

Economic Outlook

March 7th, 2024

Diogo Guillen



Reference scenario

Global outlook

- The global environment remains volatile, with a debate about the beginning of the easing cycle in major economies and signs of lower core inflation, despite remaining at high levels in many countries. The central banks of major economies remain committed to bringing inflation back to its targets in an environment characterized by labor market pressures. The Committee judges that the environment continues to require caution from emerging market economies.

Economic activity

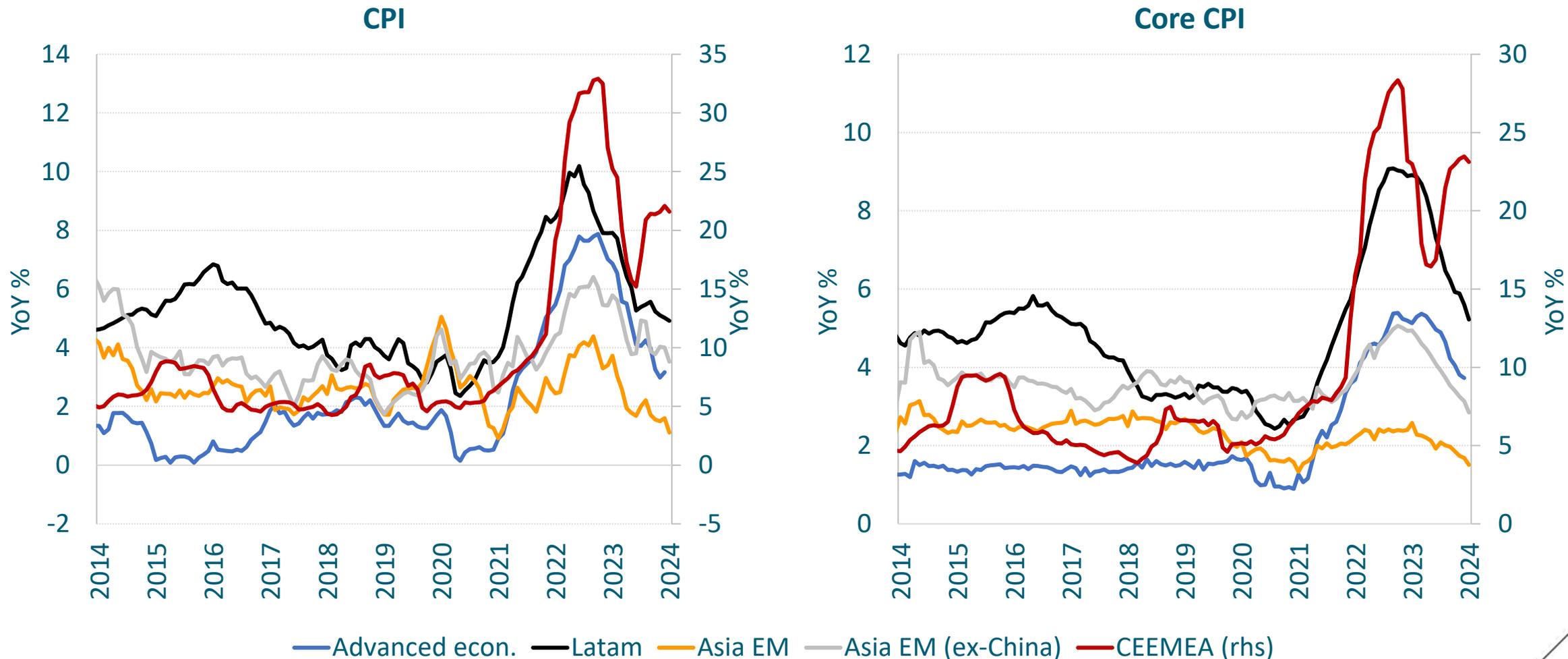
- Regarding the domestic scenario, the set of indicators on economic activity remains consistent with the scenario of deceleration expected by Copom.

Inflation

- Headline consumer inflation, as expected, remains in a path of disinflation, and various measures of underlying inflation are closer to the inflation target in recent releases.
- Inflation expectations for 2024, and 2025 collected by the Focus survey are around 3.8%, and 3.5%, respectively.

