



# Economic Outlook

Diretoria Estratégia e Organização  
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# International Economy





# IMF projections show biggest drop in world GDP since the Great Depression last century

In its latest World Economic Outlook report, the IMF made a 6.3 percentage point cut in growth expectations for the world economy this year, which went on to be a 3.0% decline. This movement reflected, above all, the effects of the strict social isolation measures adopted in almost all countries on economic activity.

According to the institution, if confirmed, this scenario should constitute the largest global recession since the Great Depression, which occurred during the 1930s. For next year, assuming the end of restrictive measures and also considering the positive effects of countercyclical policies that have been implemented around the world, the expectation of the institution is that there will be growth of 5.8% in the global economy, up 2.4 percentage points from previous projections. The revisions to the growth of the Brazilian economy came in the same direction.

	2019	Forecast (difference from January forecasts)	
		2020	2021
<b>World</b>	<b>2.9</b>	<b>-3.0</b> <b>(-6.3)</b>	<b>5.8</b> <b>(+2.4)</b>
<b>Advanced economies</b>	<b>1.7</b>	<b>-6.1</b> <b>(-7.7)</b>	<b>4.5</b> <b>(2.9)</b>
USA	2.3	-5.9 <b>(-7.9)</b>	4.7 <b>(+3.0)</b>
<b>Emerging markets</b>	<b>3.7</b>	<b>-1.0</b> <b>(-5.4)</b>	<b>6.6</b> <b>(+2.0)</b>
Brazil	1.1	-5.3 <b>(-7.5)</b>	2.9 <b>(+0.6)</b>

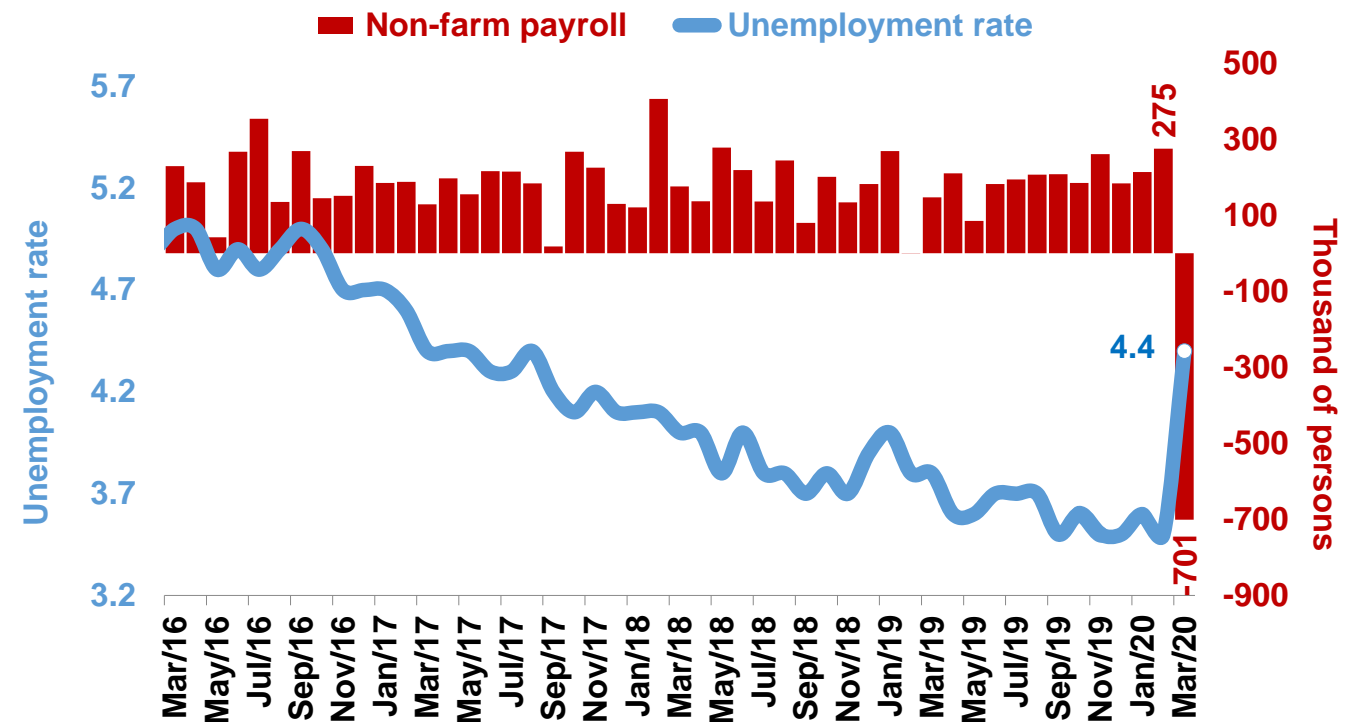
Source: IMF (WEO Apr/2020)



# United States: Labour market data already reflect the adverse effects of social isolation

In March, with the impacts of the economic downturn against Covid-19, the U.S. labour market had 701,000 job openings closed, representing the first negative data since September 2010. The sectors that recorded the greatest losses were those related to leisure and entertainment, with 459,000 fewer vacancies, and of this total, only restaurant services accounted for 417,000 fewer jobs.

In fact, the unemployment rate increased by 0.9 percentage points (reaching 4.4%), constituting the largest monthly increase in the rate since January 1975, when the increase was also 0.9 percentage points. In addition, for the months of January and February of this year, the creation of vacancies was revised, and the result was the net reduction of 57,000 posts compared to the previously disclosed.



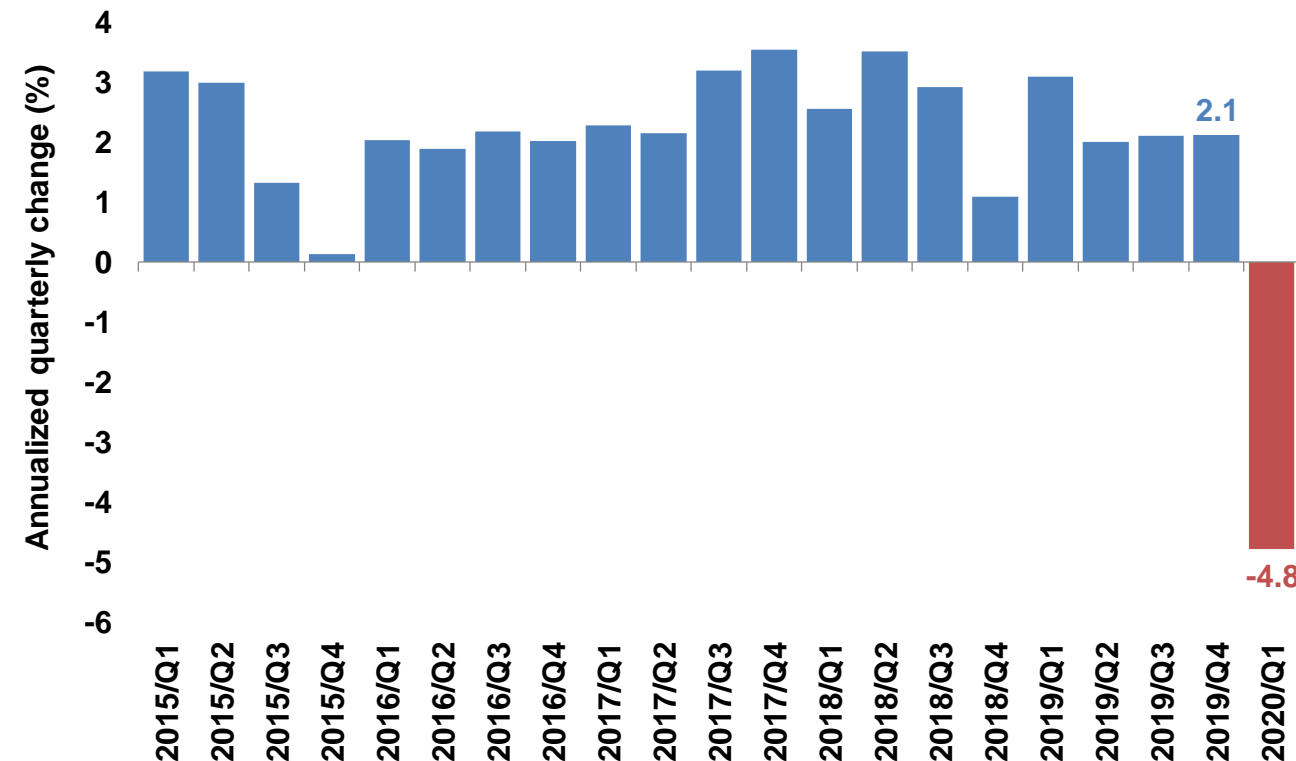
Source: FRED - Federal Reserve database  
Elaboration: DIREO



