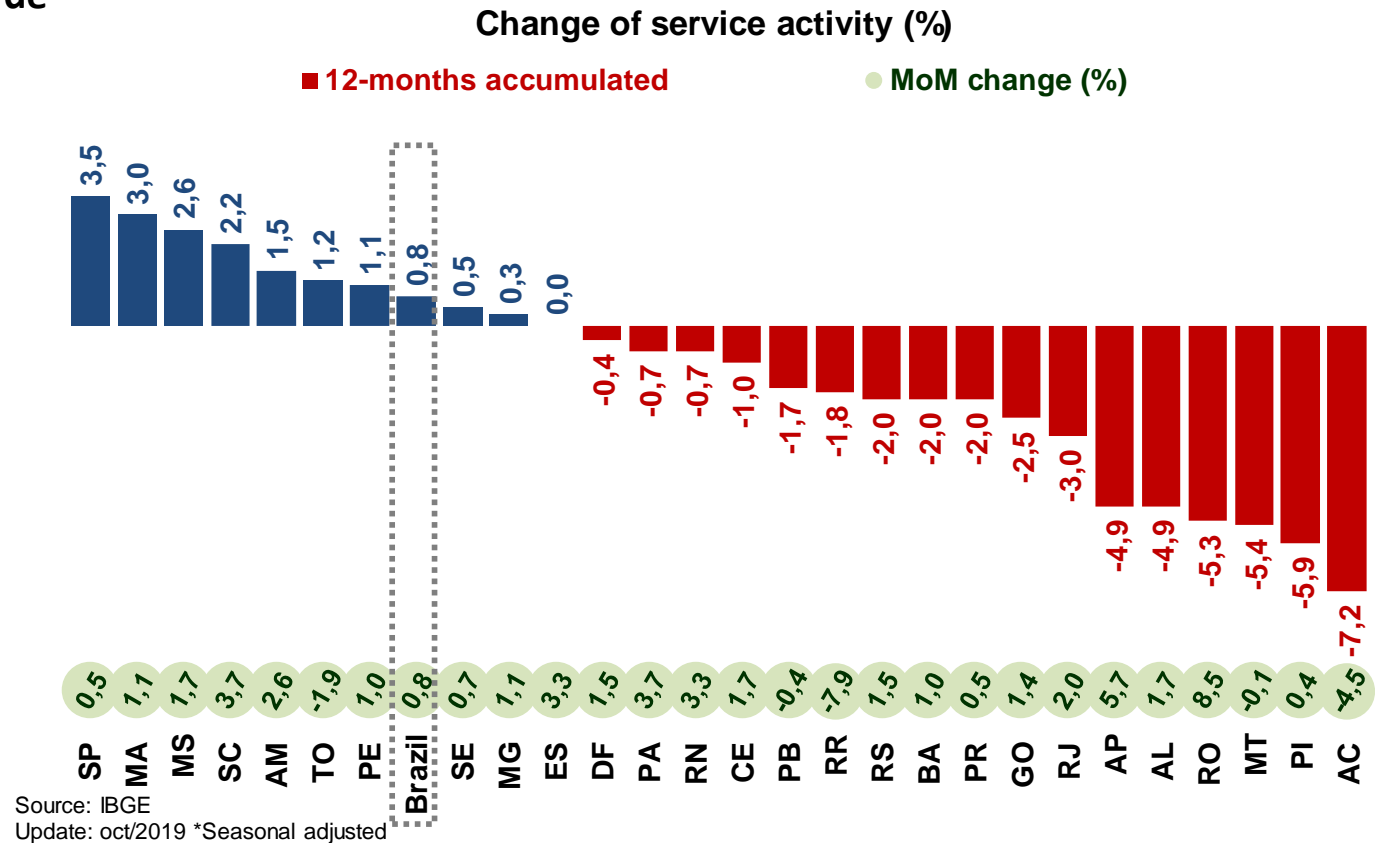
In October, Services sector advances in most regions

According to the **Monthly Services Survey (Pesquisa Mensal de Serviços; PMS)**, only 5 of the 27 states showed a decrease in October.

Rondônia (8.5%) and **Amapá (5.7%)** pointed up, showing growth rates well above the national average (**0.8%**).

In the accumulated 12-month period, only 9 states presented growth, especially São Paulo with a **3.5%** growth rate driven by the provision of information and communication services and services to families.

In contrast, **Acre** and **Piauí** fell by **-7.2%** and **-5.9%**, respectively.





In 12 months, Espírito Santo was the only state that presented a retraction in its economic activity (IBC-r)

In October,

Pará recorded the largest variation (**2.2%**), which benefited from a rise in nominal service revenues.

On the other hand, **Espírito Santo (-0.7%)** and **Santa Catarina (-0.1%)** presented the worst results, harmed by a drop in industrial production.