Global outlook

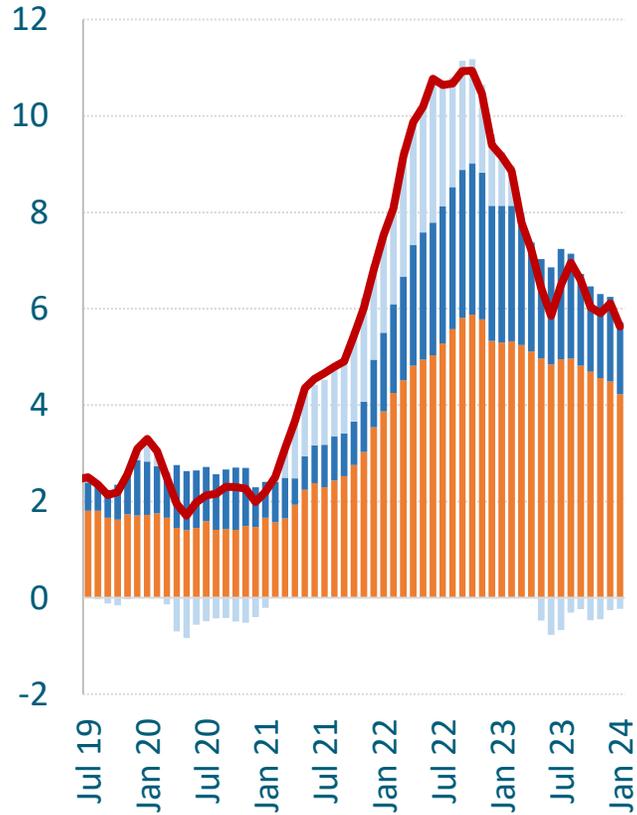
CPIs and core inflation



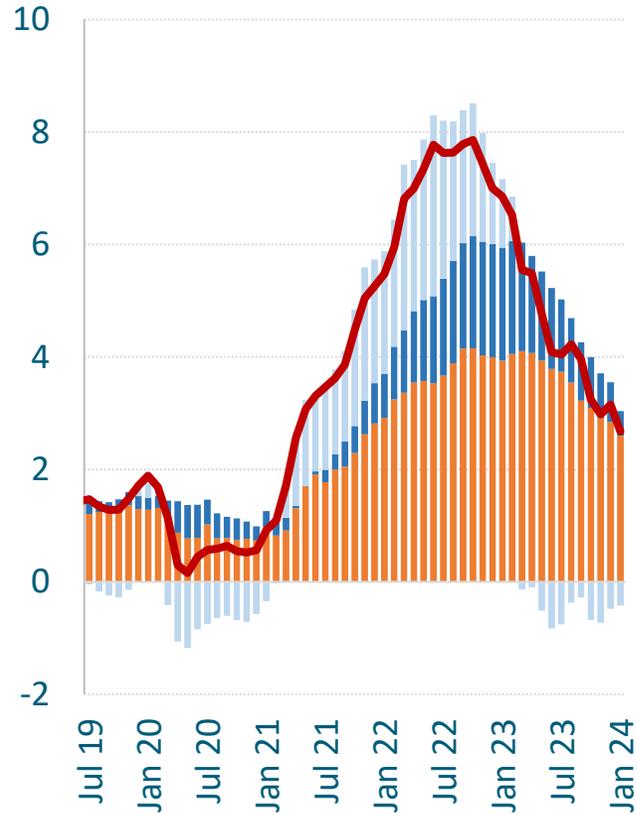
Source: Bloomberg

Global inflation

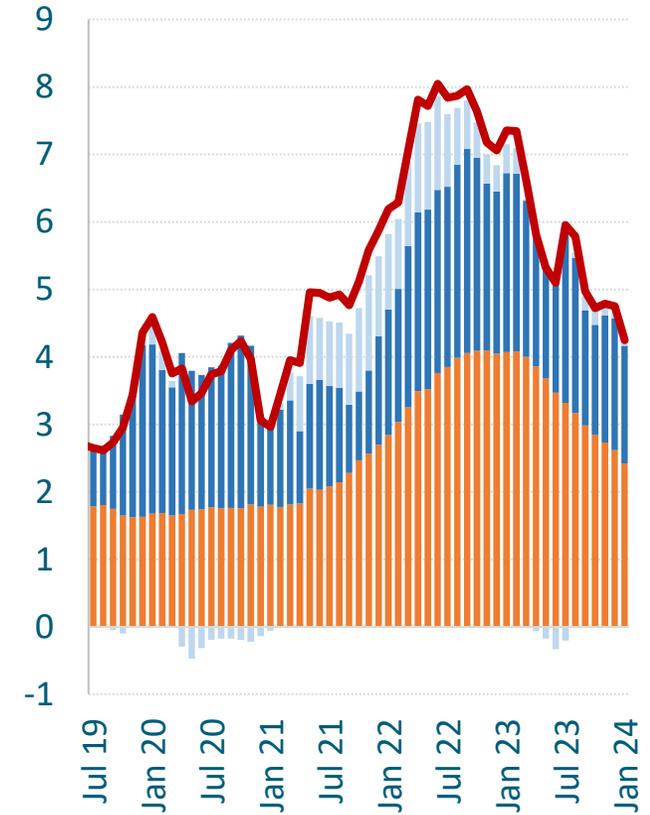
Global inflation^{1/}
YoY %



Advanced economies
YoY %



Emerging market economies
YoY %



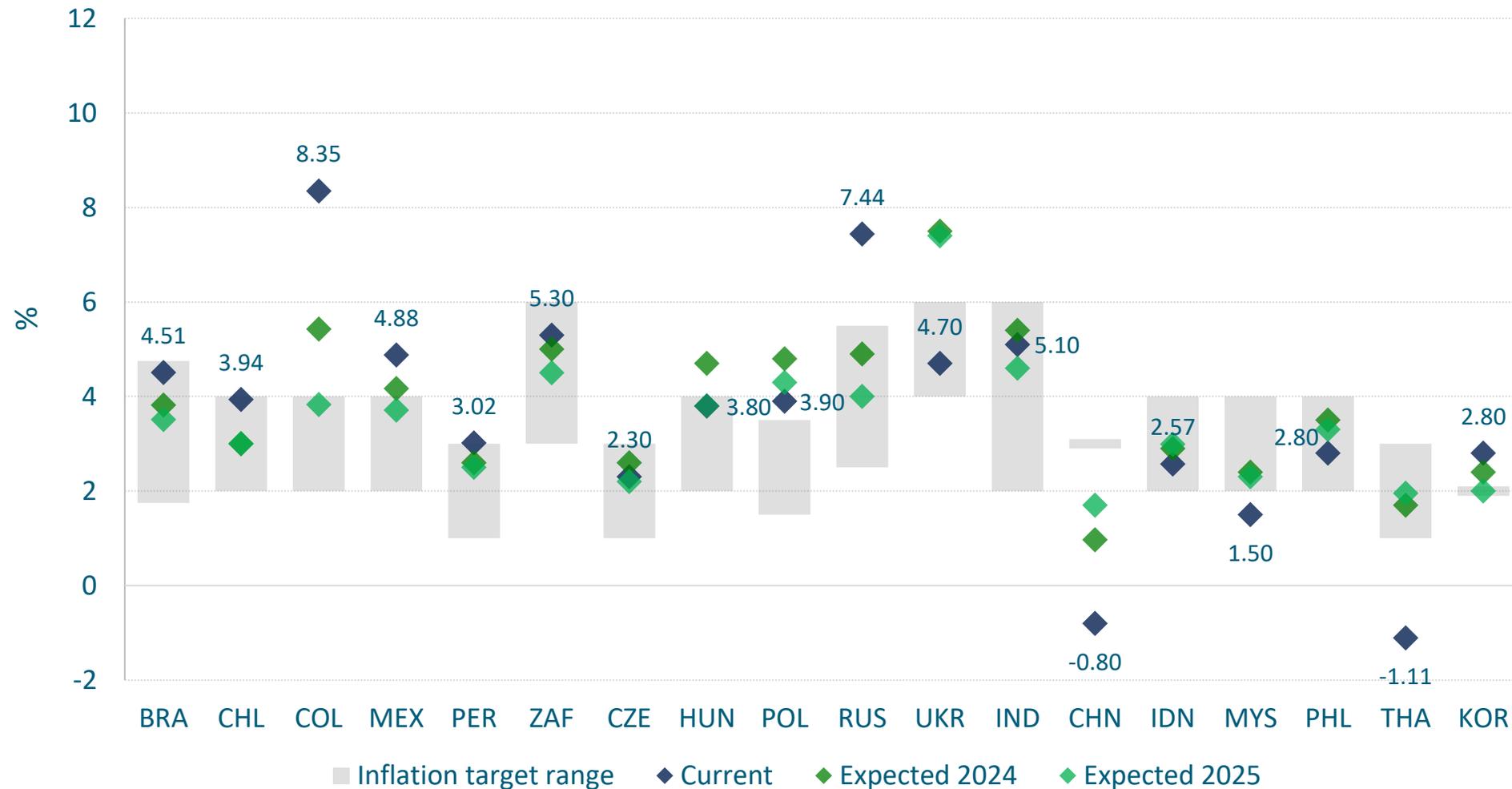
Core CPI

Food

Energy

CPI

Inflation expectations

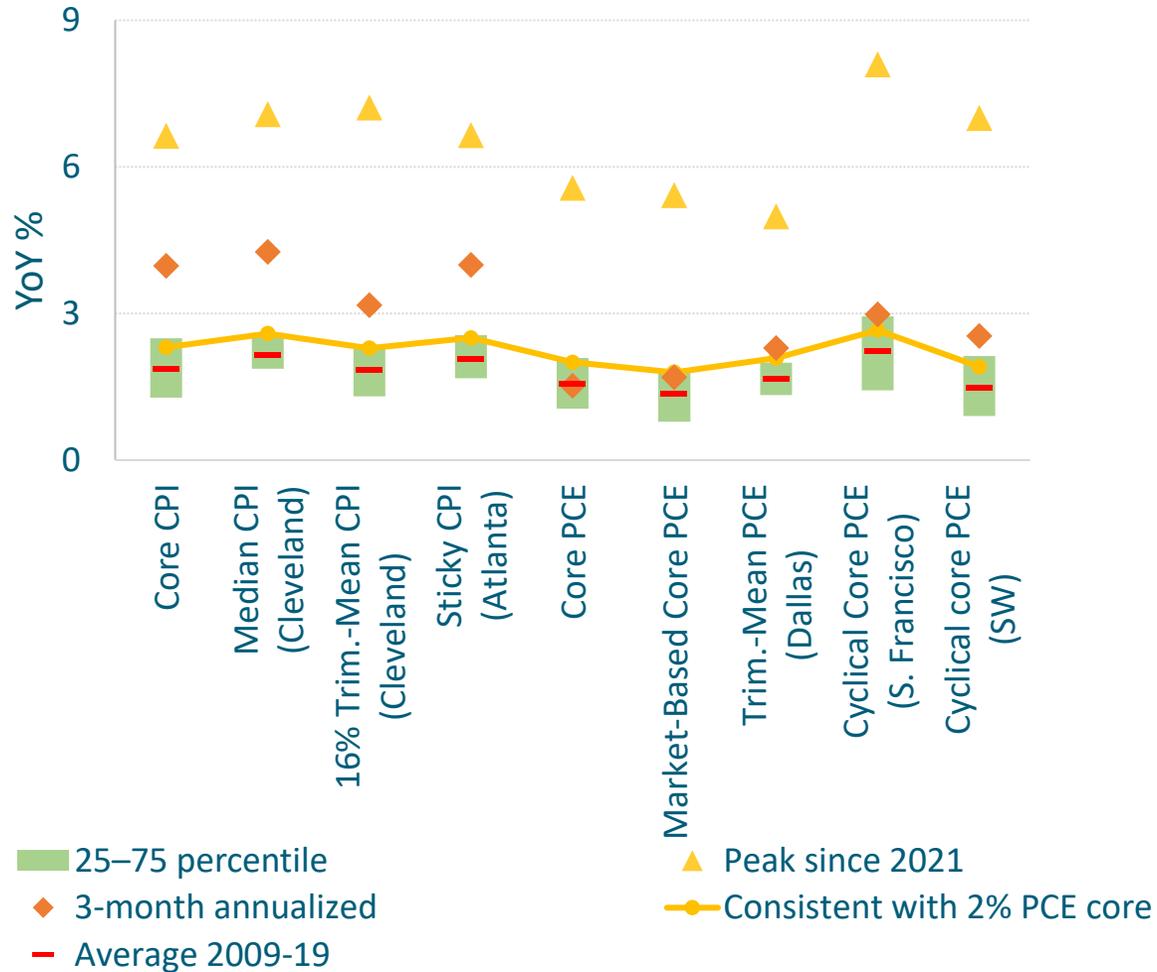


Sources: Bloomberg and surveys of central banks

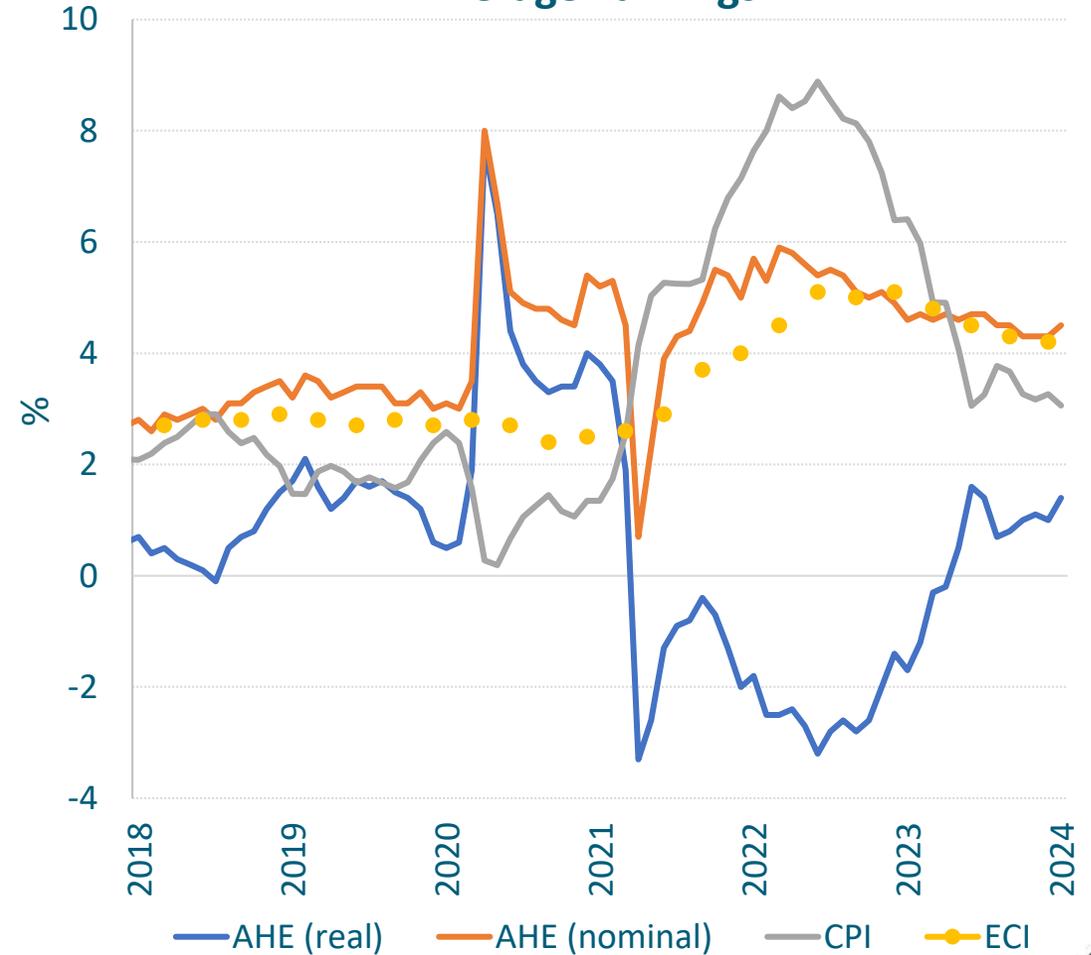
For 2024 and 2025: Surveys for BRA, CHL, COL, MEX, PER and RUS
Others: Bloomberg (yearly average)

United States – Core inflation and wages

Alternative measures of core inflation



Average Earnings

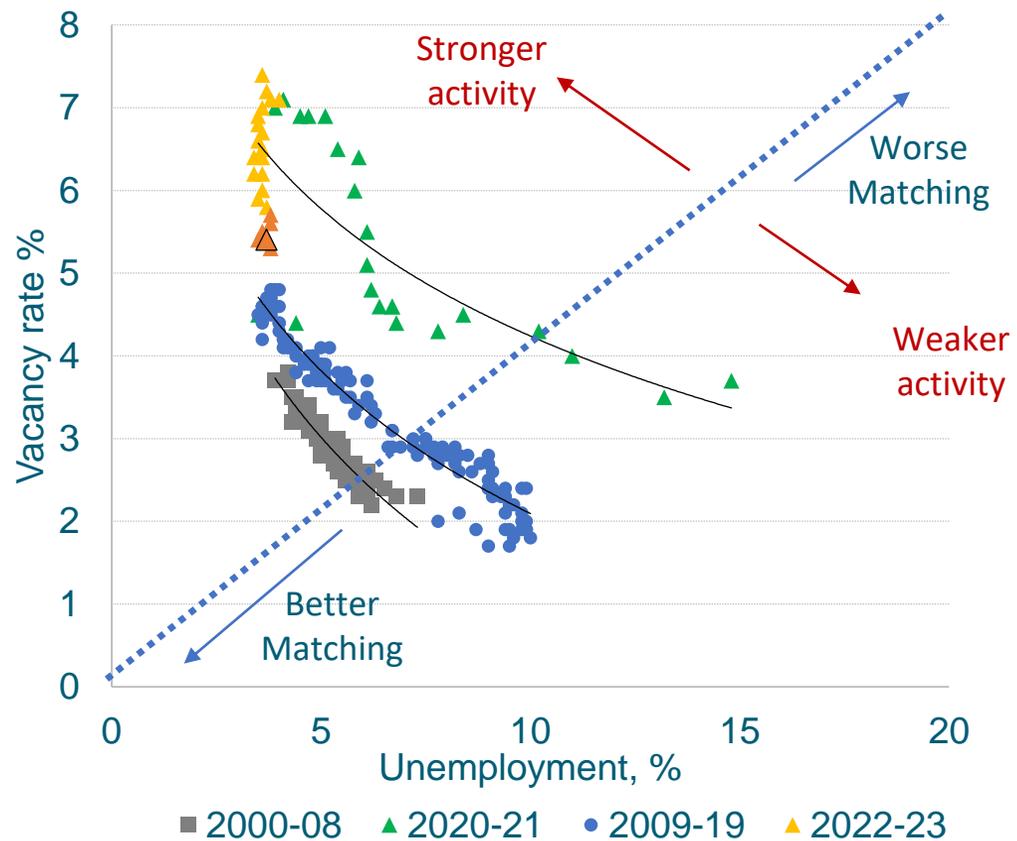


Source: Fed Atlanta, Fed S. Francisco and Bloomberg

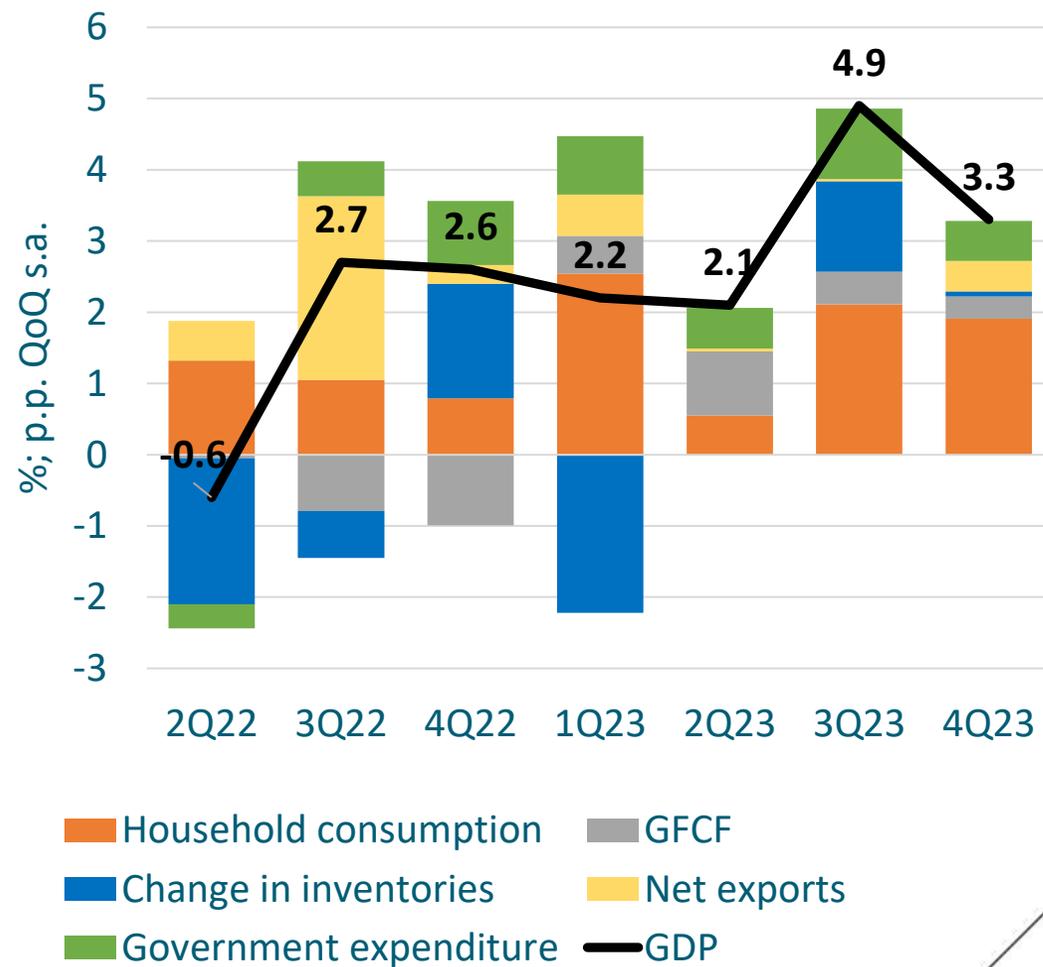
AHE: average hourly earnings; ECI: employment cost index