# U.S. GDP estimations discloses it worst quarterly performance since 2008

The preliminary estimate of U.S. GDP for the first quarter of 2020 fell 4.8 percent, more intense than expected by the market (-4.0%, according to Bloomberg expectations). This performance mainly reflected the negative behaviour of household consumption (-7.6%), which represents approximately 70% of U.S. GDP, and investment, which fell by 5.6%. On the other hand, public spending (+0.7%) positive and net exports contributed positively with 1.3%. However, the result of net exports is not an encouragement, as it is due to a greater contraction in imports (-15.3%) observed on the export side (-8.7%).

Considering that the first quarter result still does not have the full effect of the interruption of activities due to the coronavirus pandemic, the prospect is that U.S. GDP will have a strong negative impact in the second quarter, although there may be some compensation due to the gradual reopening of the economy as early as May.

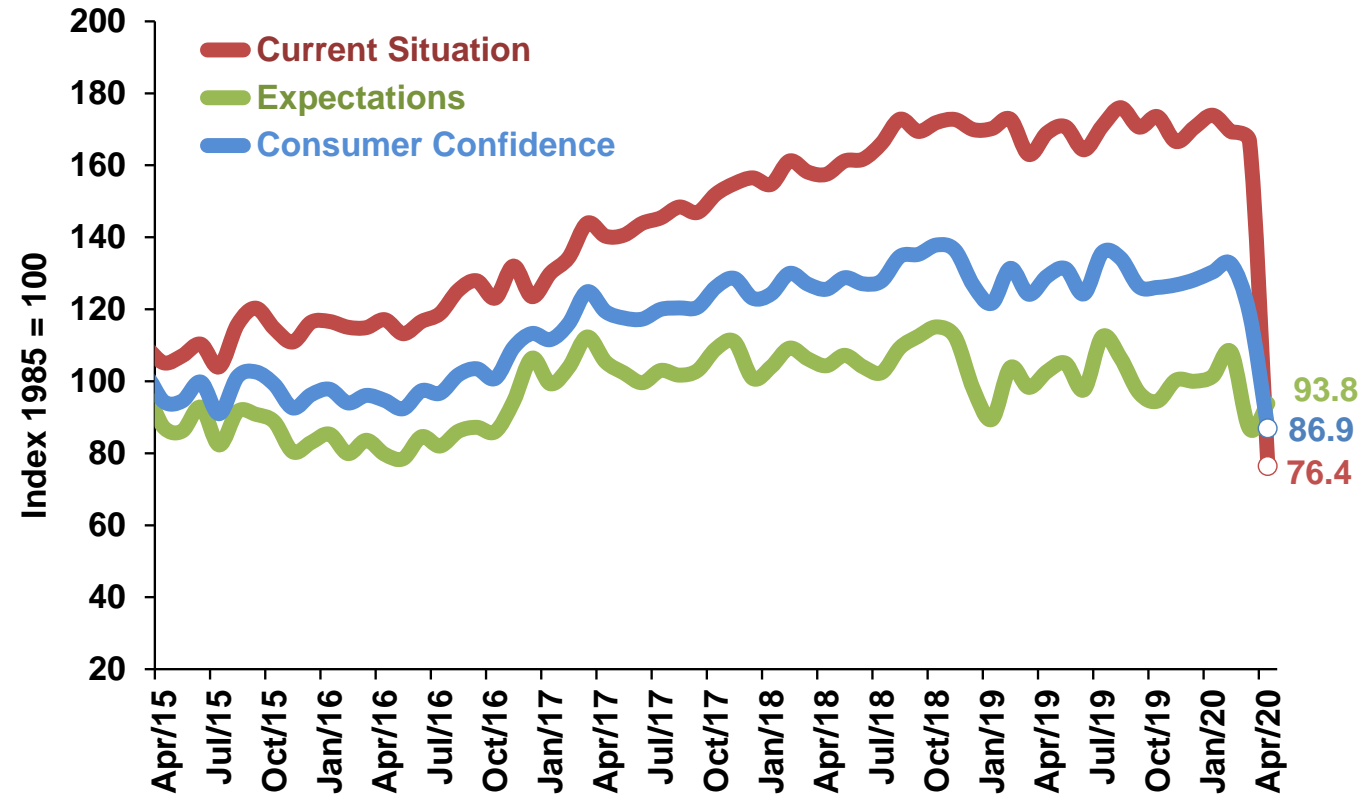


Source: Federal Reserve Economic Data

# U.S. consumer confidence went down significantly in April

The Consumer Confidence Index, measured by the Conference Board, fell to 86.9 points in April from 118.8 points in March. This movement had as predominant vector the effects of the stoppage of activities due to measures of social distancing, which resulted in the disseminated worsening of economic relations. Thus, the evaluation of consumers in relation to current business conditions, given the short-term income prospects and labour market conditions, was negatively affected.

Broadly speaking, the U.S. economy, like the rest of the world, is contracting, a scenario that should be changed only when containment measures are gradually relaxed. In this environment, the expectation is for a gradual improvement in consumer confidence, but that will depend heavily on the responsiveness of economic activity and, consequently, on the level of employment.



