

Brazil Macro Compass

After the Parade

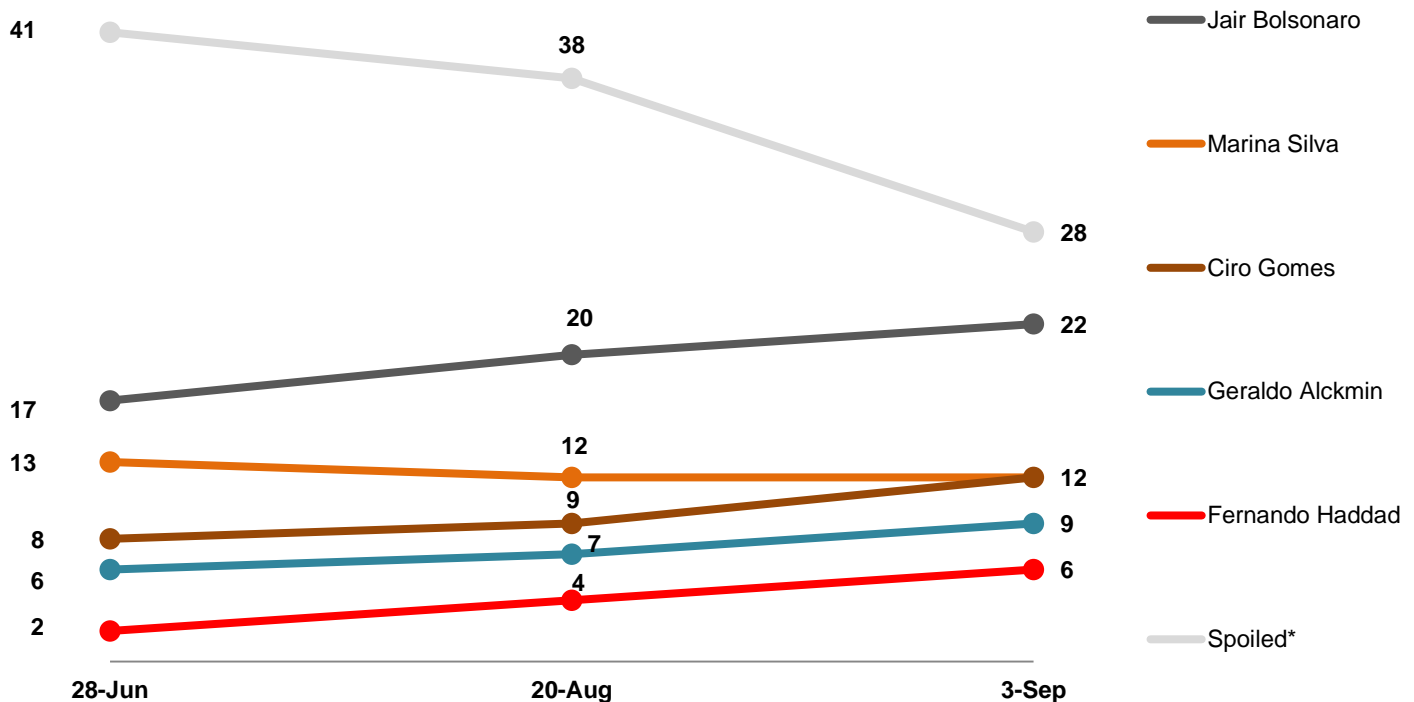
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Political Agenda: All About Polls

An old dictum in Brazilian politics says that the electoral campaign truly begins only after the parade – the Independence Day (September 7) parade. The campaign is now shorter than when that saying was first formulated (elections used to be on November 15, Republic Day), but there still may be some truth in it, if only by coincidence. The polls scheduled to be released next week (Datafolha has conducted a new poll to be published on September 10) may be the first to reflect the effects of both TV and radio advertisements, which started on September 1, and the electoral court decision to block Lula’s presidential bid.