United States – Labor market

Beveridge curve — 2000–2022



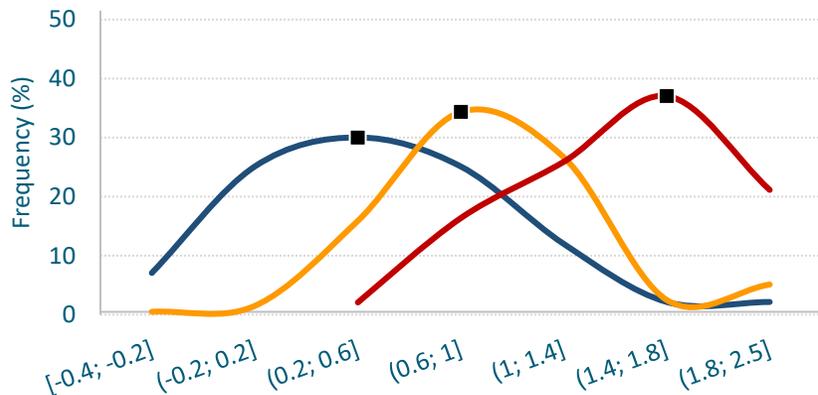
Contribution to GDP growth



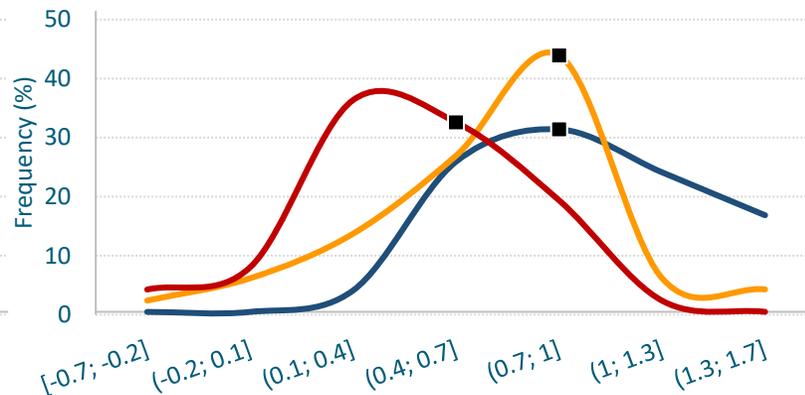
Source: Bloomberg

GDP growth expectations

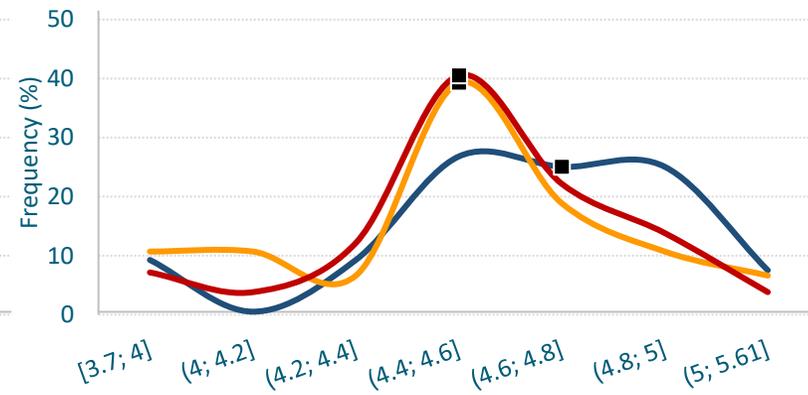
GDP US 2024



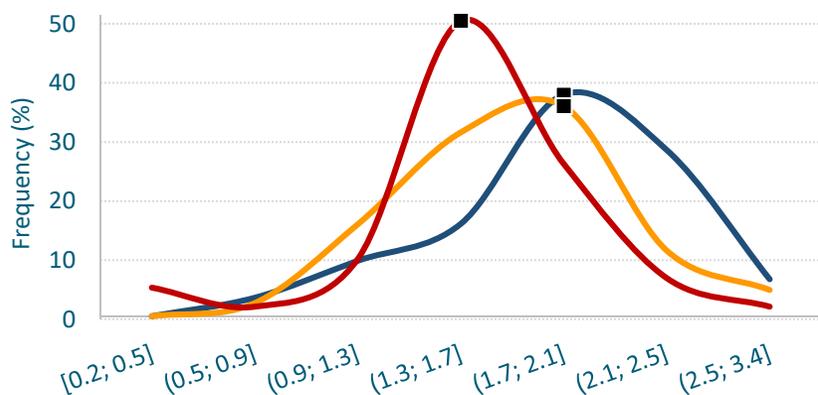
GDP Euro Area 2024



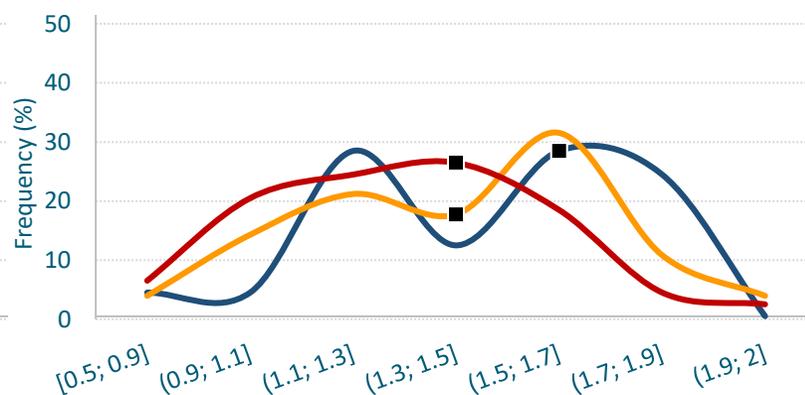
GDP China 2024



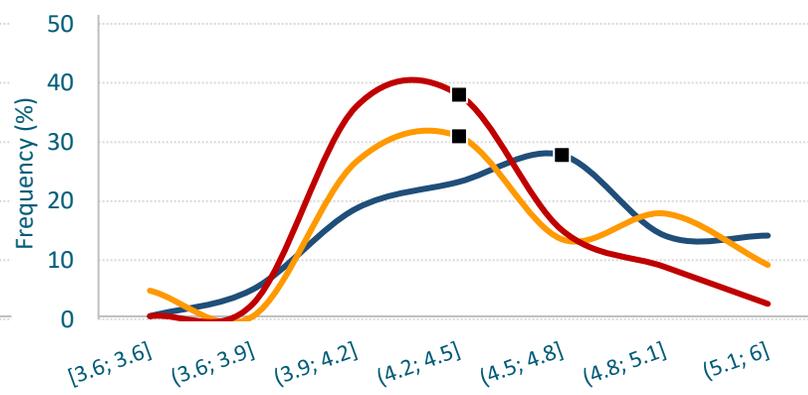
GDP US 2025



GDP Euro Area 2025



GDP China 2025



— in July 2023

— in October 2023

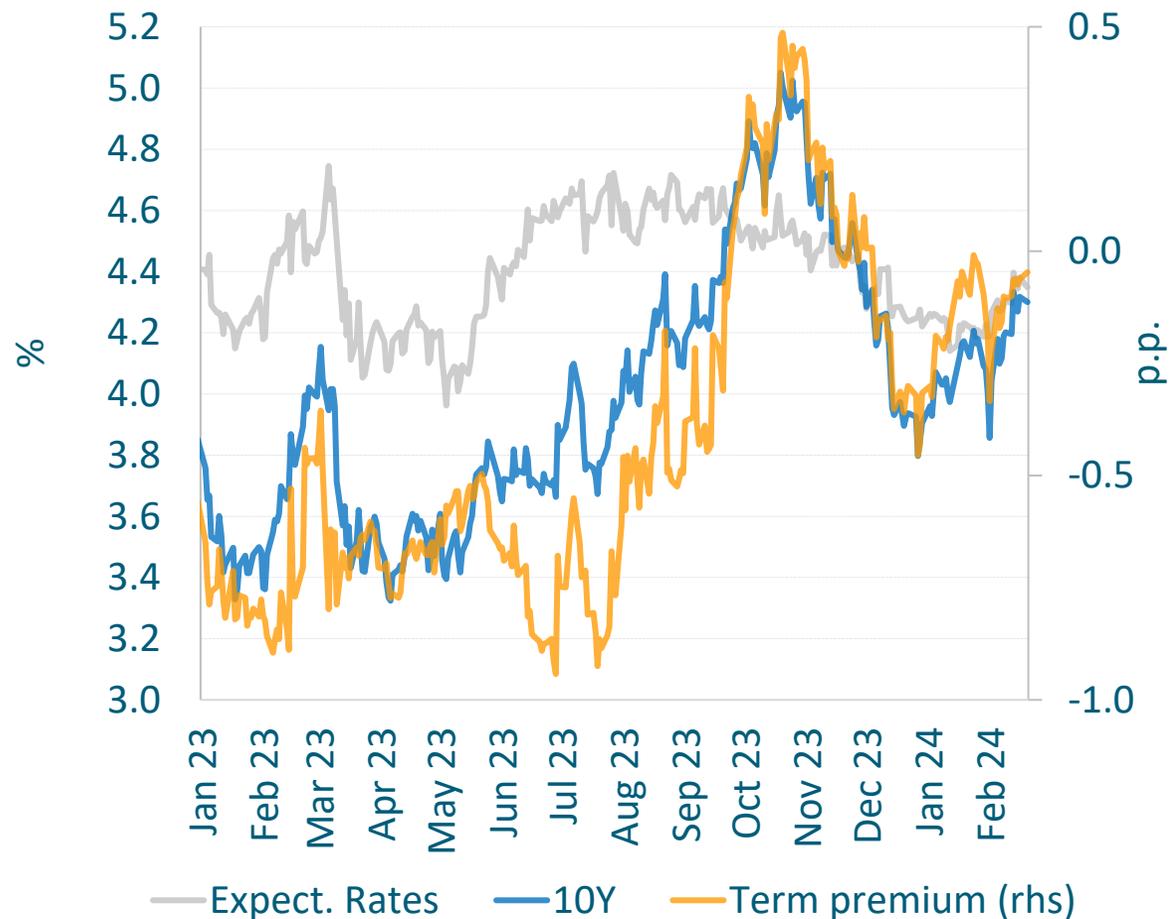
— in January 2024

■ median

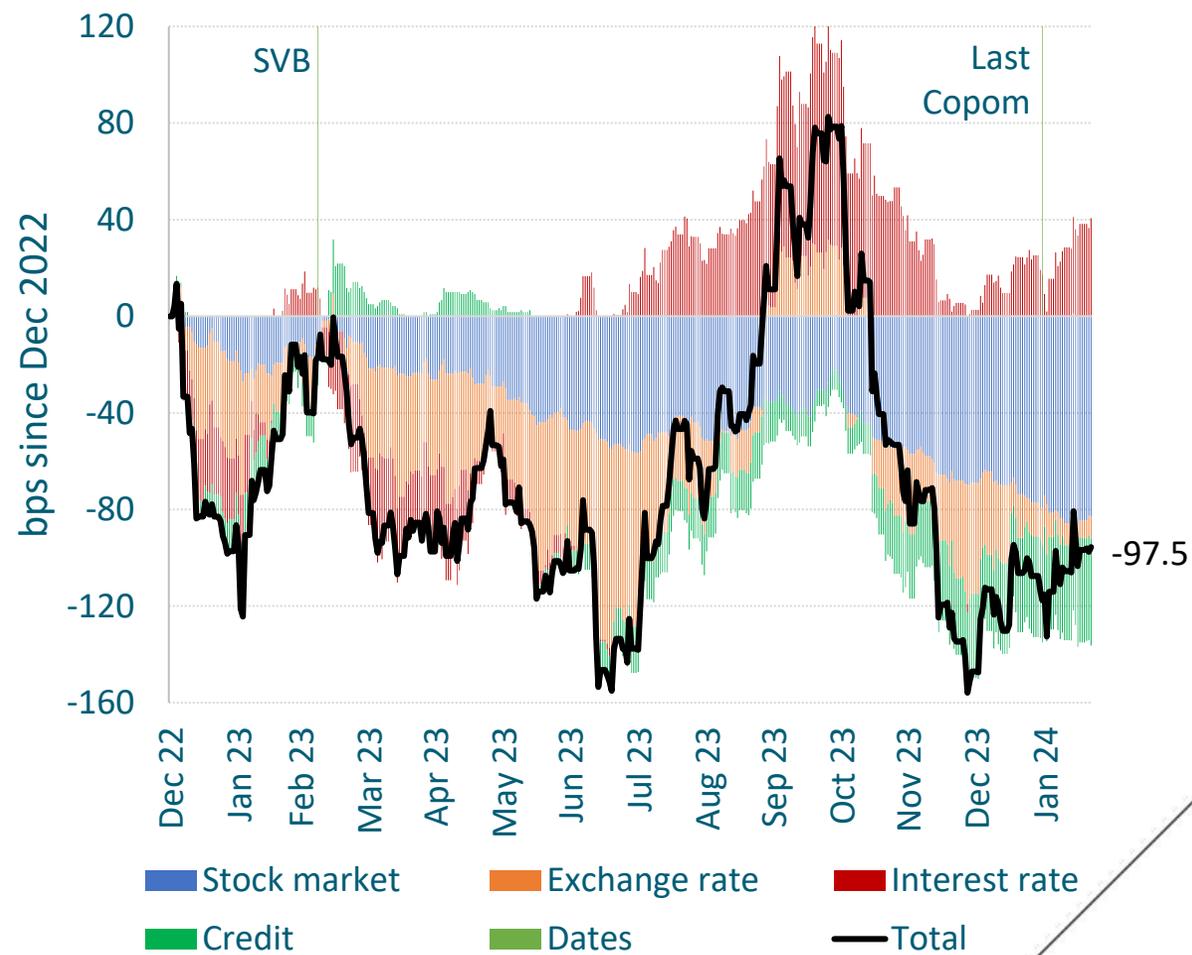
Source: Bloomberg

United States – Interest rates

10-year interest rate and term premium



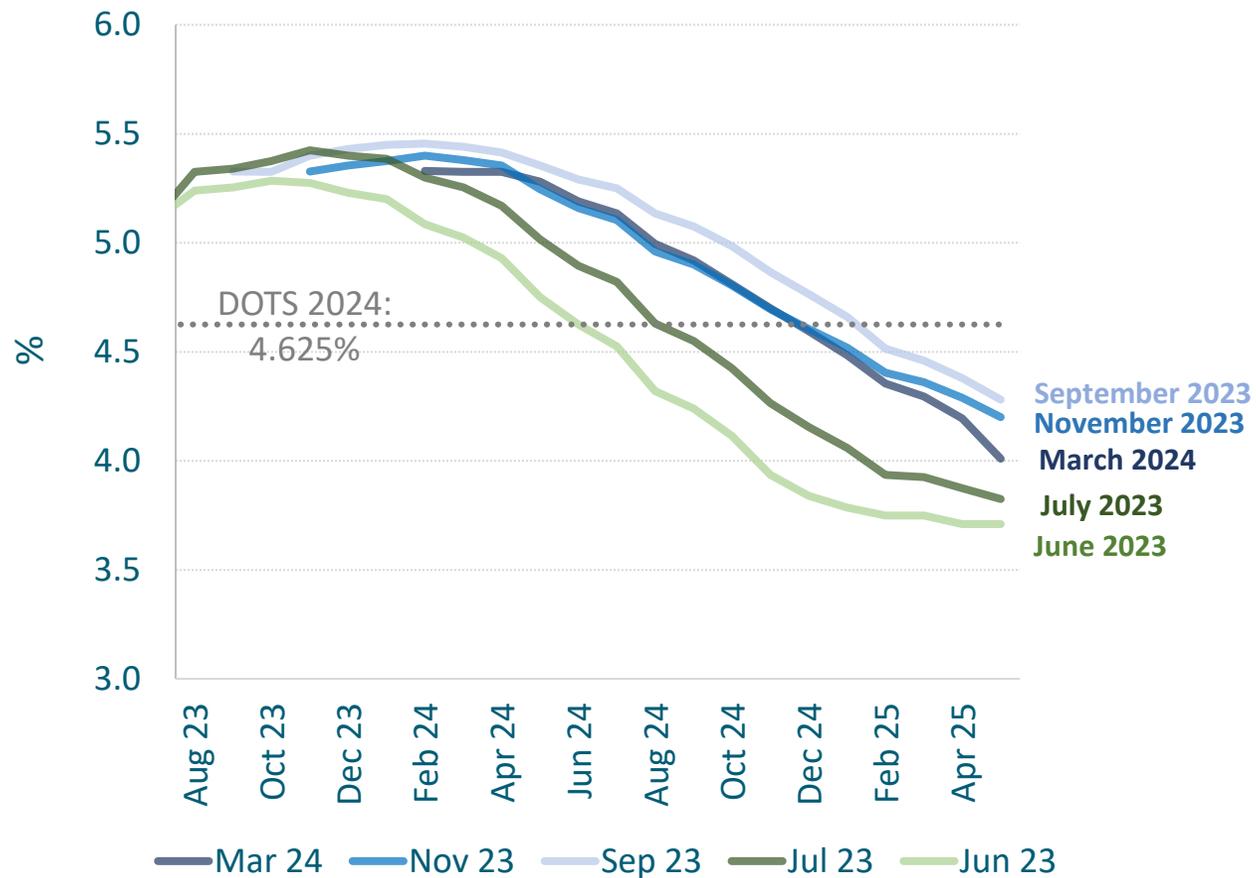
Fed Fund equivalent to financial conditions



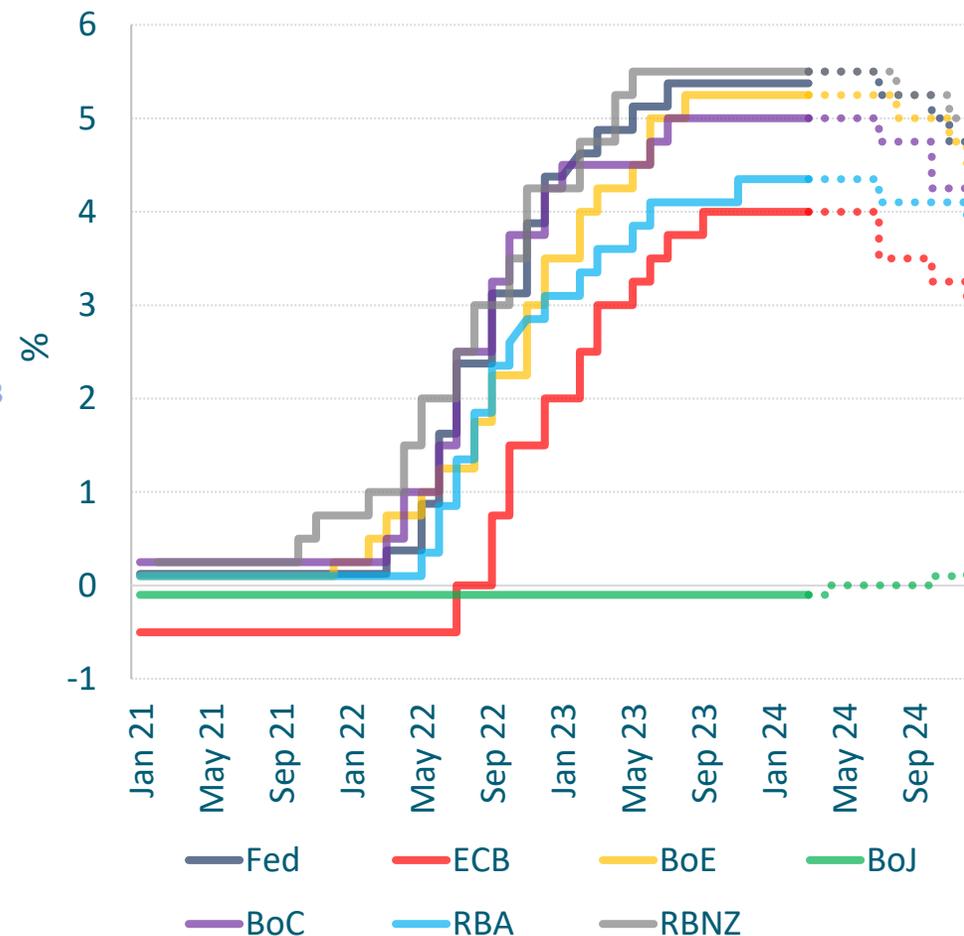
Sources: Bloomberg, Refinitiv and FRED

Monetary policy

US – Terminal rate from FF futures curve

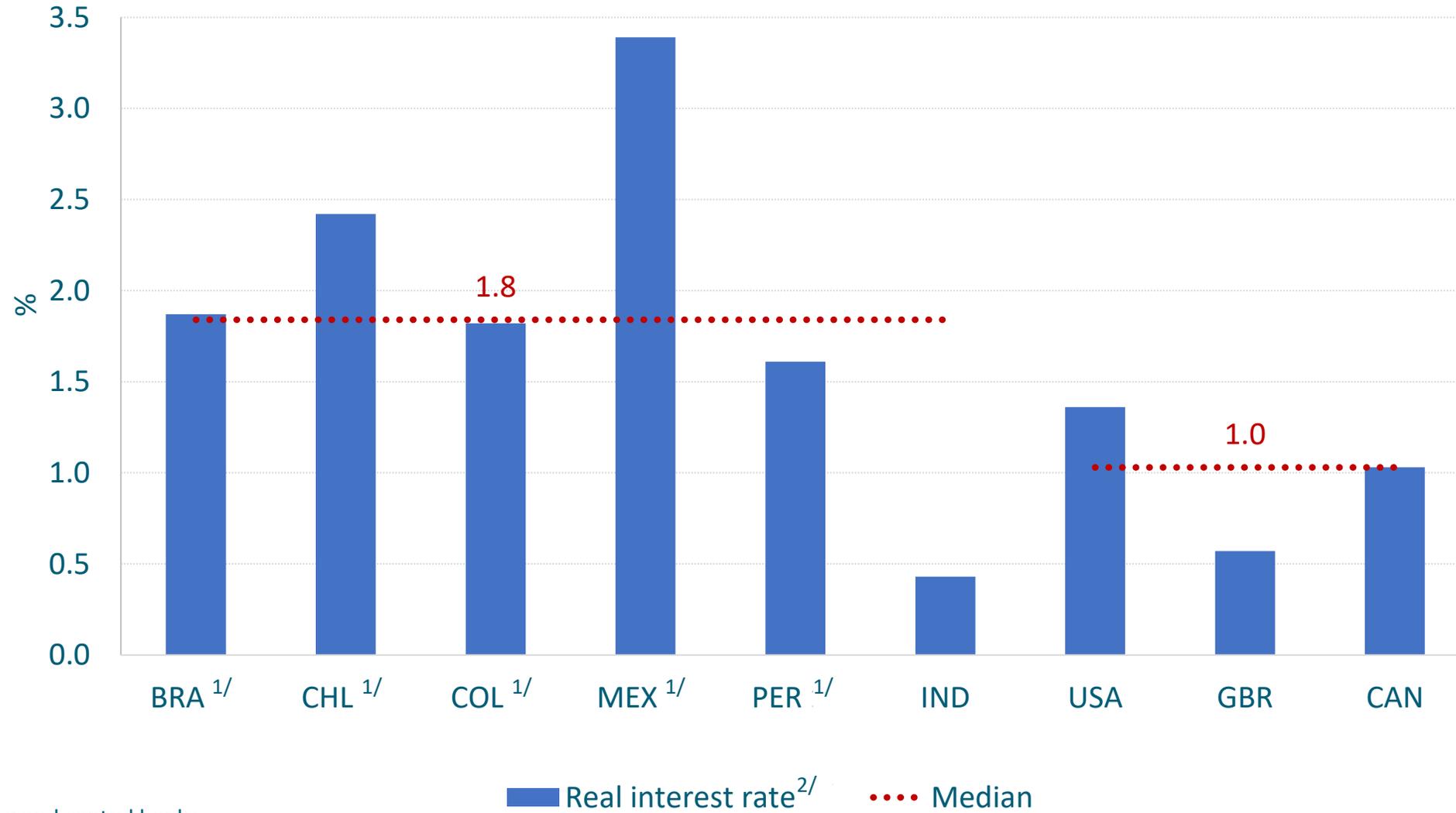


Base rates and market expectations OIS (%)