Source: Bloomberg



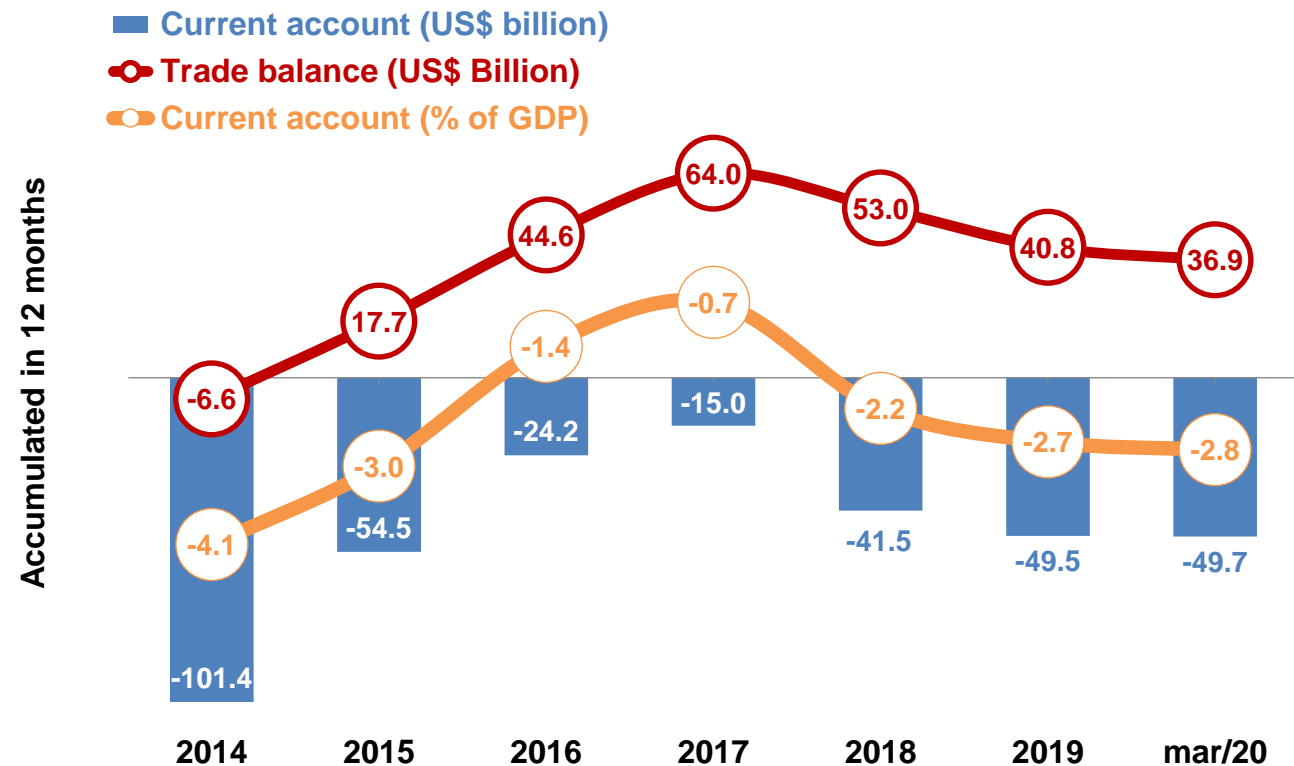




# Current account volumes recorded a surplus of US\$ 868 million in March

According to the Central Bank of Brazil, in March, current account transactions recorded a surplus of US\$ 868 million, compared to a deficit in February (US\$ 4.3 billion). Thus, the first quarter of 2020 had a negative result of US\$ 15.2 billion, slightly above the US\$ 15.0 billion in the same period of 2019. In twelve months, the deficit was US\$ 49.7 billion (2.80% of GDP), compared to US\$ 53.2 billion (2.96% of GDP) in February 2020.

On the other hand, the trade balance recorded a positive balance of US\$ 4.19 billion in March, a result higher than that observed in the same period of 2019 (US\$ 3.83 billion). On the other hand, compared to the first quarter of last year (US\$ 7.56 billion) there was a reduction to US\$ 3.64 billion in the first quarter of 2020. In 12 months, the trade balance had a surplus of US\$ 36.9 billion.



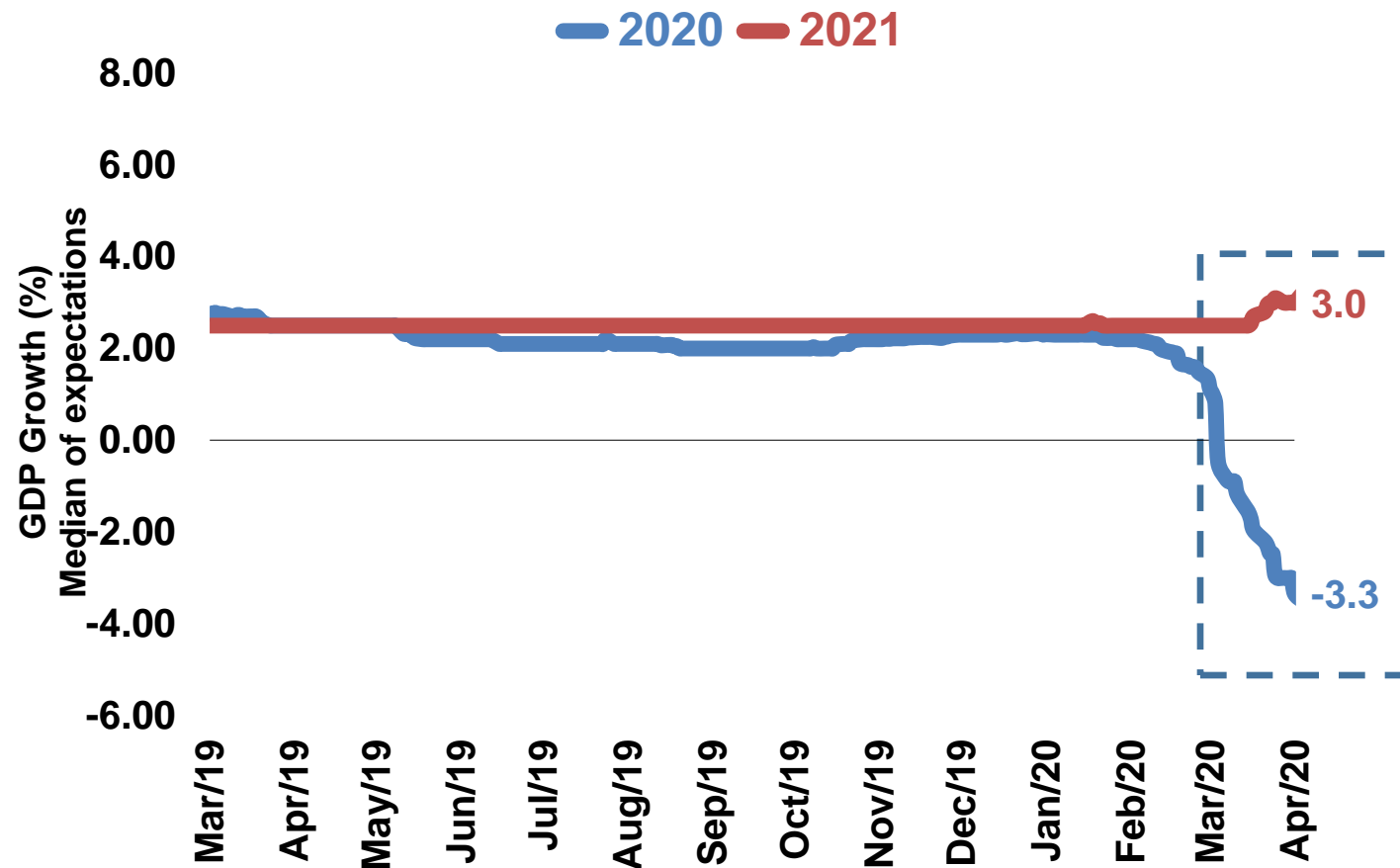
Source: BCB



# Activity: Market projections continued reinforcing the downward trend in 2020

The main highlight of FOCUS Report last month is the trajectory of market expectations for growth of the Brazilian economy, which has shown a strong downward trend for 2020.