The latest Ibope poll, conducted between September 1 and September 3, showed a significant drop in spoiled (blank plus null) votes. The poll suggests that the 10-pp decline in the share of voters who were planning not to vote for any candidate was distributed among most of the main candidates (see chart below).

Brazil – Voting Intentions in the First Round of Presidential Elections (% of Total Votes)



*Spoiled: sum of nulls and blanks. Sources: Ibope, Santander.

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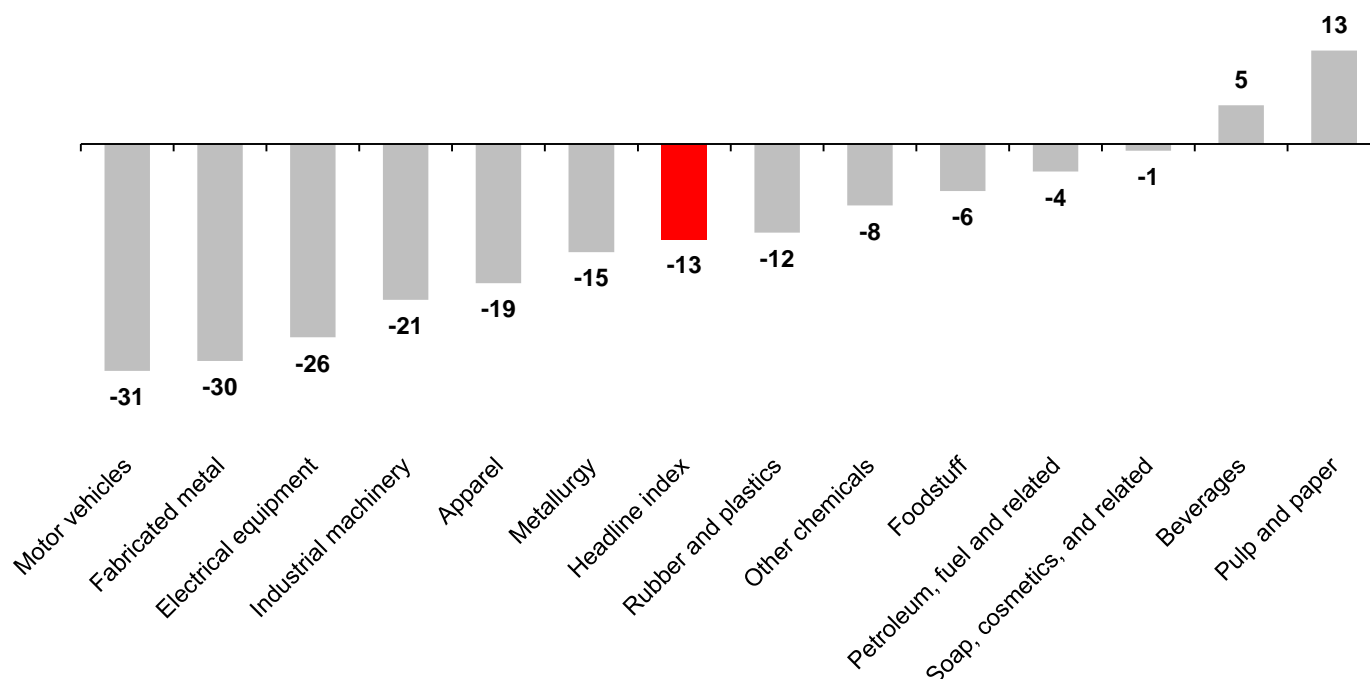
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Chart of the Week: A Look at Industrial Production

This week IBGE released July's industrial production (see comment in "What's New" on page 3). Our "Chart of the Week" shows how production in the most important categories evolved since the headline index peak in September 2013, before the latest recession. Almost five years later, industrial output is still 13% below that peak. Motor vehicles production, despite the recent recovery, is still lagging all the other categories analyzed here. Beverage and pulp & paper industries are the positive highlights.