Source: Bloomberg

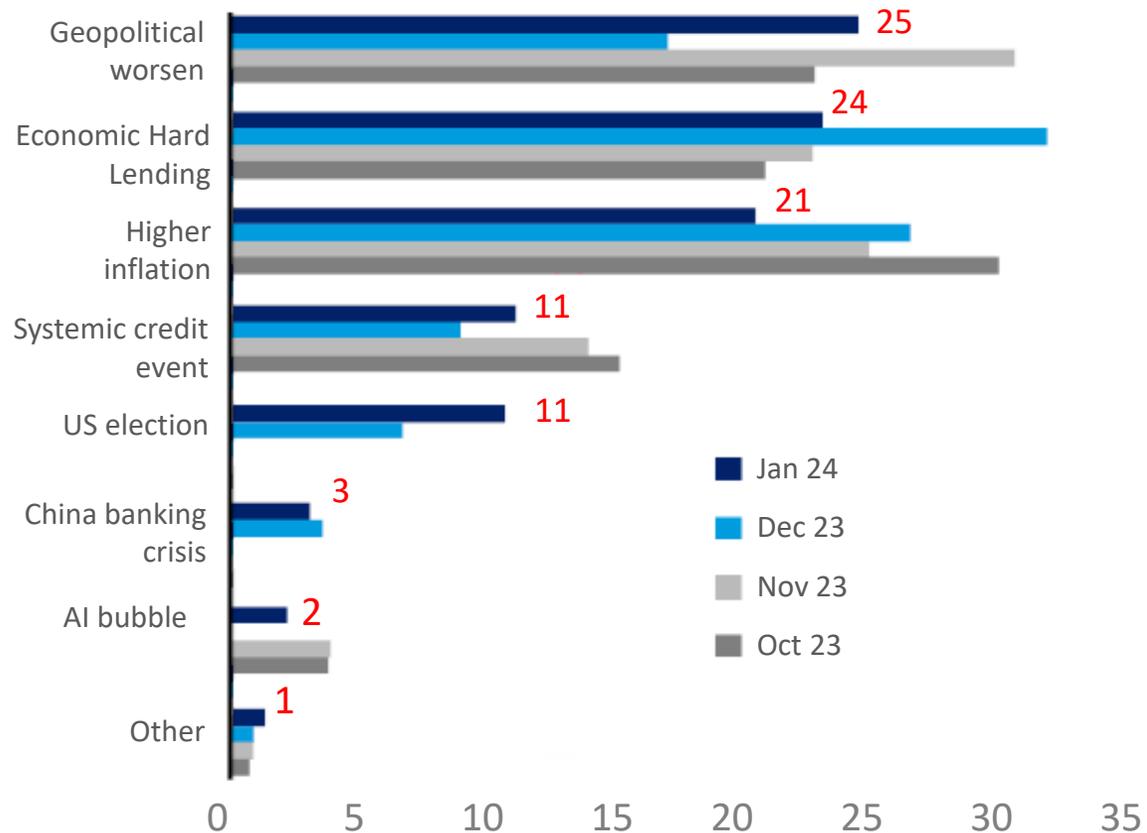
Real interest rate discounted by neutral rate



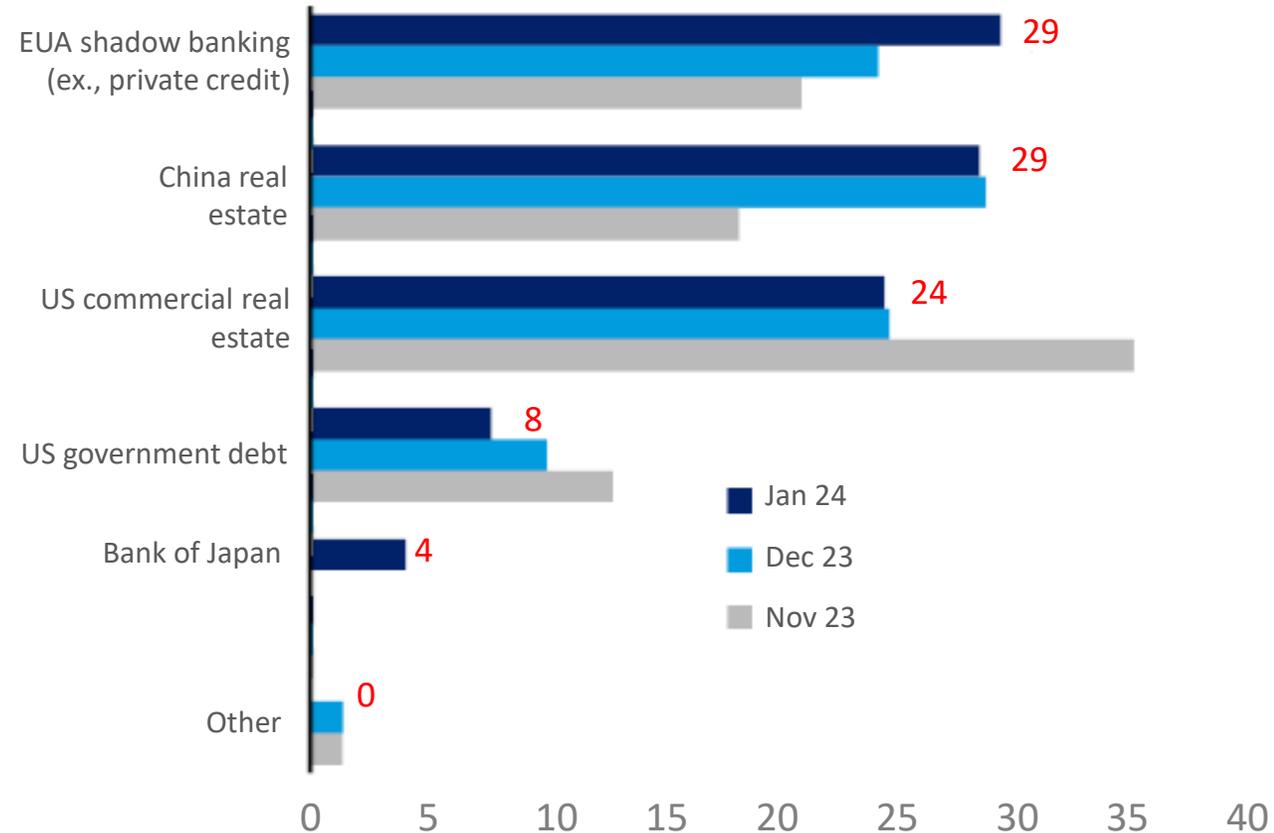
Sources: Bloomberg and central banks

Risks to the global economy

Tail risk (%)

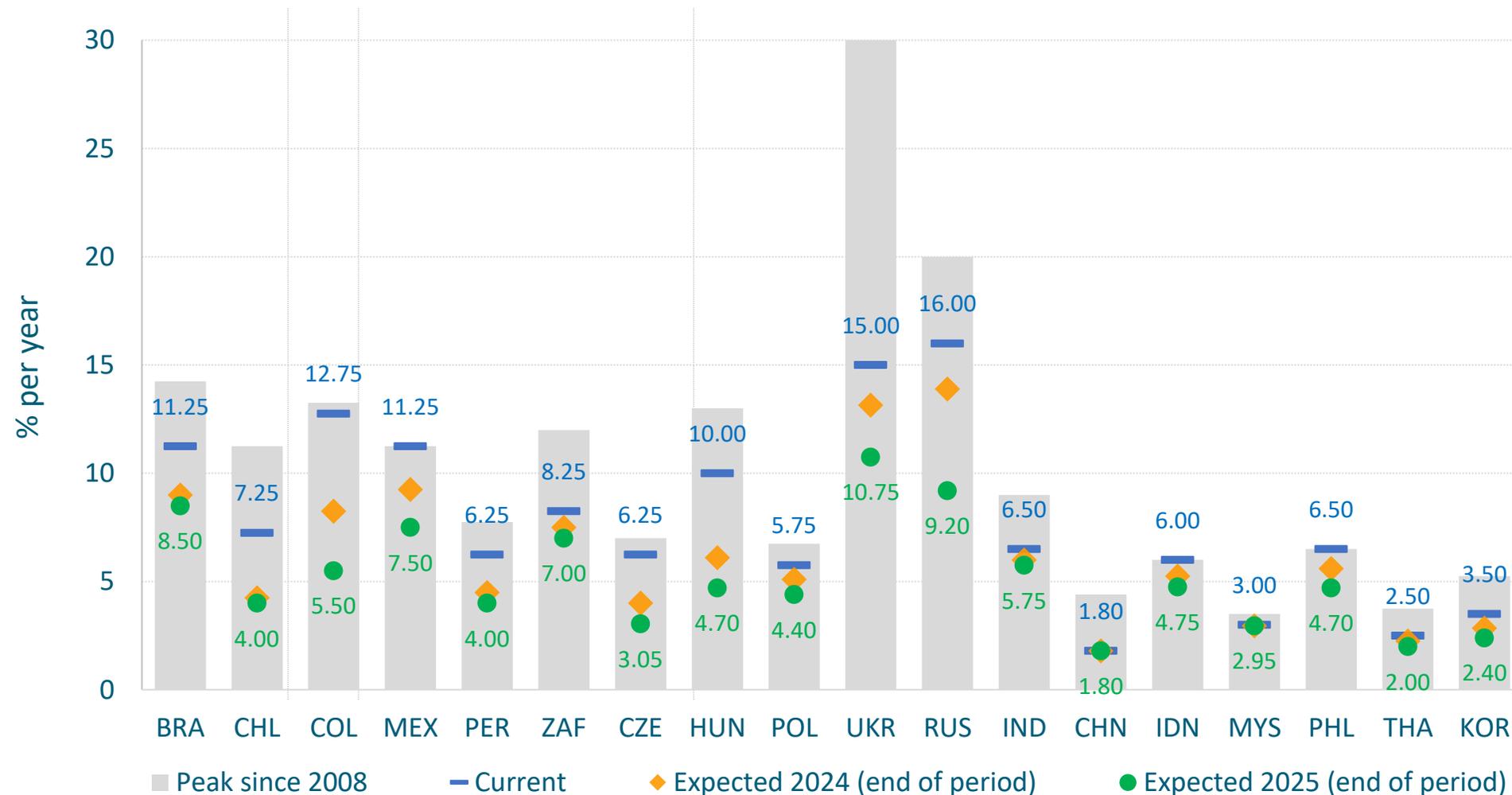


Sources of systemic credit risk (%)



Source: BofA Global Fund Manager Survey (January 2024)

Expectations for base interest rate

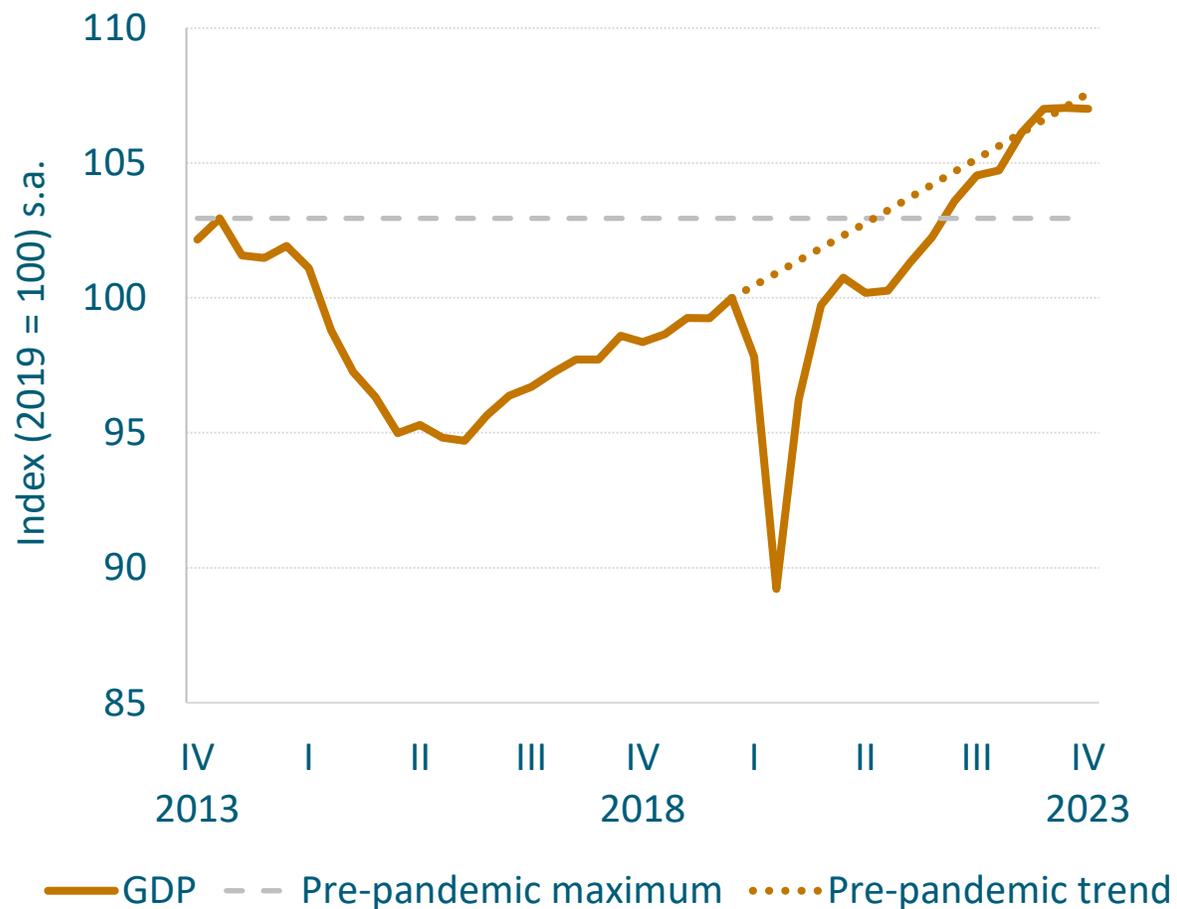


Sources: Bloomberg, surveys of central banks and Corfi (Colombia)

Economic Activity

GDP growth

Gross Domestic Product



Sources: IBGE and BCB

Gross Domestic Product

Quarter/previous quarter

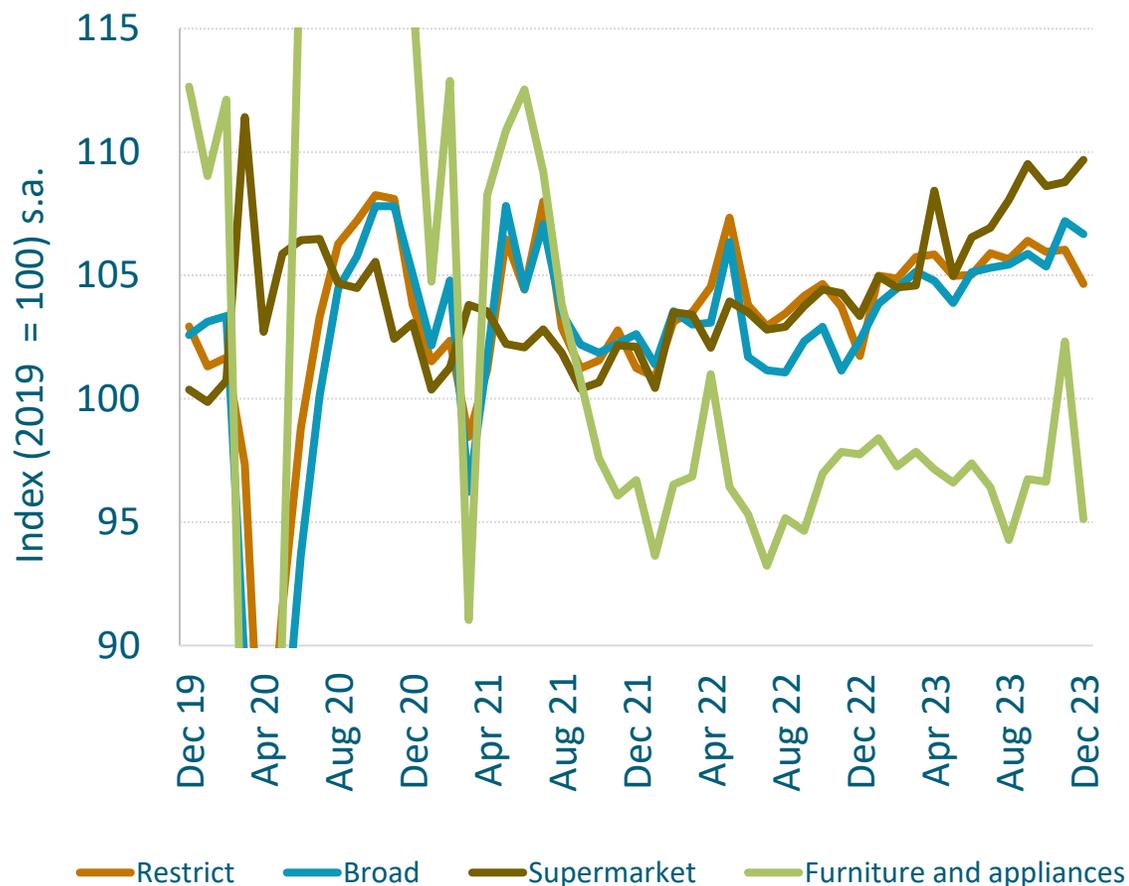
Seasonally adjusted

	% change							
	2022				2023			
	I	II	III	IV	I	II	III	IV
GDP at market prices	0.9	1.3	0.9	0.2	1.3	0.8	0.0	0.0
Agric. and livestock	-5.4	-2.6	3.5	1.8	20.9	-6.4	-5.6	-5.3
Industry	3.2	1.5	0.7	-0.7	0.0	1.0	0.6	1.3
Services	1.0	1.3	1.3	0.1	0.6	0.7	0.3	0.3
Household consumption	1.3	2.0	0.7	0.6	0.7	1.0	0.9	-0.2
Government consumption	0.1	-0.6	2.3	-1.5	0.4	1.1	0.6	0.9
Gross fixed capital formation	-1.5	3.3	3.0	-1.6	-3.0	-0.2	-2.2	0.9
Exports	9.4	-3.4	3.1	4.7	0.5	3.6	2.8	0.1
Imports	-2.5	6.0	5.1	-4.6	-3.5	4.1	-2.1	0.9