Generally speaking, given the uncertainty surrounding, the impacts of isolation measures on economic activity remains high, the trend is continuing in the deterioration of expectations regarding a growth of the Brazilian economy, in line with what has been occurring in the rest of the world. On the other hand, for 2021, the market continues to expect a relatively vigorous resumption of activity, with the expected rate also benefiting from the fact that the comparison base is lower.



Source: Banco Central do Brasil, FOCUS Survey



# Inflation: In March, IPCA records lowest value for the month in 26 years

The Broad National Consumer Price Index (IPCA), a measure of inflation used in the Central Bank's targets, closed in March with a 0.07% variation, compared to 0.25% in February. This was the lowest result for the month of March since the beginning of the Real Plan (1994).

The "Food and Drink" group, which accounts for about a quarter of household expenses, made the largest positive contribution to IPCA on March. Among the product groups, the highlight was the high prices of food for consumption at home (1.40%).

On the opposite side, falling airfare prices (-16.75%) and fuels (-1.88%) – a movement influenced by the effects of the global pandemic and the crisis in the oil sector – represented the greatest negative contribution making-up the index.

## IPCA

Group	MoM Change (%)		Impact (P.P)	
	fev/20	mar/20	fev/20	mar/20
<b>Index</b>	0,25	0.07	0,25	0.07
<b>Food Products</b>	0,11	1.13	0.02	0.22
<b>Housing</b>	-0.39	0.13	-0.06	0.02
<b>Household Items</b>	-0.08	-1.08	0.00	-0.04
<b>Clothing</b>	-0.73	0.21	-0.03	0.01
<b>Transport</b>	-0.23	-0.90	-0.05	-0.18
<b>Health Care</b>	0.73	0.21	0.10	0.03
<b>Personal Expenses</b>	0.31	-0.23	0.03	-0.03
<b>Education</b>	3.70	0.59	0.23	0.04
<b>Communication</b>	0.21	0.04	0.01	0.00

Source: Instituto Brasileiro de Geografia e Estatística

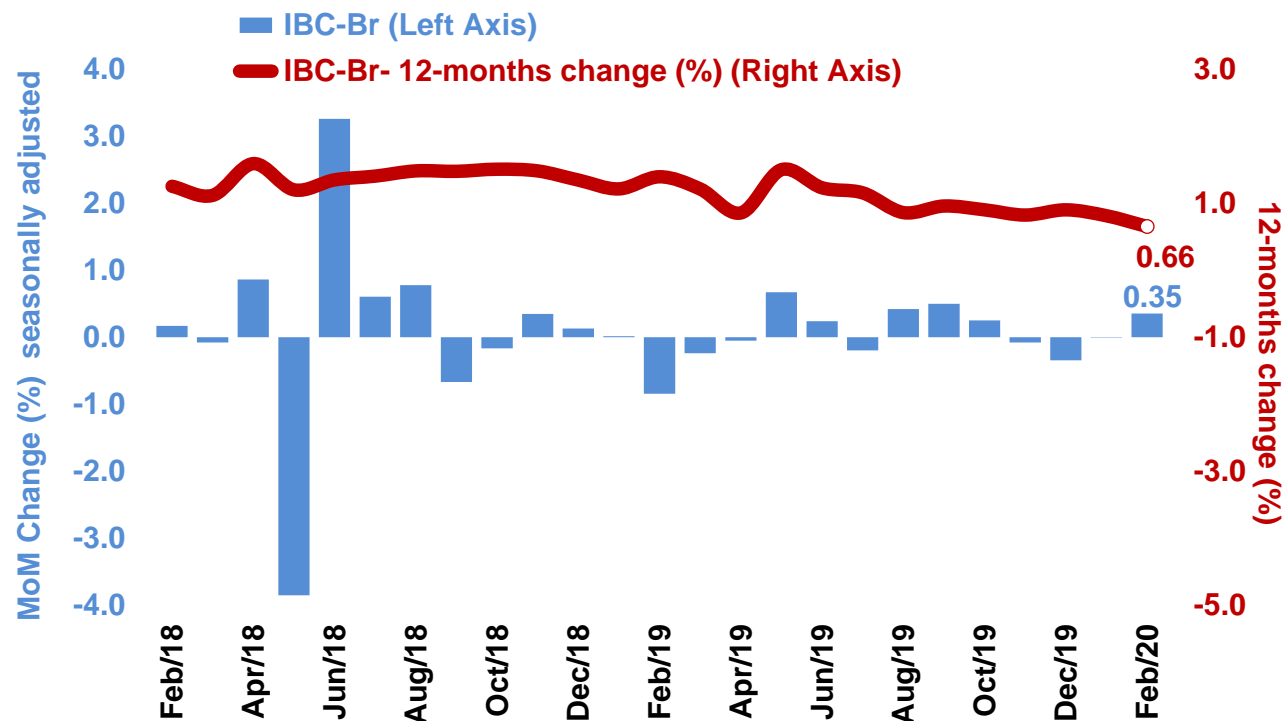
Considering the prospects for dynamics of economic activity, especially the labour market, we projected that throughout 2020 the **IPCA should continue with a cooling trend**, ending the year at **2.3% (Base Scenario)**, well below the center of the target established for the year (4.00%).



# Activity: Despite progress in February, iBC-Br deceleration trajectory remains

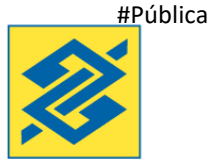
After falling 0.01% in January, the Monthly Central Bank Index (IBC-Br), which measures the country's activity, showed that the Brazilian economy advanced 0.35% in February this year. In comparison with the same month last year, there was an increase of 0.60%. With regard to the accumulated figures in 12 months, the index reached an expansion of 0.66%, maintaining the deceleration trajectory it started in June last year.

Despite this bullish movement in the month, we recall that the February result still does not reflect the effects of measures of social isolation on Brazilian economic activity. Thus, the expectations are that there will be a significant deceleration of the indicator from March, when policies to contain the progress of coronavirus in Brazil began.