Brazil Industrial Production – Main Categories – % Change Since September 2013



Sources: IBGE, Santander.

What's New: August Inflation, July Industrial Production

Two months after the truckers' strike that pushed monthly inflation up to 1.26% in June, **Brazil CPI registered deflation of 0.09% in August, better than the low end of market expectations** (Santander: -0.02% m/m; consensus: 0.0% m/m). The CPI breakdown revealed how the impact on prices from the truckers' strike gradually dissipated, as the supply normalization process takes place. Food at home and fuels, two components particularly sensitive to supply shocks, registered deflation of -0.72% m/m and -1.86% m/m, respectively. Looking ahead, **we maintain our forecast that CPI will reach 3.9% in 2018, because despite expected increased inflation in the coming months, we believe that due to a moderate economic recovery, average inflation should remain below 4%.**

Following a "V-shaped recovery" in June, Brazilian industrial production remained virtually stable (-0.2% m/m; 4% y/y) in July, positively surprising us (-1.9% m/m) and consensus (-1.5% m/m). However, we take the result with a grain of salt, owing to slowing domestic demand and higher global risk aversion (low appetite for emerging markets assets). **We expect industrial production to grow 3.5% in 2018 (annual average), following an accumulated contraction of nearly 18% from 2014 to 2016 and a moderate growth of 2.4% in 2017.**



Upcoming Data: July Retail Sales

Some important economic activity indicators will hit the wires next week. First, we estimate that broad retail sales expanded by 0.5% m/m (% 1.9 y/y) in July, mainly driven by the recovery in supermarket sales. With regard to core retail sales, which do not include vehicles and building materials sales, we expect a slight increase of 0.1% (0.5% y/y). In addition, we estimate that real services revenue grew 0.4% m/m (1.1% y/y) in July, owing to the improvement in household services. These numbers indicate a slow recovery in domestic activity is likely in 3Q18.

Number of the Week

44%

According to the latest Ibope poll, the share of voters who would not vote for Jair Bolsonaro under any circumstances rose to 44% (from 37% on August 20), the highest among the presidential candidates.

Quote of the Week

“Brazilians can debate endlessly whether the generous government pensions that explain a good chunk of the fiscal deficit are just or unjust, but one thing is clear: having better-off retirees today does nothing to ensure that Brazil will have the wherewithal to pay its debts tomorrow.”

— **Andrés Velasco**, former finance minister of Chile, in an article for *Project Syndicate* (September 3, 2018).

What We've Been Reading

- “Decoding Currency Crises,” by Andrés Velasco (*Project Syndicate*, September 3, 2018). Why Argentina is facing a currency crisis and Brazil is not.
- “Brazil’s most popular politician, Lula, won’t be on the October presidential ballot. Here’s what comes next,” by Brett J. Kyle and Andrew G. Reiter (*Monkey Cage*, September 5, 2018). A six-point guide to the upcoming elections.
- “Old Politics Dies Hard in Brazil Despite Sweeping Corruption,” by Simone Preissler Iglesias and Flavia Said (*Bloomberg*, September 4, 2018). 79% of the current Lower House representatives are running for reelection.
- “What Artifacts Were in the National Museum of Brazil?” by Daniel Victor (*The New York Times*, September 3, 2018). A sample of what was lost in this week’s fire.

Recent Publications (Available on Our Website)

- *Worse Financial Conditions at the Margin Reinforce the Likelihood of Selic Remaining “Low for Long”* (August 30, 2018)
- *We’re Not in 2002 Anymore (Caution Advised, Though)* (August 28, 2018)
- *The Power of Trade-Off* (August 2, 2018)
- *It’s Not for a Lack of Credit—Part III: Delinquency, Way Better Than It Seems* (July 20, 2018)
- *It’s Not for a Lack of Credit—Part II: Companies* (July 20, 2018)



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