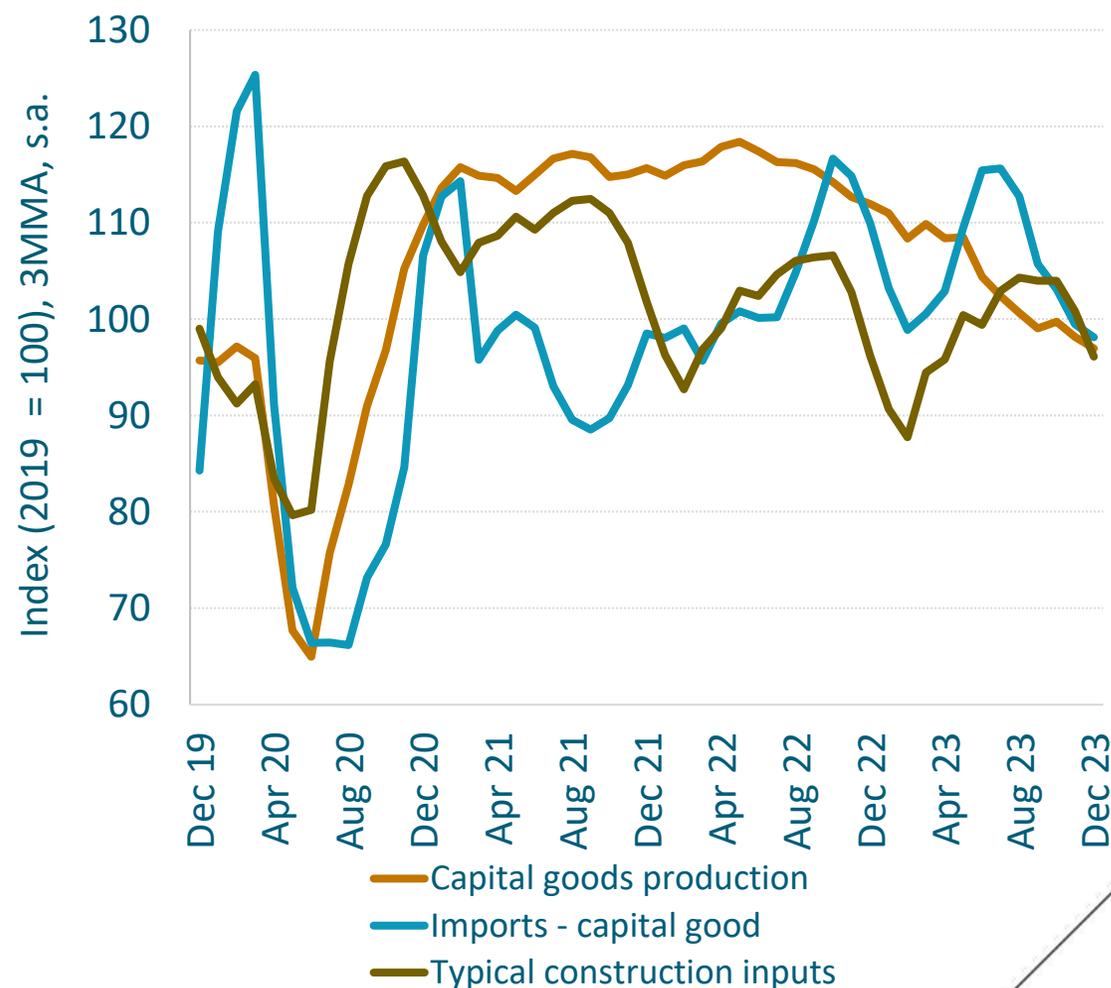
Source: IBGE

Proxies for consumption and investment

Retail sales – PMC



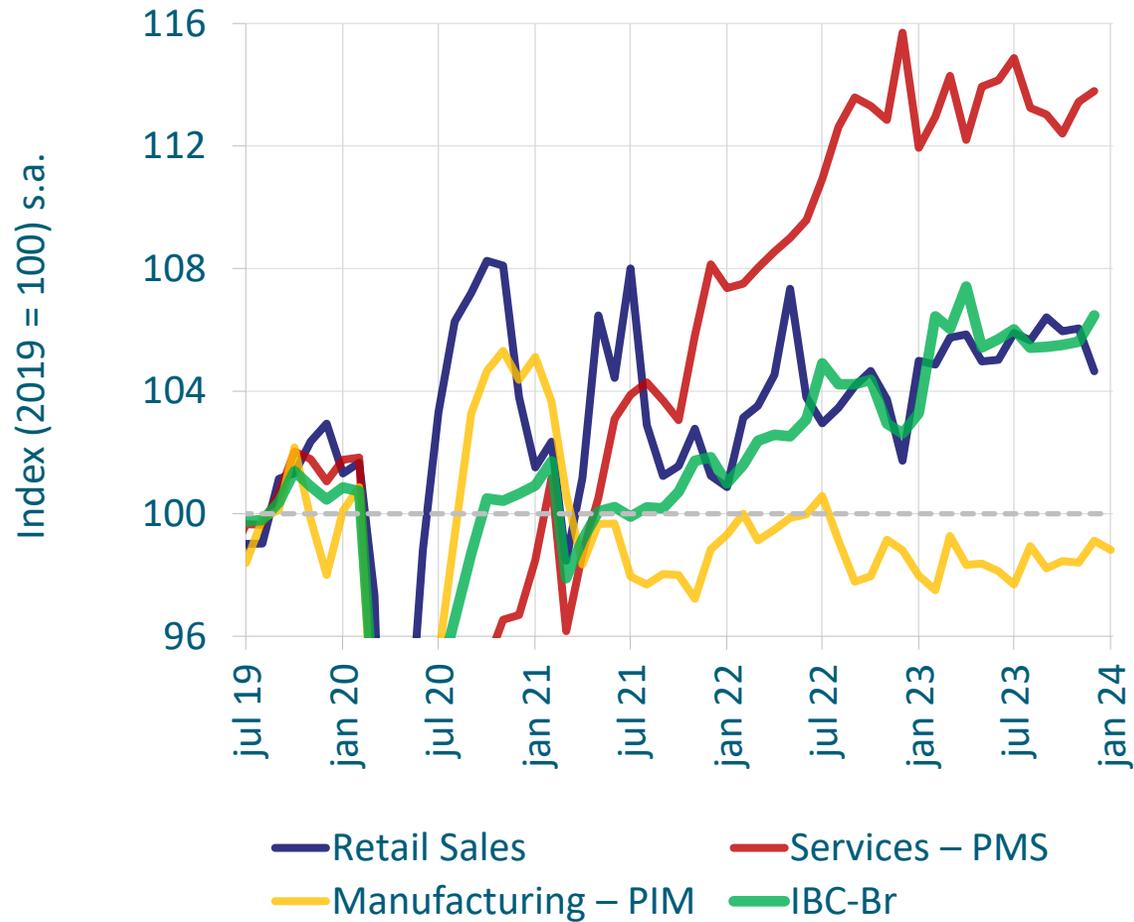
Investment indicators



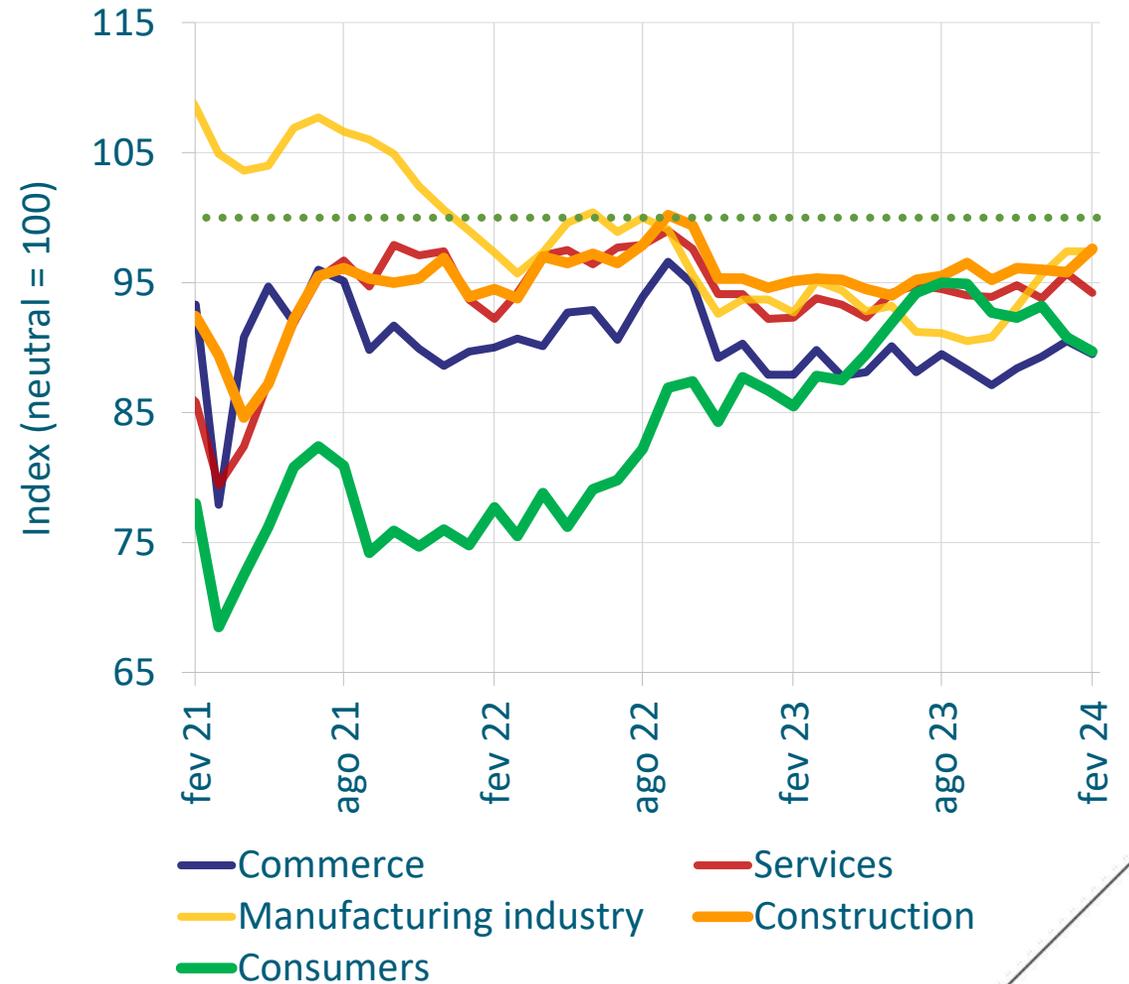
Sources: IBGE and BCB

Economic activity

Economic activity

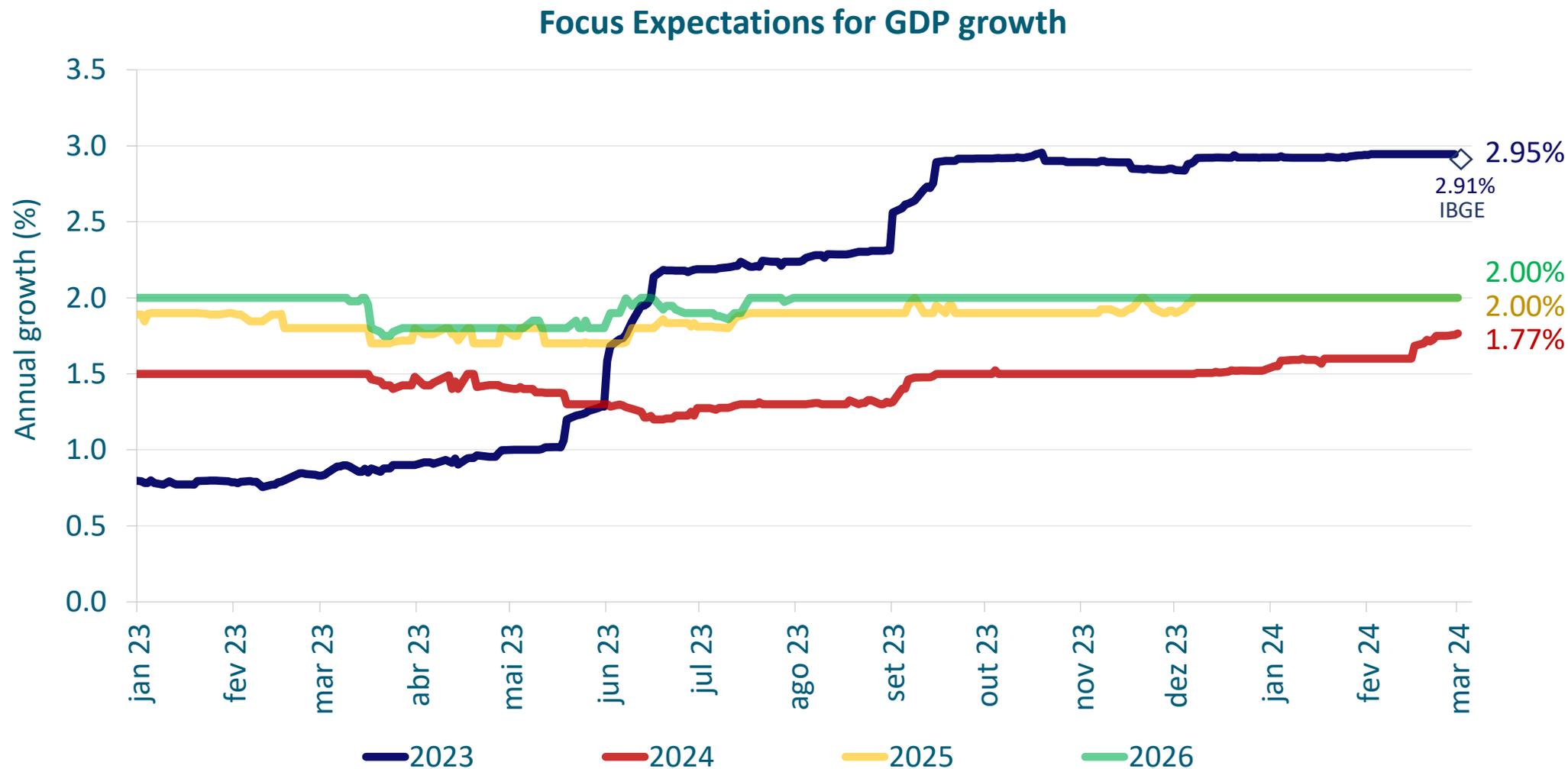


Confidence Index



Sources: IBGE, BCB and FGV

Expectations for GDP growth

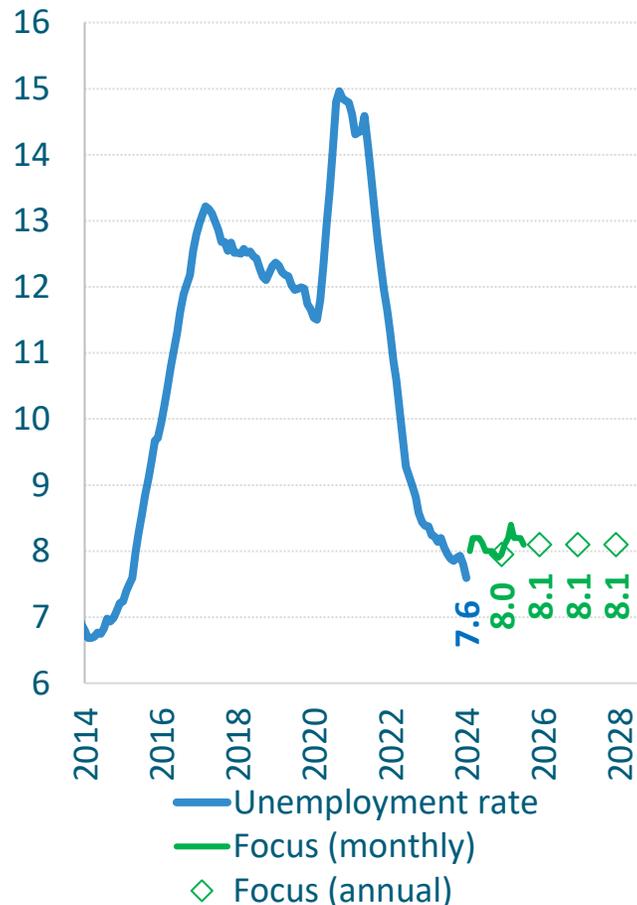


Sources: BCB (Focus) and IBGE

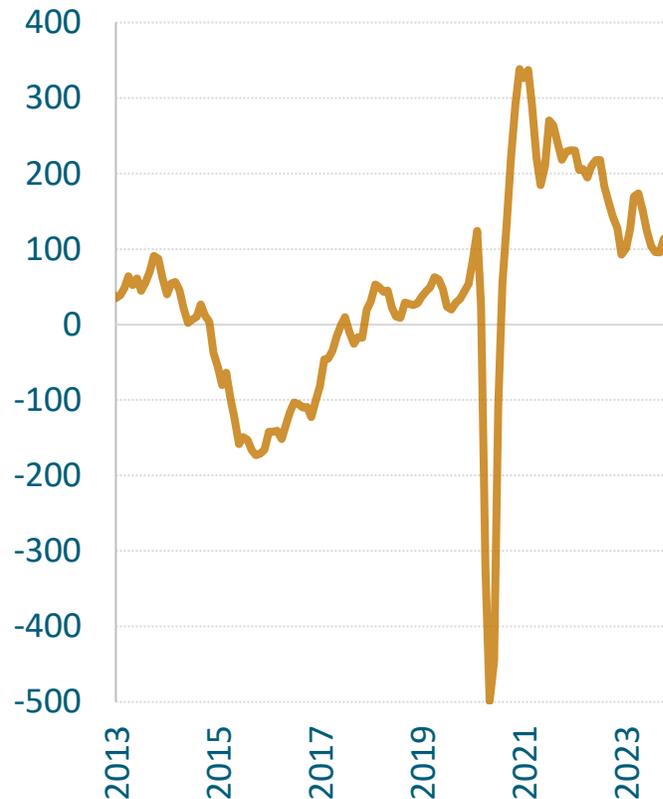
Focus: expectations up to March 1st, except for 2023 (February 29th)