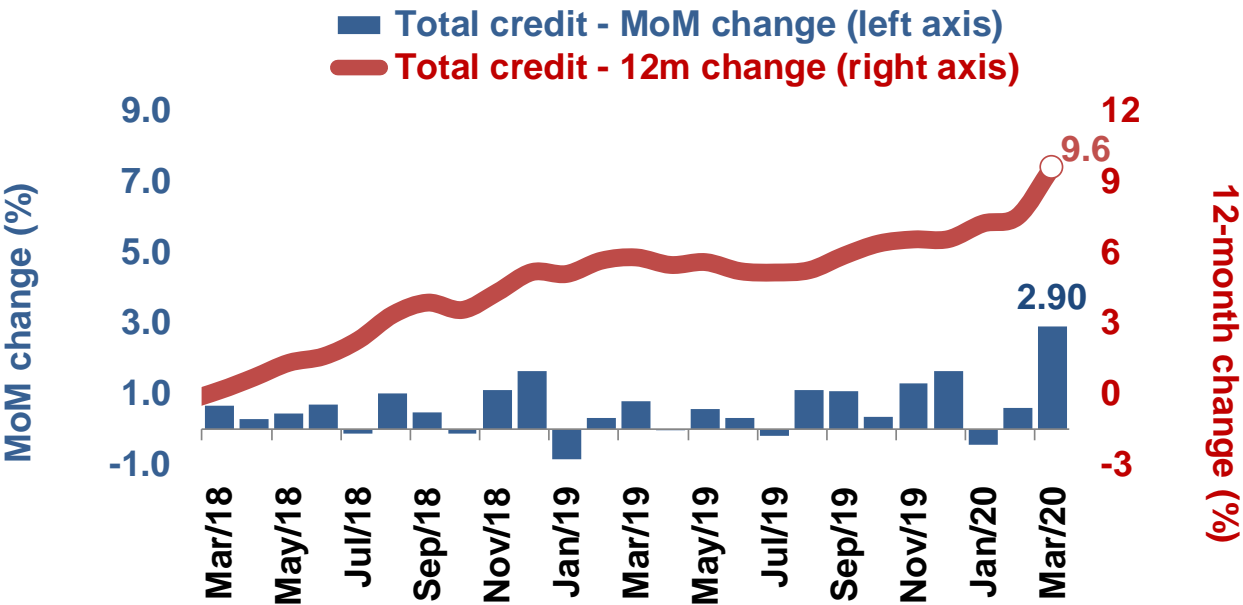
Source: Banco Central do Brasil

# SFN: total credit volume up 2.9% in March

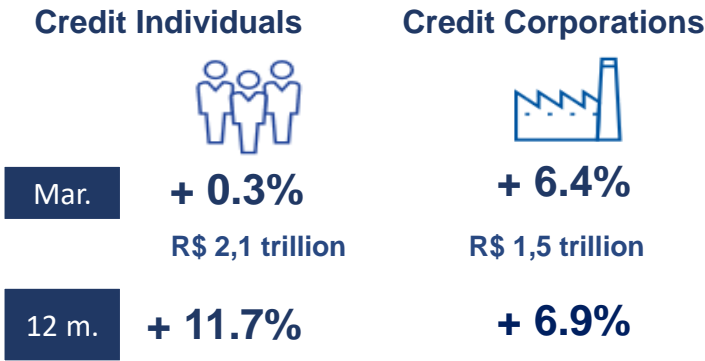


According to information from the Central Bank, the balance of the total credit portfolio of the National Financial System (SFN) reached the amount of R\$ 3.6 trillion in March this year, a growth of 2.9% compared to February. When assessing behaviour in 12 months, total portfolio growth accelerated from 7.4% in February to 9.6% in March.

In relation to the level of risk of default, in the monthly passage there was an advance in the total indicator (from 3.0% to 3.2%), reflecting the behaviour of risk of defaults in credit individuals, which went from 3.6% in February to 3.9% in March (behaviour already expected due to the first effects of coronavirus on the labour market). On the other hand, risk of defaults at credit corporations presented marginal contraction, going from 2.2% to 2.1%.



Source: Banco Central do Brasil  
Elaboration: Direo



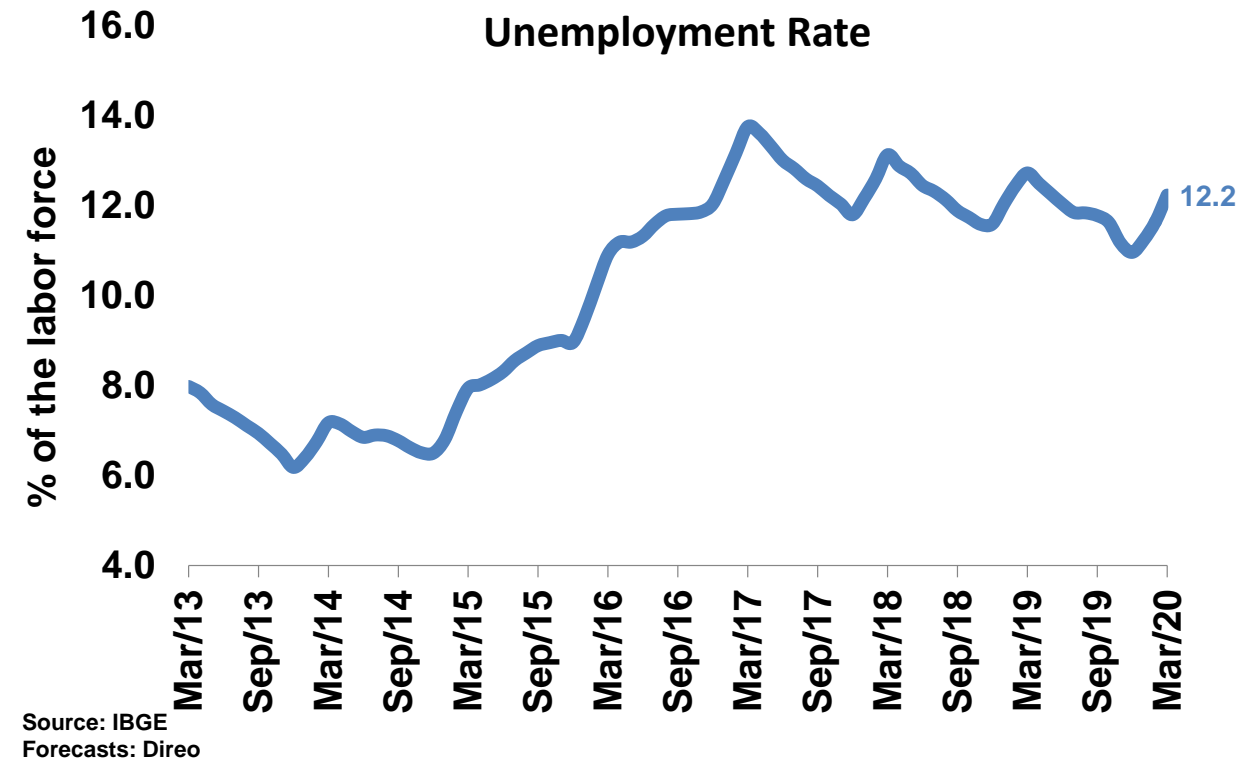


# Unemployment advances in March and reaches 12.9 million people

According to IBGE, the unemployment rate rose 1.3% in the quarter ended in March, registering 12.2%, compared to the immediately preceding quarter (ending in December). Compared to the same quarter of 2019, there was a drop of 0.5%.