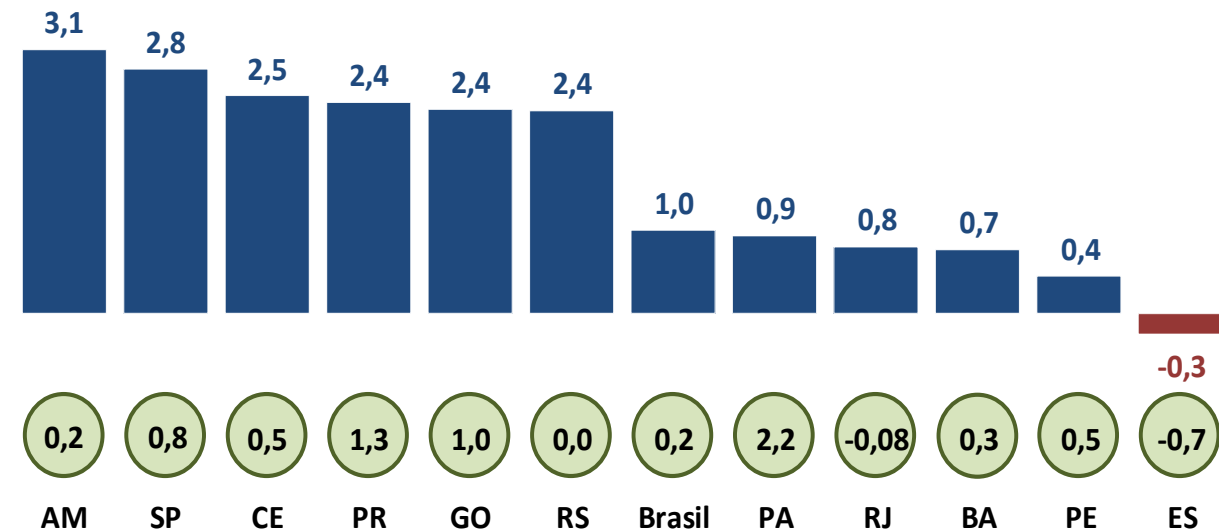
12-months accumulated,

Espírito Santo fell by **0.3%**, jeopardized by a fall in agricultural and industrial production.

Amazonas grew **3.1%**, with positive change in all sectors.

São Paulo grew **2.8%**, driven by an increased nominal revenue from services and retail sales.

Level of economic activity (%)



Source: BCB
Update: August/2019

■ 12-months accumulated

● MoM change (%)



In November, Commerce and Services boost the generation of formal vacancies

99.2 thousand jobs were created in Brazil in **November**, according to brasilians General Registry of Employees and Unemployed (Caged), driven by:

- **Commerce**, punctually influenced by Black Friday, generated **106,800** vacancies;
- **Services** generated **43.6** thousand jobs;
- **Civil construction, industry and agriculture** lost **51.2** thousand jobs.



São Paulo, highlighting generation **23.1** thousand, due to hiring in the **services and commerce** sector.



Goiás, negative result of **4,600** vacancies, mainly influenced by the destruction of jobs in **industry** and **agriculture**.

Net balance (thousand people) - nov/19							
UF /SECTOR	Industry	Construction	Trade	Services	Farming, off-plant, hunting and fishing	balance in the month	Accumulated balance in 12 months*
SP	-14.9	0.2	29.1	17.5	-8.8	23.1	157.7
MG	-1.1	-4.0	11.2	4.8	-2.5	8.4	87.3
SC	-1.5	-0.5	6.1	4.0	1.8	10.0	70.7
PR	-0.7	-0.6	6.1	2.5	-0.6	6.7	44.2
BA	-2.1	1.7	4.6	1.6	-1.9	4.0	21.8
GO	-3.1	-0.6	2.8	-0.2	-3.5	-4.6	17.9
MT	-0.5	-0.7	2.0	-0.1	-3.1	-2.4	20.8
ES	-0.1	-0.3	1.8	1.4	-0.2	2.6	16.1
DF	0.2	-0.2	2.4	0.2	0.0	2.7	11.8
RS	-0.9	-0.3	6.1	3.4	4.0	12.3	14.1
AM	-0.0	0.0	1.6	-0.0	0.0	1.6	11.6
RJ	-0.3	-1.2	13.4	5.4	-0.4	16.9	10.0
MA	0.0	0.1	1.5	-0.5	0.1	1.2	10.1
PA	0.1	-0.1	2.5	0.4	0.1	3.1	10.7
MS	0.0	-0.2	1.3	-0.7	-1.2	-0.8	5.8
CE	-0.1	0.4	3.0	2.0	-0.4	4.9	7.5
PB	-0.2	-0.3	1.2	1.2	0.1	1.9	5.3
RN	-0.1	0.2	1.1	0.6	-0.1	1.7	4.0
RO	-0.2	-0.2	0.6	-0.4	-0.1	-0.4	3.2
PI	-0.3	-0.0	0.6	0.1	-0.2	0.2	2.3
RR	0.0	0.1	0.3	0.1	0.0	0.6	1.7
TO	-0.0	-0.2	0.2	-0.1	0.0	-0.1	0.4
SE	-0.1	0.1	1.0	0.6	-0.0	1.5	0.9
AC	-0.1	-0.2	0.3	-0.6	-0.0	-0.6	-0.8
AP	-0.0	-0.2	0.4	0.0	0.0	0.2	-0.2
AL	0.3	0.1	1.1	-0.1	-0.1	1.3	0.4
PE	0.6	-0.3	4.5	0.5	-2.1	3.2	-2.7
Brasil	-24.7	-7.4	106.8	43.6	-19.2	99.2	532.5

Source: Ministério da Economia

Elaboration: BB/Direo

* Adjusted data