Labor market – Unemployment

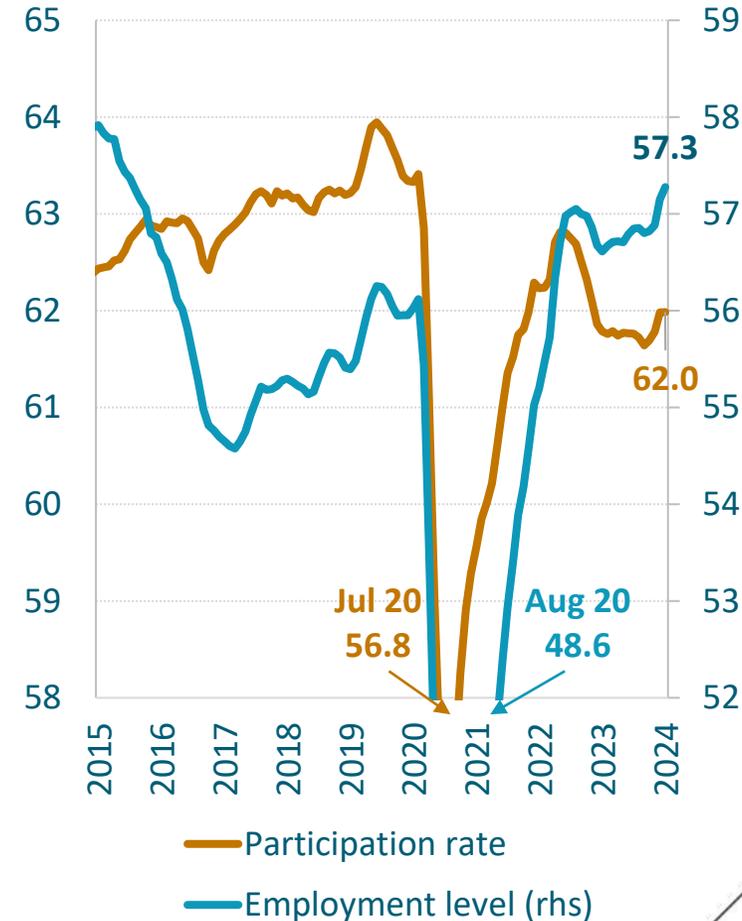
Unemployment rate^{1/}
%; s.a. 3MMA



Formal Jobs creation
thousand jobs, 3MMA, s.a.



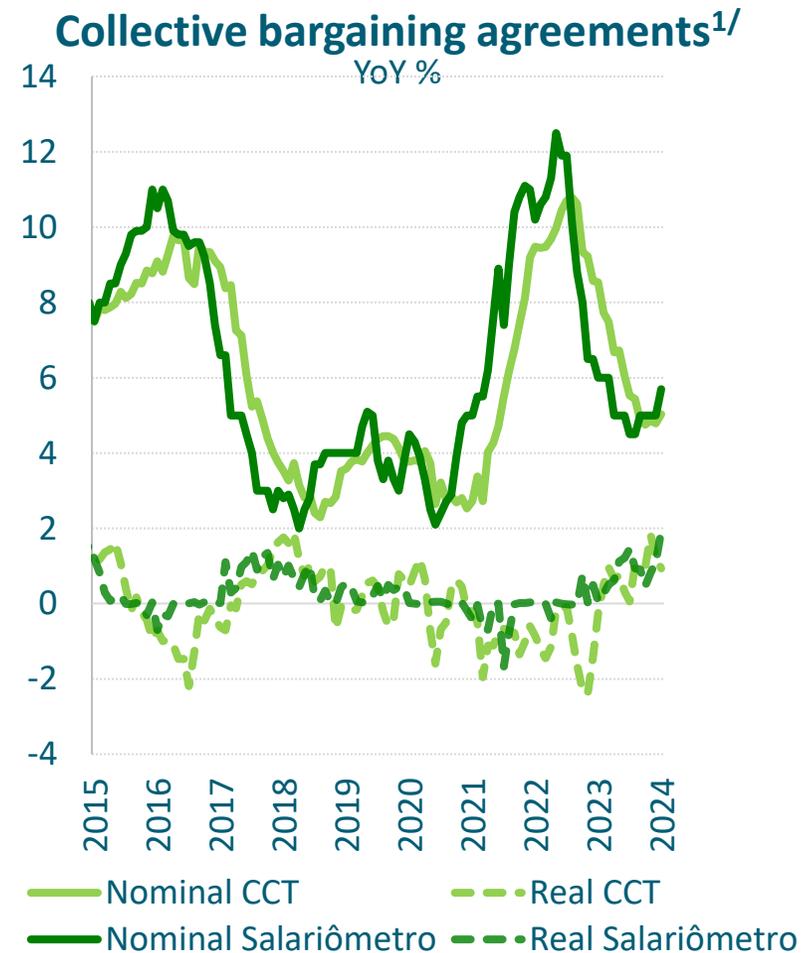
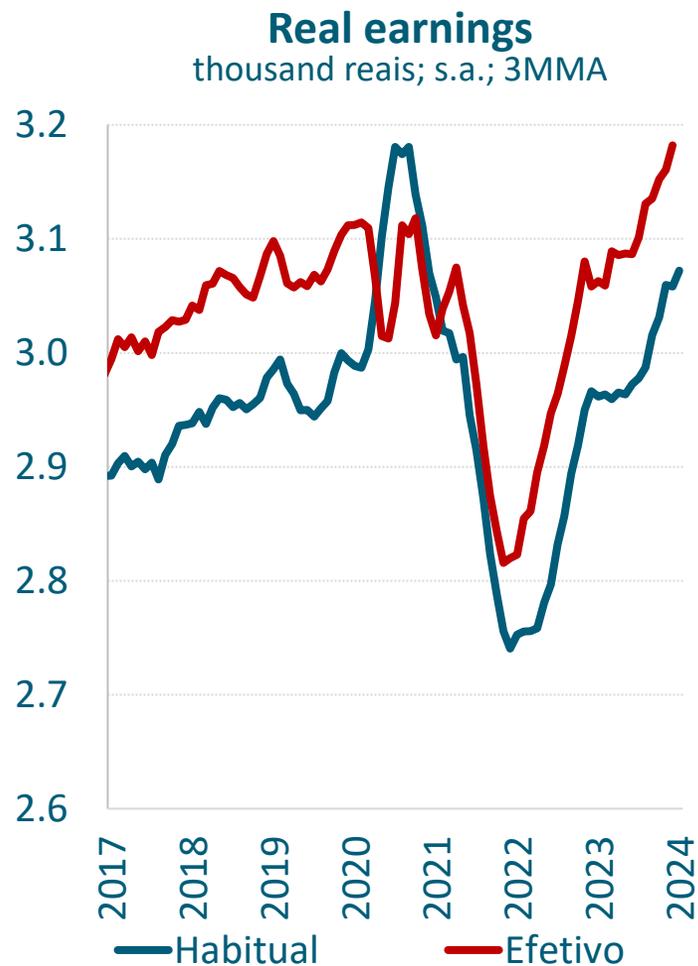
Participation rate and occupation
%, 3MMA, s.a.



Sources: IBGE, Ministério do Trabalho and BCB

1/ Focus: expectations for the unemployment rate as of March 1st not seasonally adjusted; annual expectations refer to December of each year

Labor market – Earnings

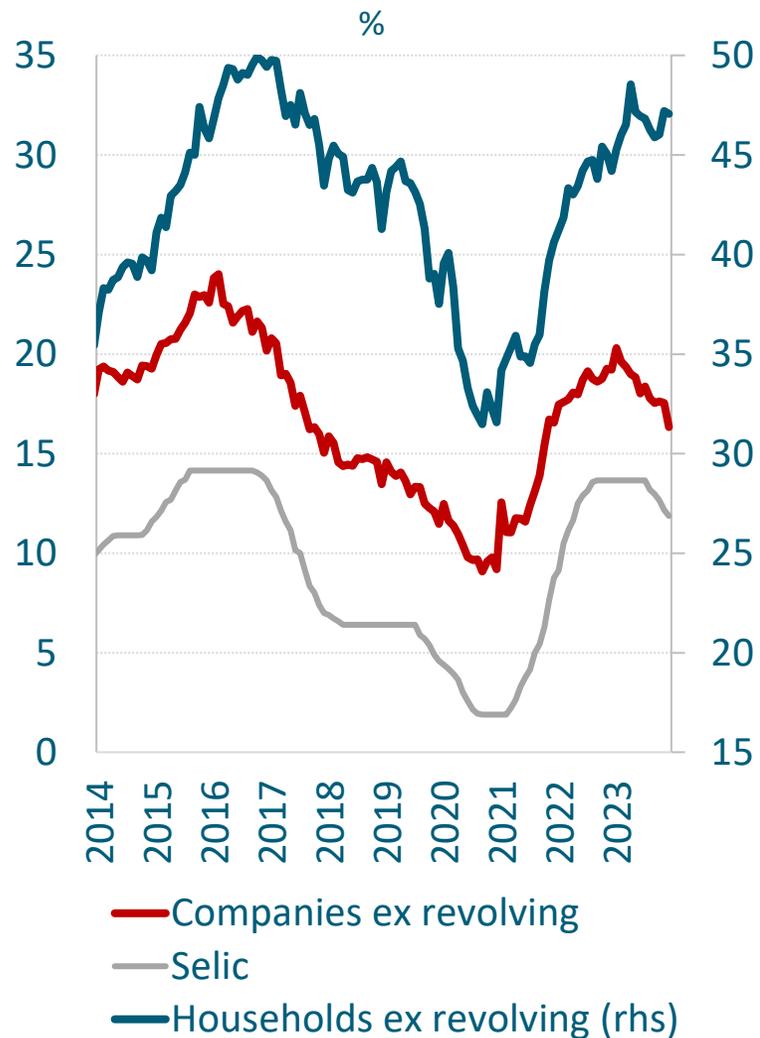


Sources: IBGE, Ministério do Trabalho, BCB and Fipe

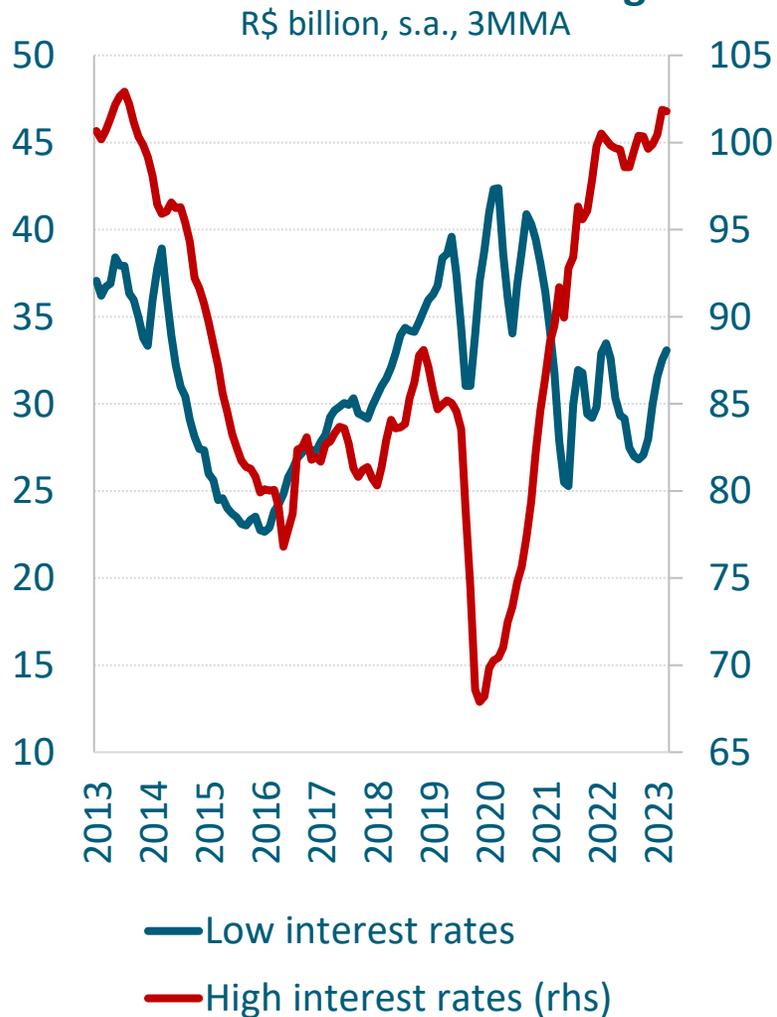
1/ CCT: nominal average wage adjustment in São Paulo and Rio de Janeiro deflated by INPC (t-5); Salariômetro: nominal median adjustment, deflated by INPC (t-1).