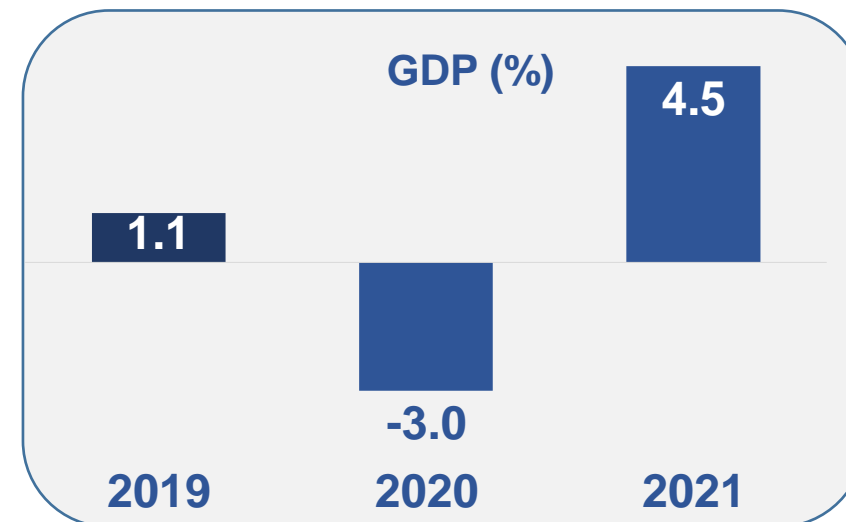
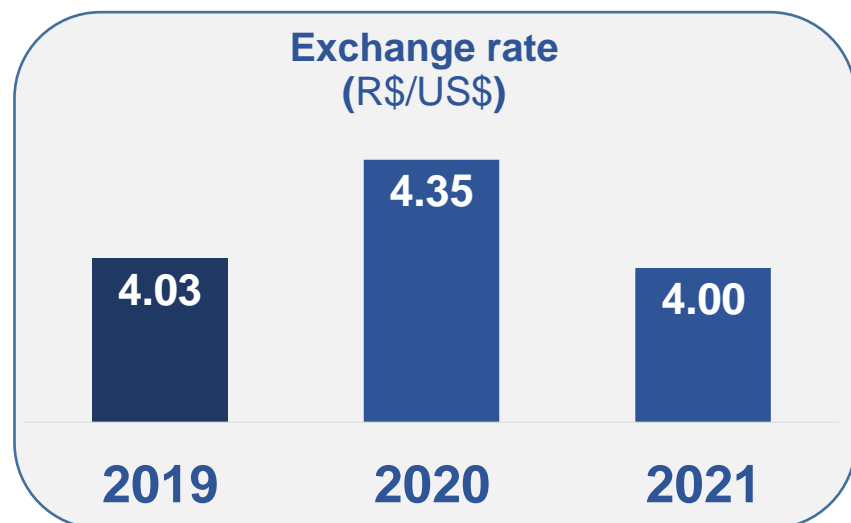
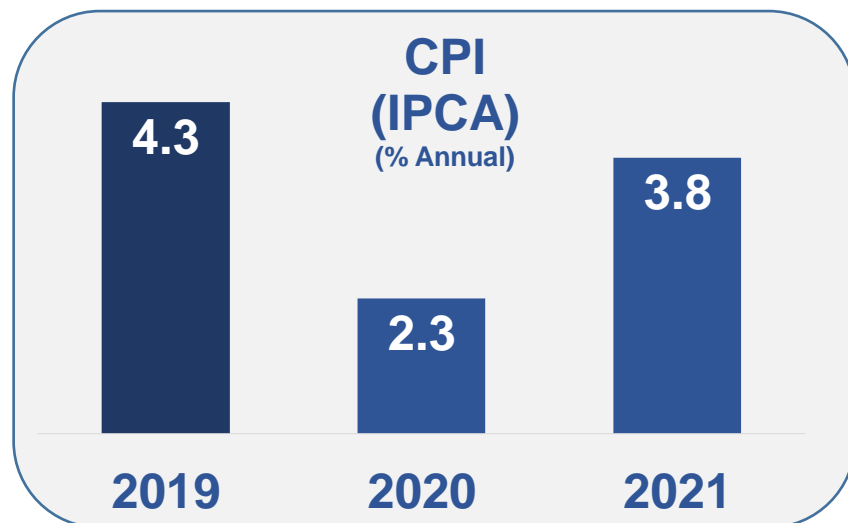
The number of discouraged workers - workers who gave up looking for work but would like to work - remained stable in the quarterly passage, at 4.8 million people. In turn, the informality rate, despite having fallen from 41.0% in the previous quarter to 39.9% in March this year, still represents a total of 36.8 million workers in this condition.

Given that the current economic shock related to the evolution of the pandemic has imposed difficulties for all sectors of activity, prospects are that labor market will continue to deteriorate sharply in the coming months. Our projection indicates that 2020 average unemployment rate will be around 14.2%, well above that of 2019 (11.9%).



Labour market (March/2020)			
Unemployed population	Employed population	Population out of the labour market	Self-employed workers
12.9 milhões	92.2 milhões	11.0 milhões	24.2 milhões

# Forecasts - Base Scenario



# Regional







# Monthly Trade Survey showed an expansion at 21 federal states in February.

According to data released by IBGE in February, most states showed a trade growth in the **monthly series** free of seasonal influences.