Credit

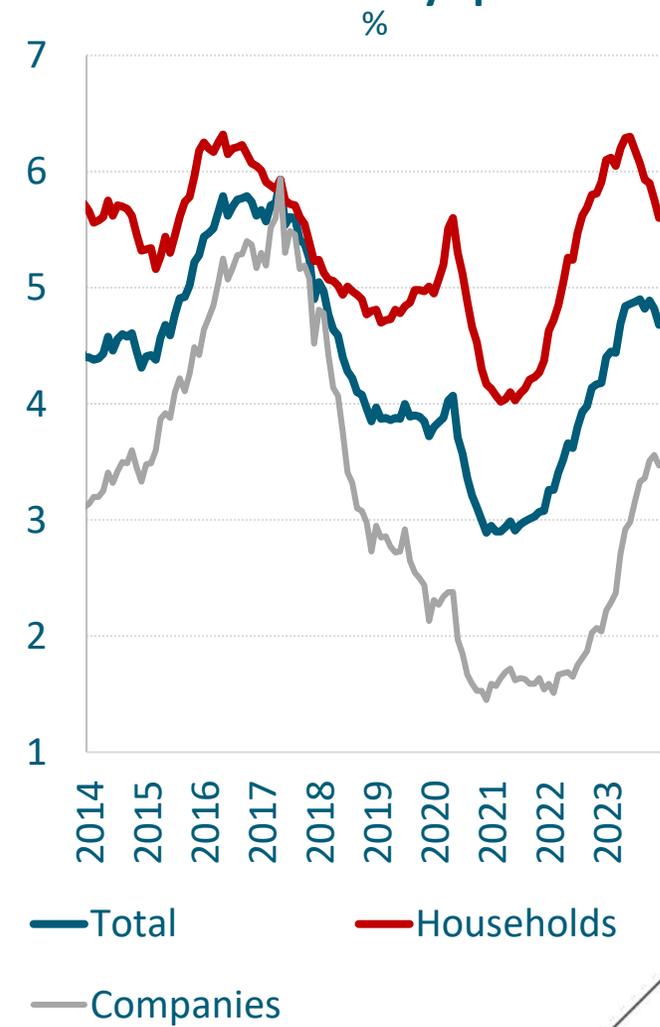
Interest rate for non-earmarked credit



Households non-earmarked grants

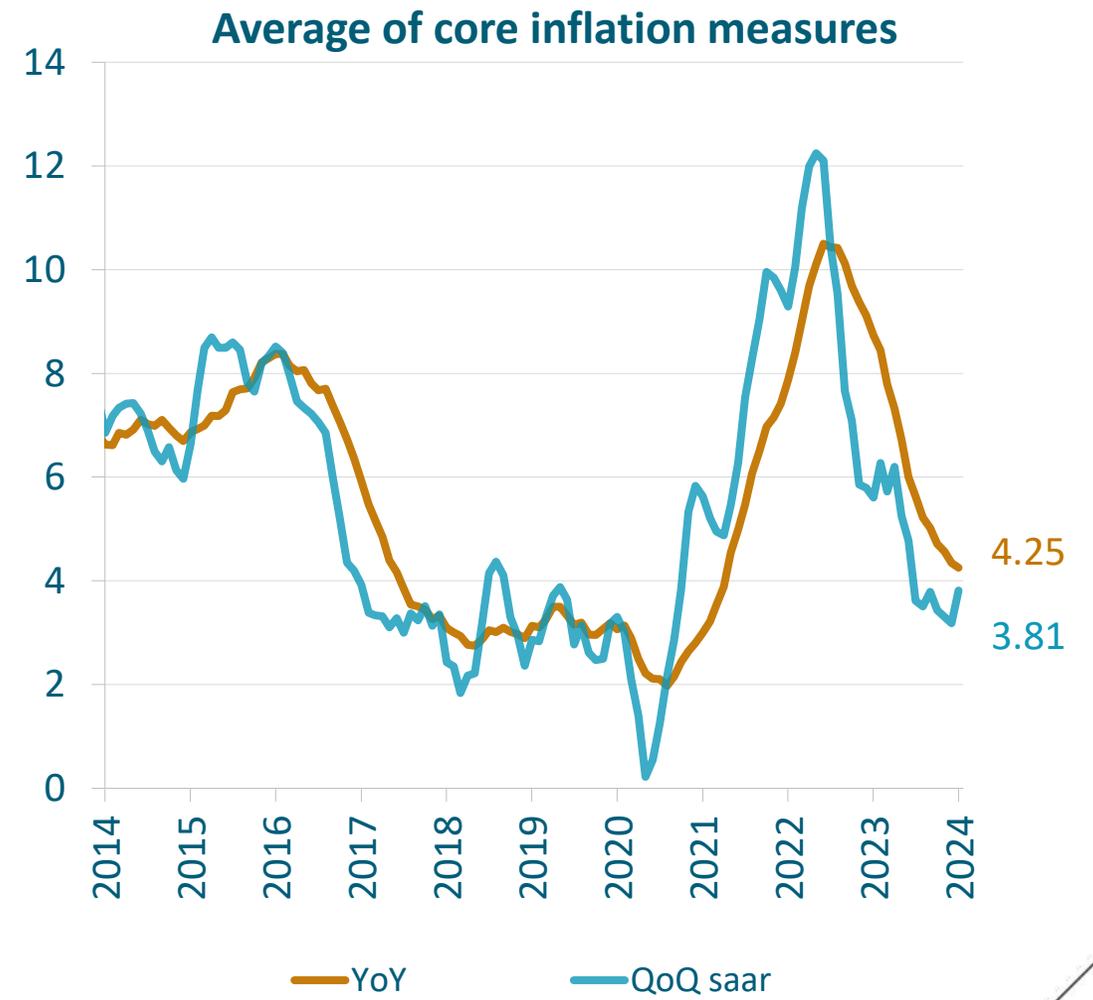
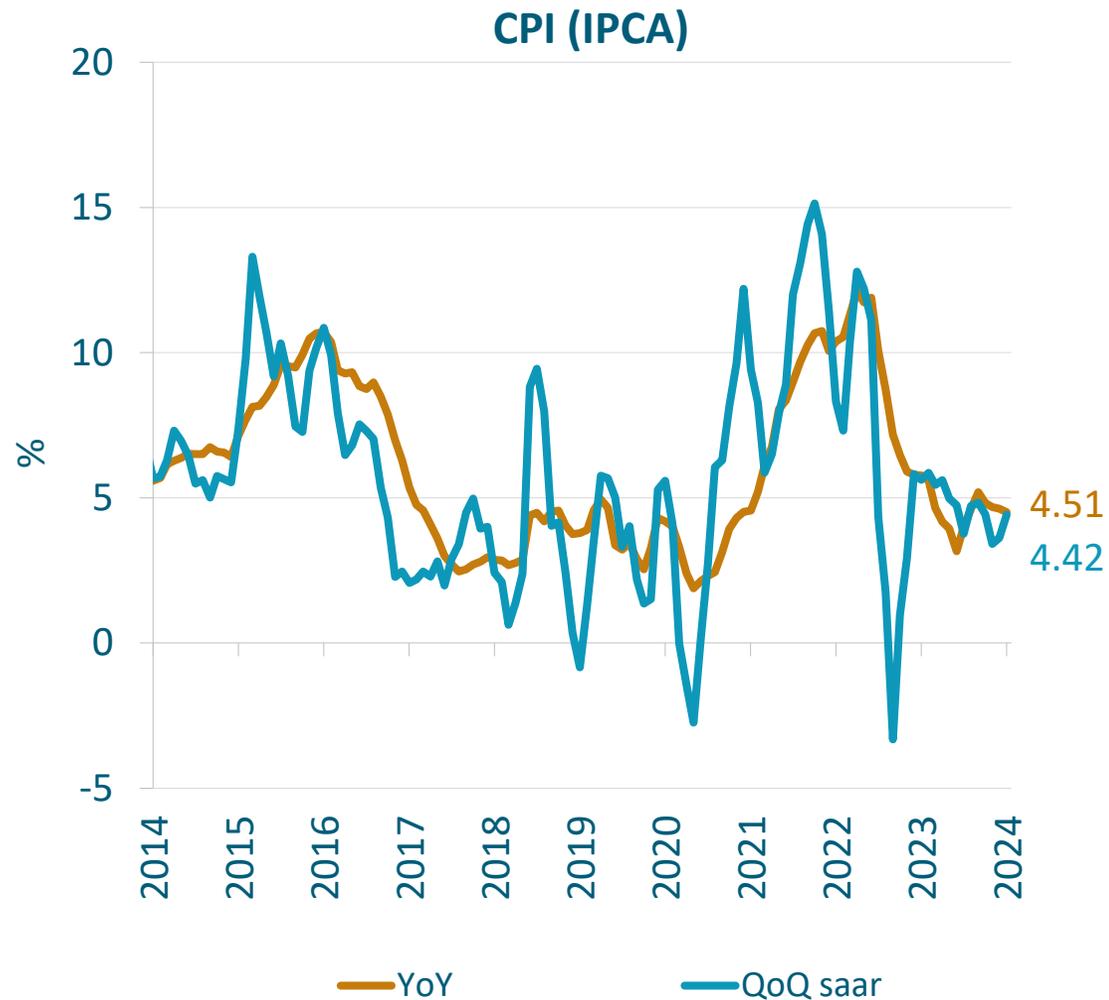


Non-earmarked 90 days past due loans



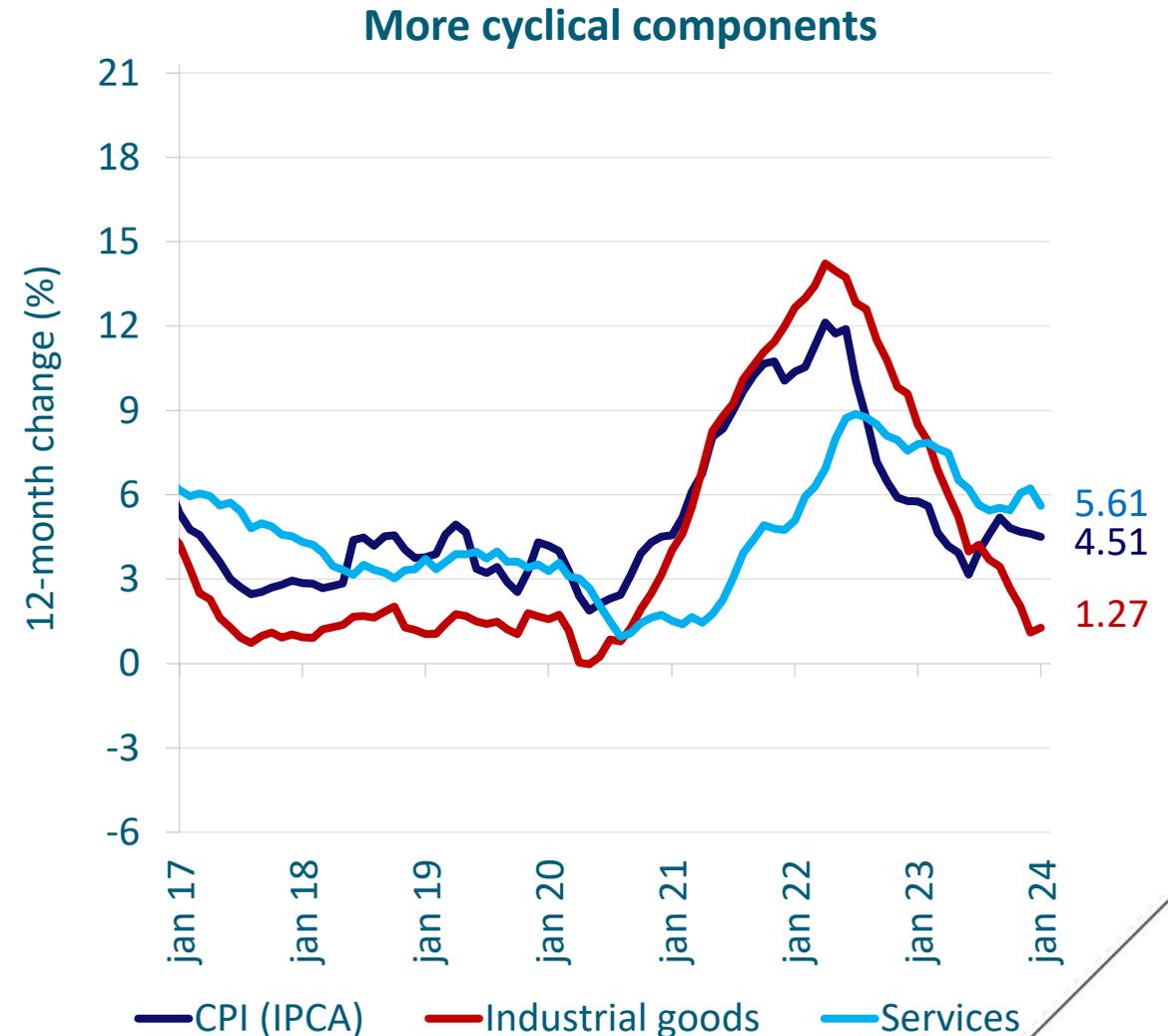
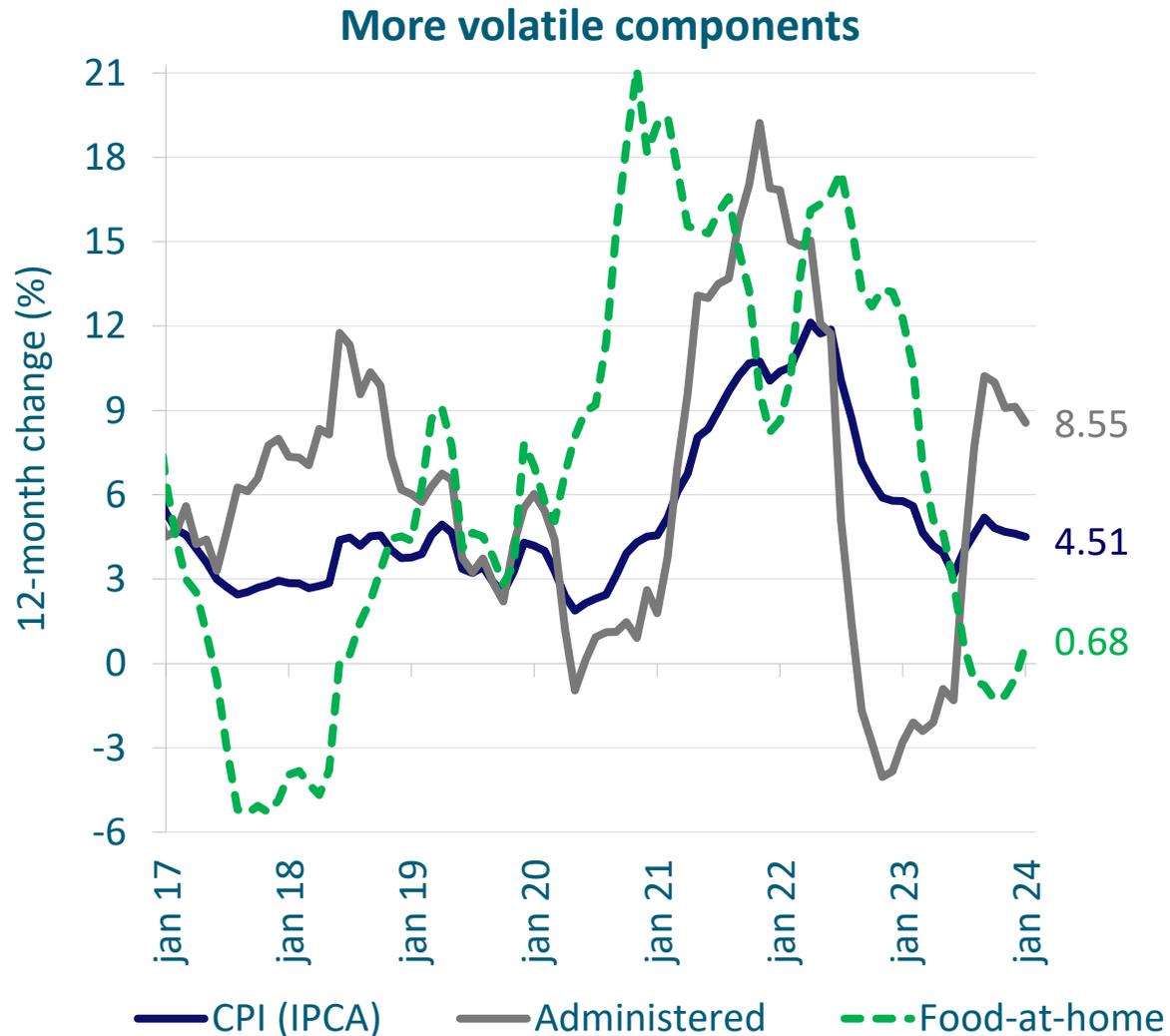
Inflation

CPI and core inflation



Sources: IBGE and BCB

CPI components

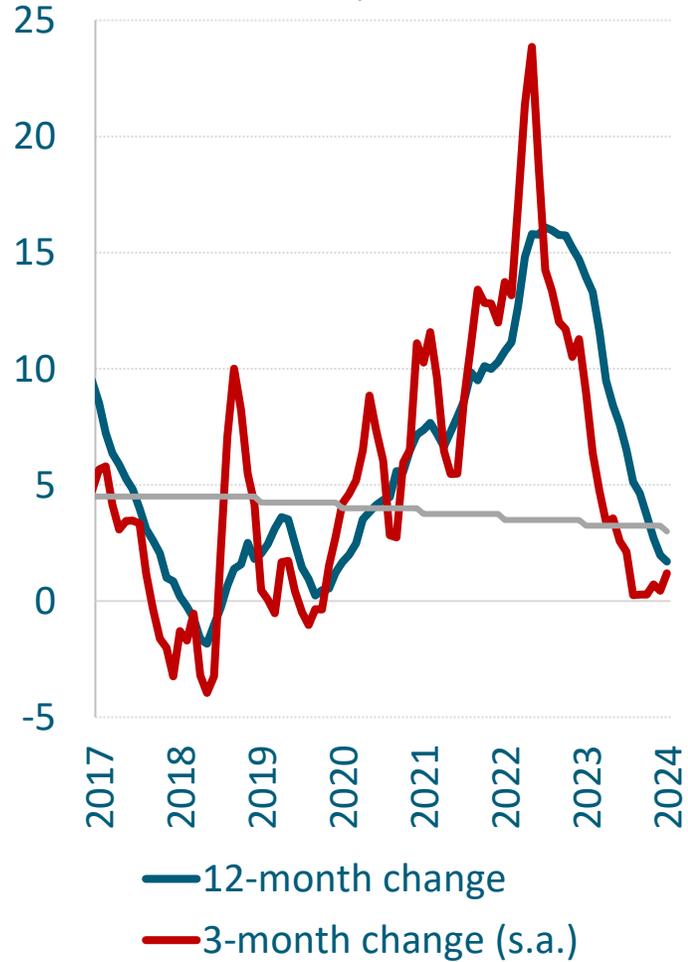


Sources: IBGE and BCB

Core inflation

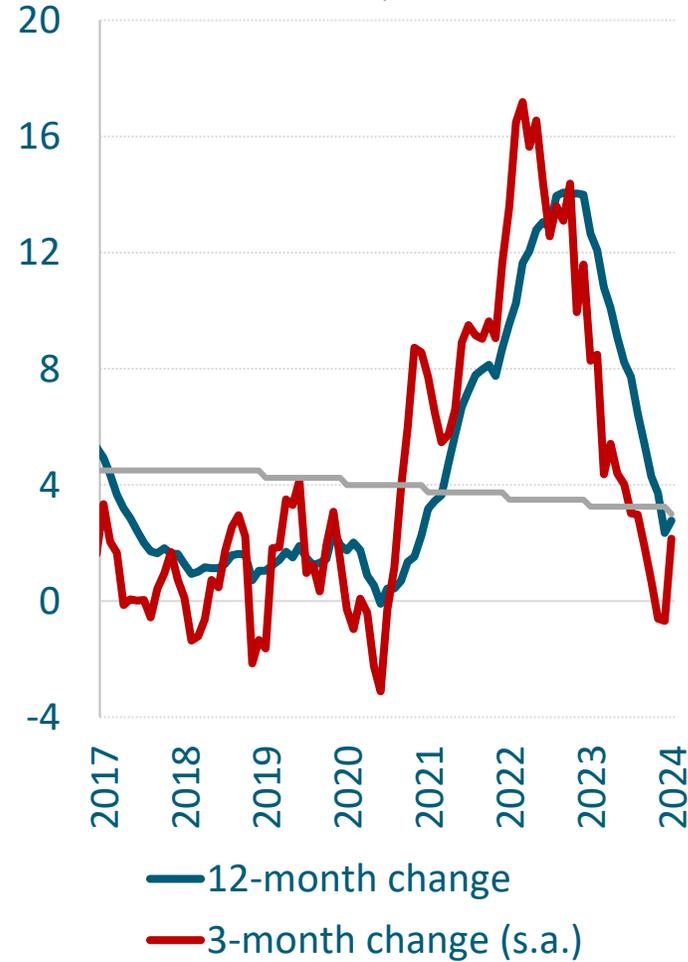
Core food and beverages

%



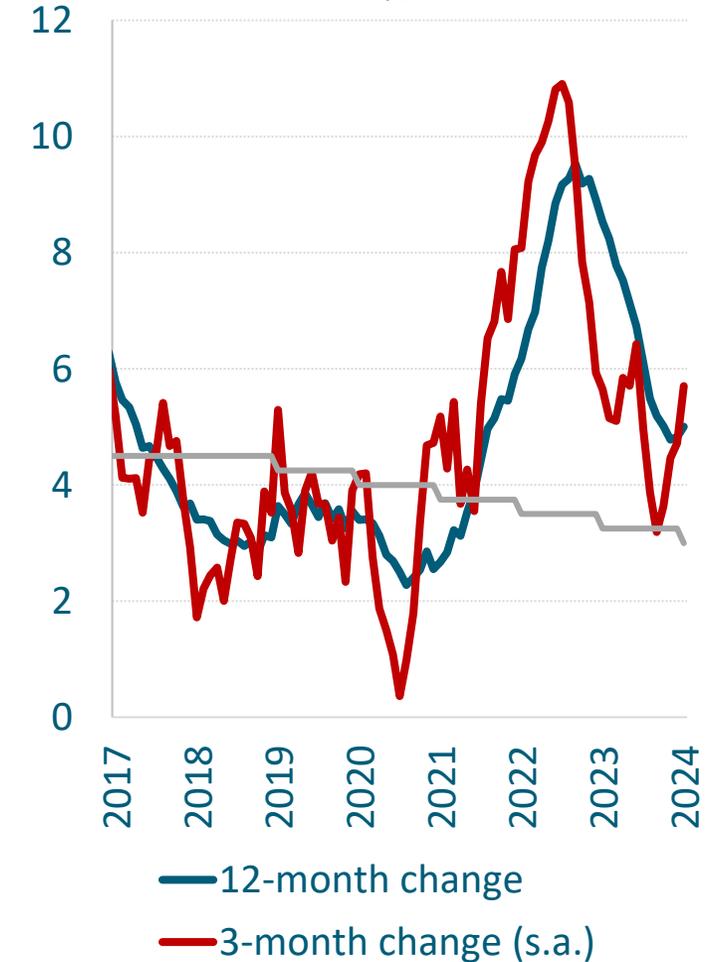
Core industrial goods

%

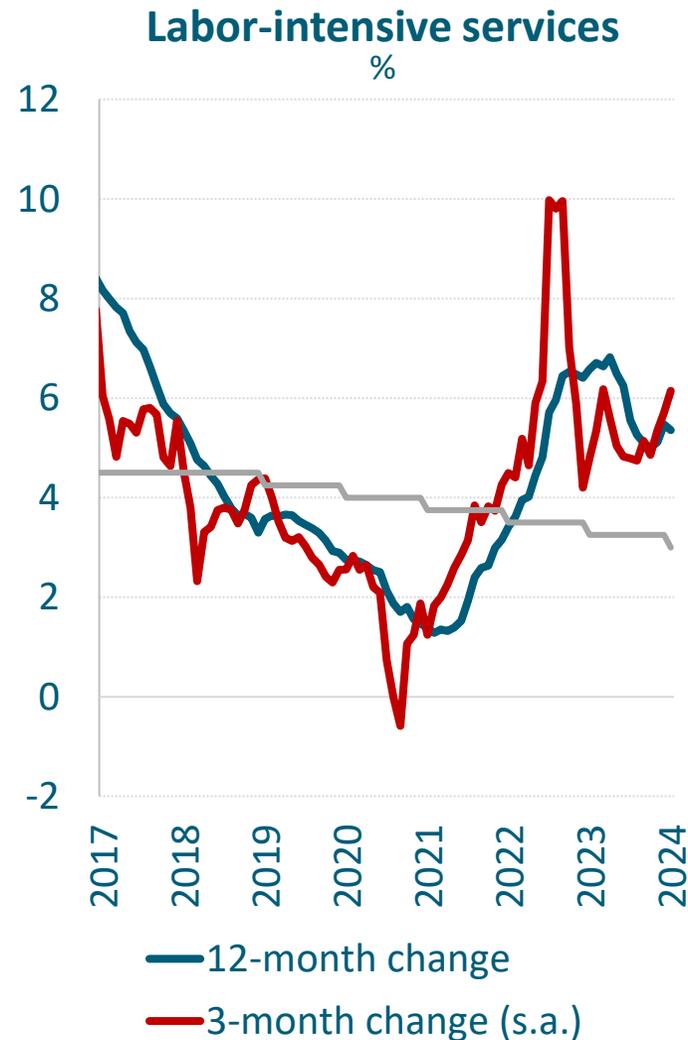
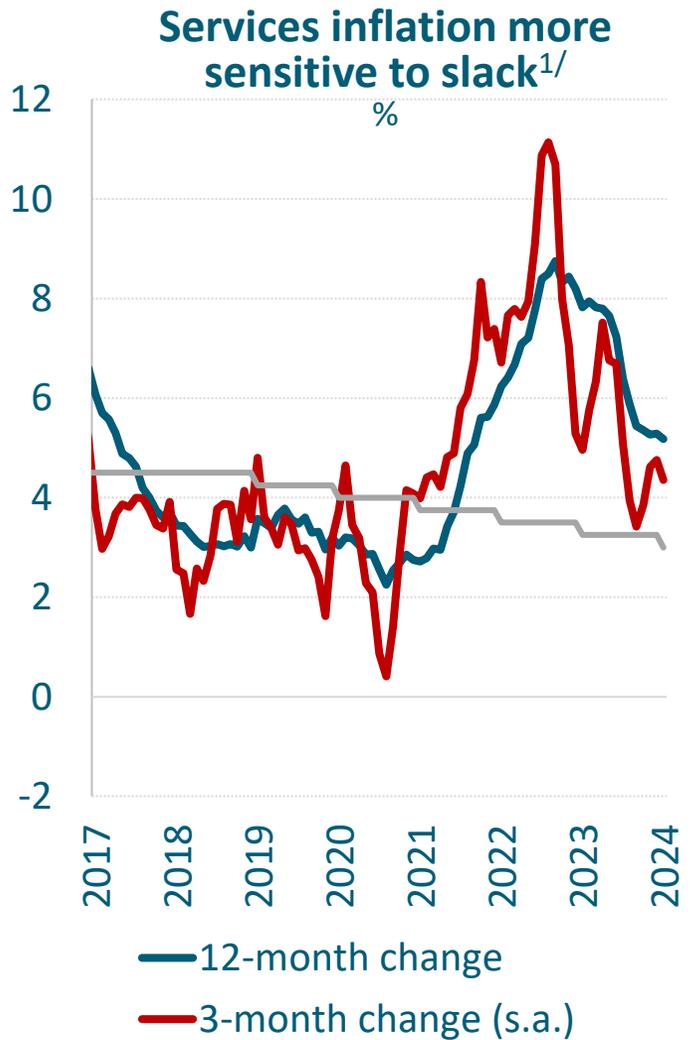
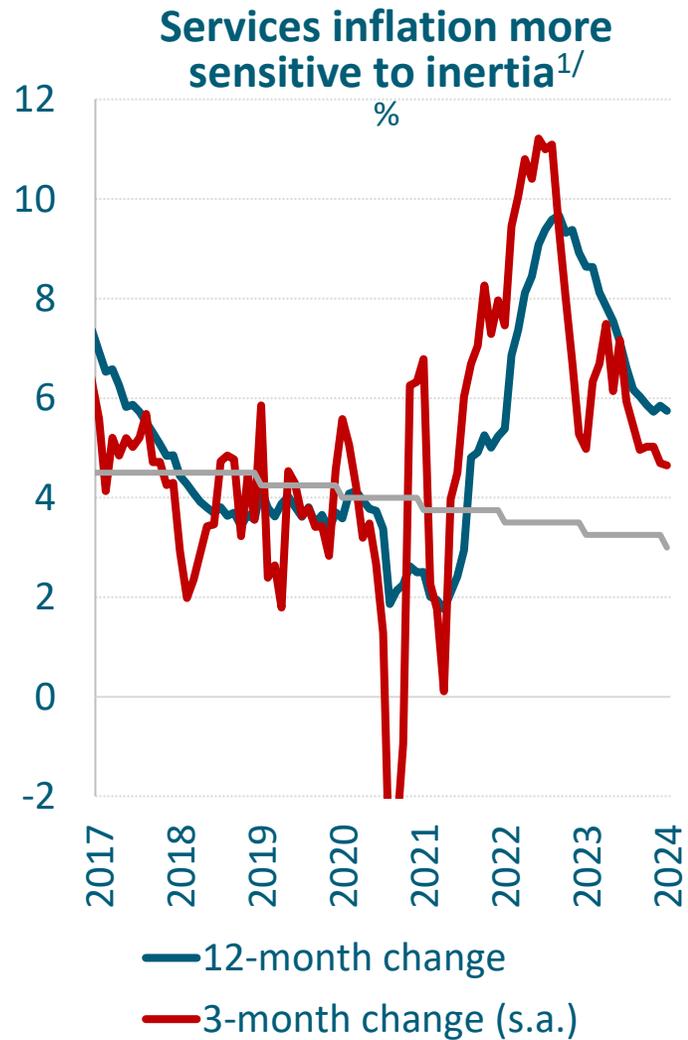


Underlying services

%



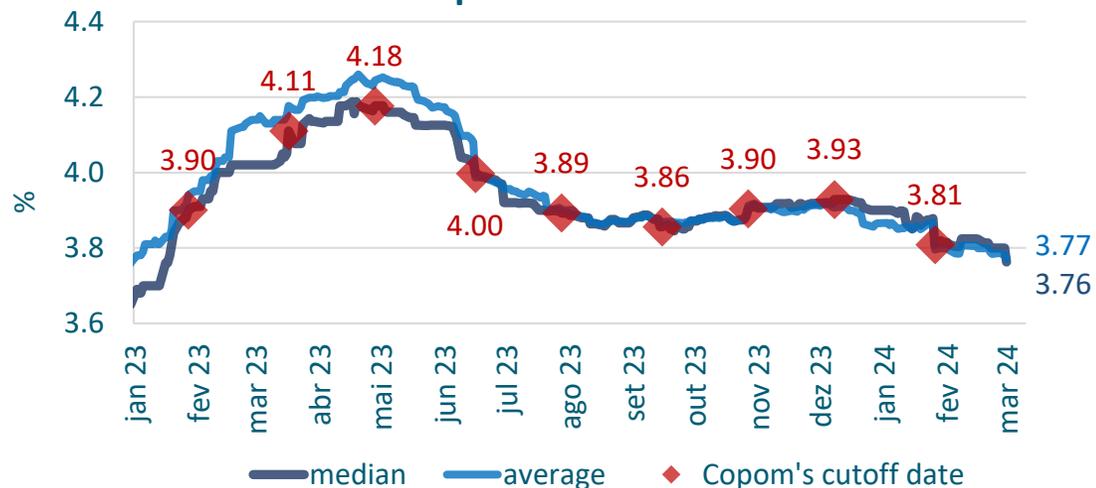
Core inflation



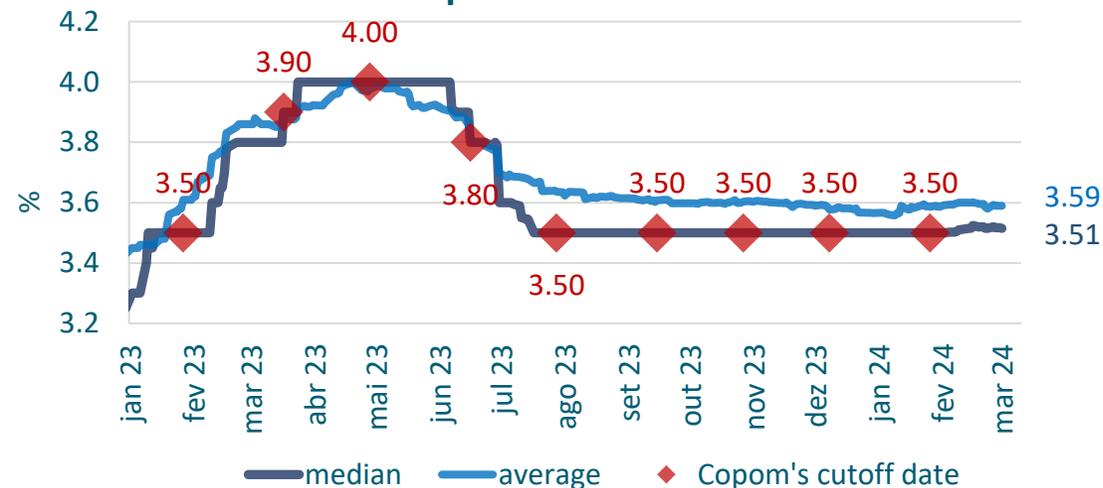
1/ reference: Inflation Report box "Analysis of the services inflation considering slack and inertia", December 2022

Inflation expectations

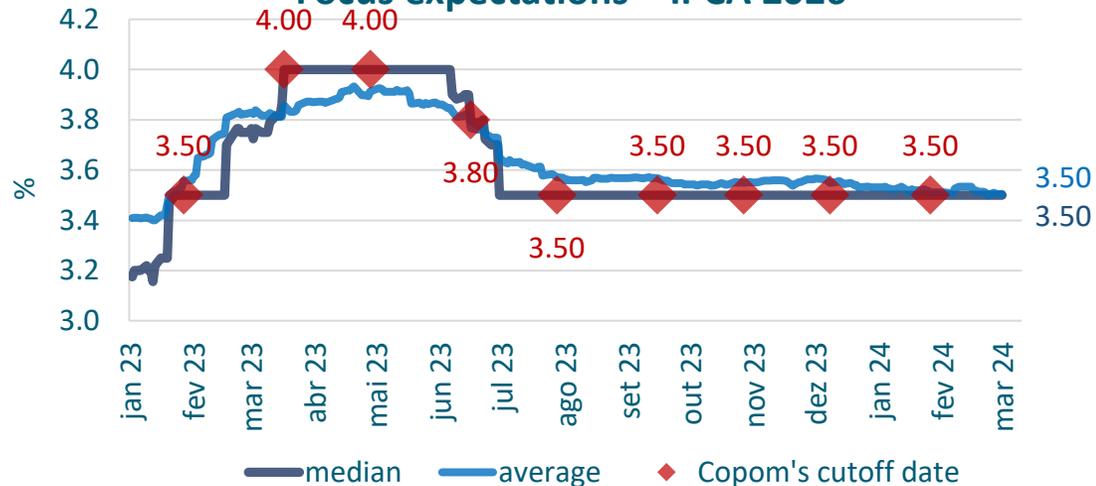
Focus expectations – IPCA 2024



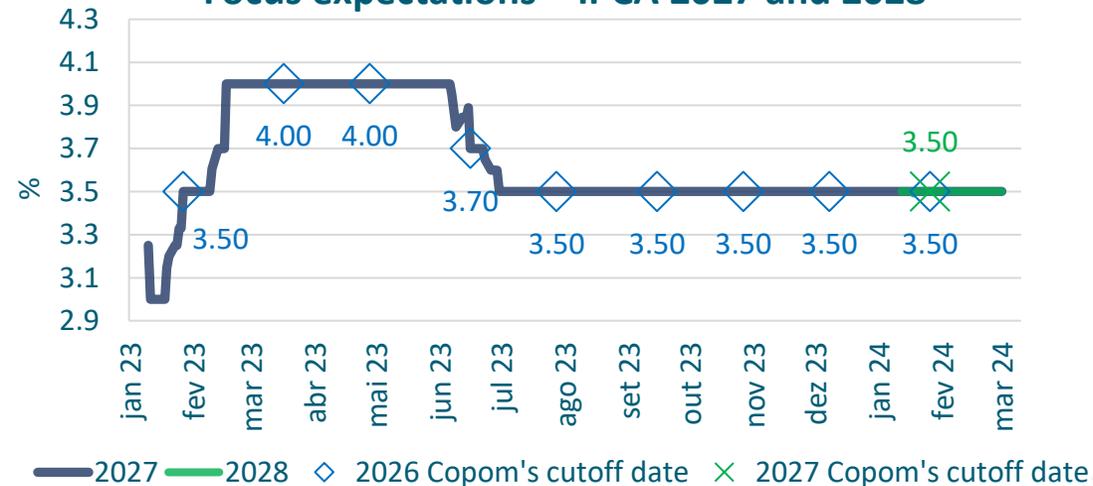
Focus expectations – IPCA 2025



Focus expectations – IPCA 2026



Focus expectations – IPCA 2027 and 2028



Source: BCB (Focus)

data up to March 1st

Monetary Policy Committee Statement

The current context, characterized by a stage in which the disinflationary process tends to be slower, with only partial reanchoring of inflation expectations and a challenging global outlook, requires serenity and moderation in the conduct of monetary policy. The Committee reinforces the need to persist on a contractionary monetary policy until the disinflationary process consolidates and inflation expectations anchor around its targets.

If the scenario evolves as expected, the Committee members unanimously anticipate further reductions of the same magnitude in the next meetings, and judge that this pace is appropriate to keep the necessary contractionary monetary policy for the disinflationary process. The Committee emphasizes that the total magnitude of the easing cycle throughout time will depend on the inflation dynamics, especially the components that are more sensitive to monetary policy and economic activity, on inflation expectations, in particular the longer-term ones, on its inflation projections, on the output gap, and on the balance of risks.

Economic Outlook

March 7th, 2024

Diogo Guillen