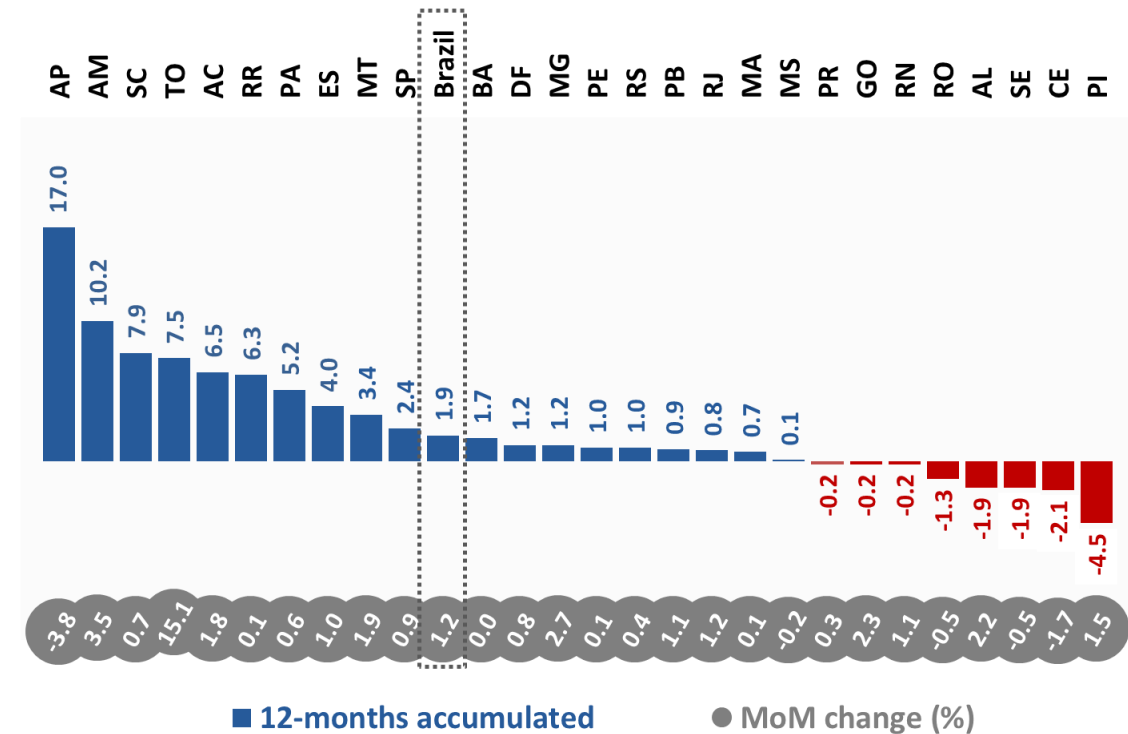


**Tocantins (15.1%)**  
**Amazonas (3.5%)**



**Amapá (-3.8%)**  
**Ceará (-1.7%)**

In the **accumulated 12 months**, Amapá was highlighted (17.0%). At the other extreme, Piauí was the worst performing state (-4.5%).

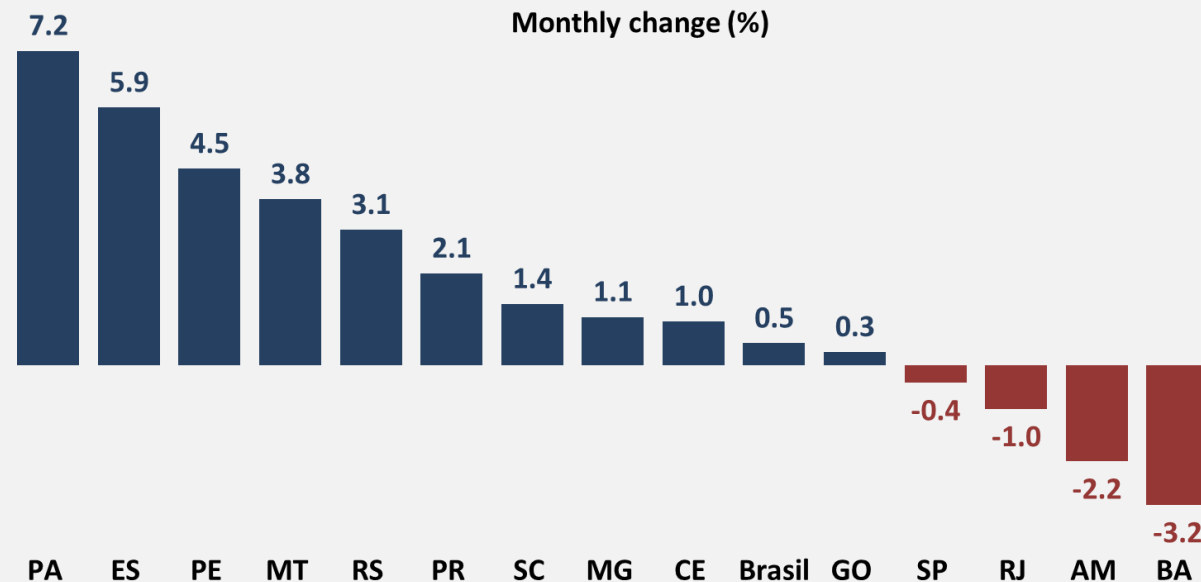


Source: IBGE  
Update: feb/2020 \*Seasonally adjusted

Ibge researchers point out that the expansion of retail trade in February had not yet been influenced by the advance of Covid-19. Thus, the increase in revenue from establishments such as supermarkets, for example, will possibly still be captured in the coming months.



# Industrial activity grew in most of the federal states surveyed in February



In February, **Pará** had the highest advance (**7.2%**) expansion in the metallurgy sector, non-metallic mineral products and wood products. **Bahia** (**-3.2%**) signalled the greatest reduction. The industrial sector of **São Paulo**, which concentrates about one third of the national production, fell by **-0.4%**. The downturn in both states was influenced by a decline in the automotive manufacturing.

## Accumulated in 12 months (highlights):

**4.7%** Amazonas (stimulated by dynamism in the manufacture of machinery and equipment).

**4.6%** Paraná (elevation in the manufacture of motor vehicles).

**-16.9%** Espírito Santo (pull-out industry retraction).

Source: IBGE  
Update: feb/2020  
Seasonally adjusted



# Service sector declined in 16 federal states during February



## In the month:

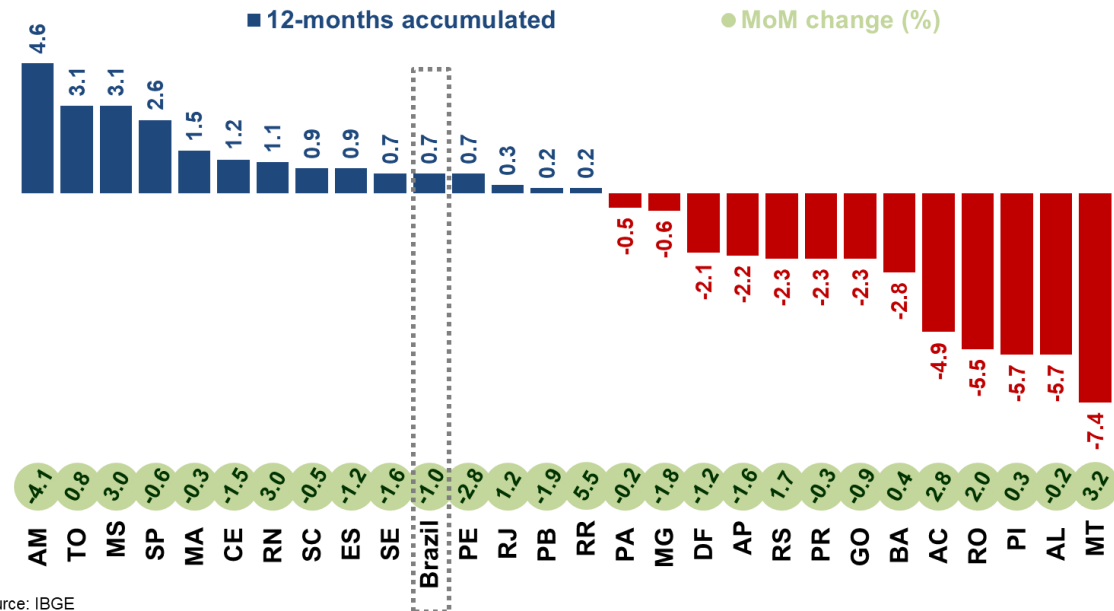
- IBGE survey shows that from **January to February** 16 states showed a drop in the service sector.
- **Brazil** fell by **-1.0%**.

In the accumulated series of 12 months, 14 States showed growth, especially Amazonas (4.6%). The state with the worst result was Mato Grosso (-7.4%).



Tourism activity grew in 9 of the 12 states where the sector was surveyed. The places with the highest advance were Rio de Janeiro (19.1%) and Santa Catarina (13.0%). However, this should be the sector most penalized in the coming months due to the lockdown actions promoted in most of the states to prevent the advance of the new coronavirus.

## Change of service activity (%)



Source: IBGE  
Update: feb/2020 \*Seasonal adjusted



# Four capitals of the federal states showed deflation in March

Goiânia, Porto Alegre, Brasília and Belém showed deflation **during the month** of March.



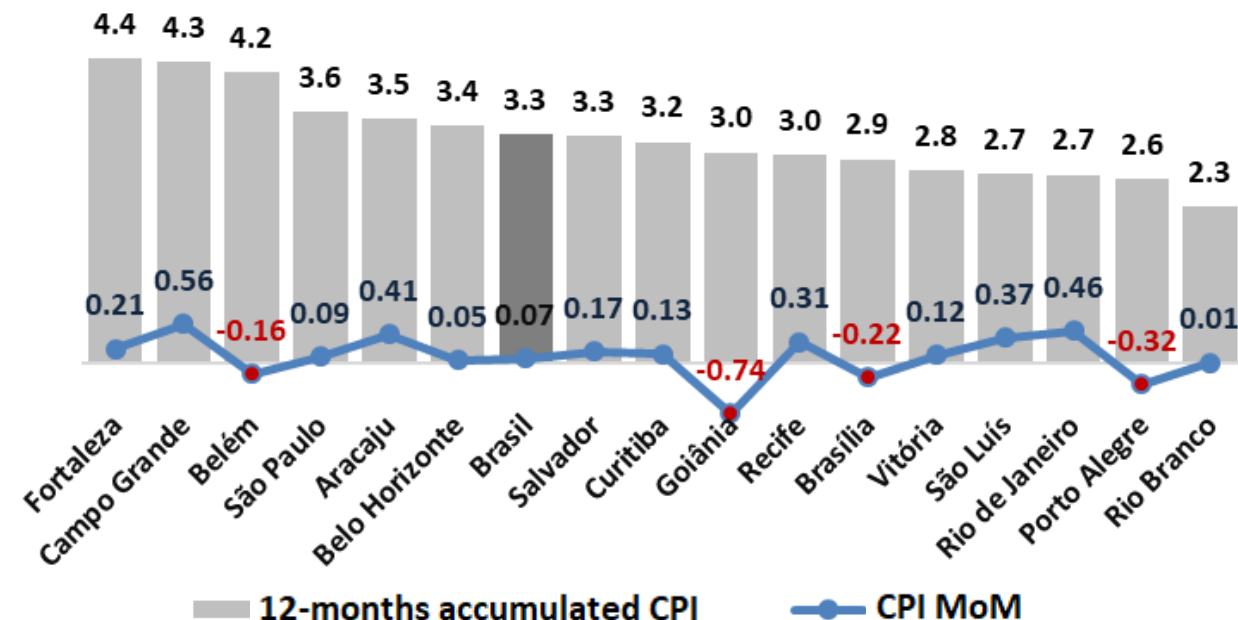
In **Goiânia (-0.74%)**, there was a drop in gasoline and electricity prices.



In **Campo Grande (0.56%)**, steepest rise, influenced by the increase in tomatoes and gasoline.



In **Brazil**, the transport group showed a deflation, influenced by the drop in gasoline prices and air tickets.



Source: IBGE, BB/Direo  
Update: Mar/2020

In the accumulated series of 12 months, **Rio Branco** had the lowest inflation rate influenced by the fall in the housing group. At the other end, **Fortaleza** and **Campo Grande** disclosed the highest price changes, both pressured by rising food and education prices.



# Credit volumes advanced in all federal states during March

As can be seen in the chart on the side, **total credit stock remained positive in all states** in the passage from February to March and the Brazil index grew by 2.9%.

**Highlights:** Mato Grosso (4.9%), Espírito Santo (4.4%), both pulled by an extension of credit corporations.

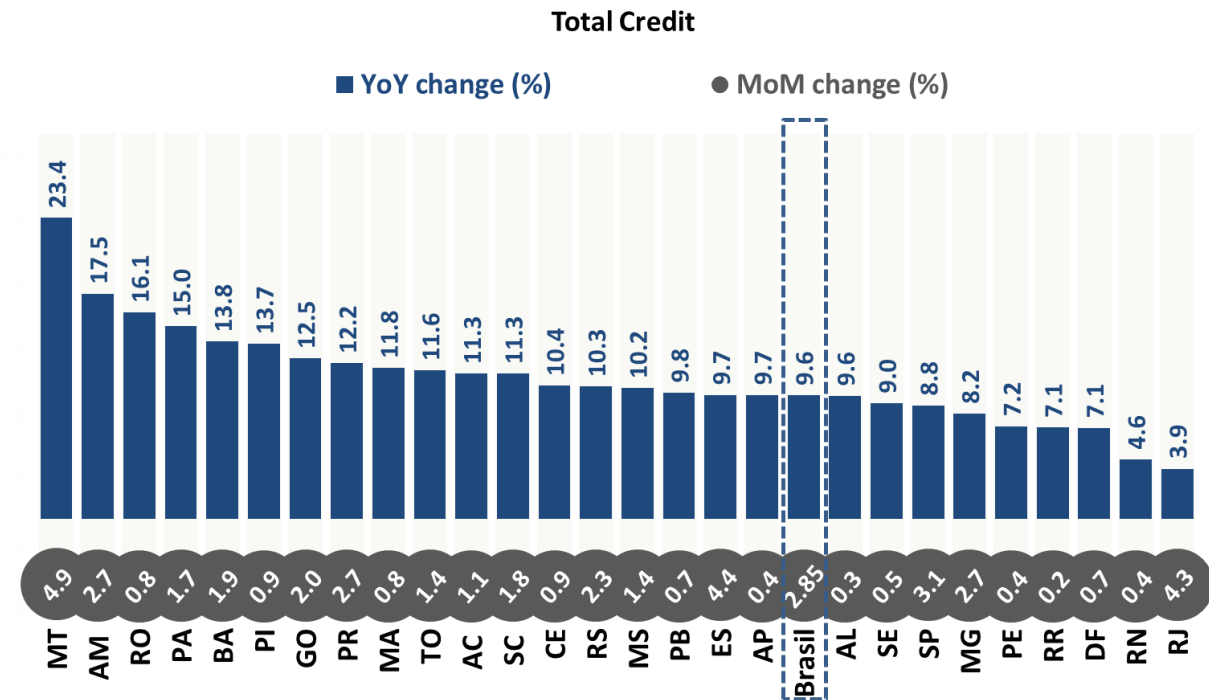
## Risk of non-payment

This has grown in all states:



Worst results

Pará: (4.9%),  
Paraíba: (4.8%),



Source: Banco Central  
Formulation: BB/Direo  
Update: Mar/2020

The expectation is that the credit market will lose momentum in the coming months. Actions aimed at the prevention of the new coronavirus will result in a slowdown of productive activities and, thus, the drop in the search for financing. Additionally, financial institutions are likely to increase the rigor in credit concessions as default rates rise.