

**Brazil Macro Compass**

**The End of Inflated Growth Forecasts?**

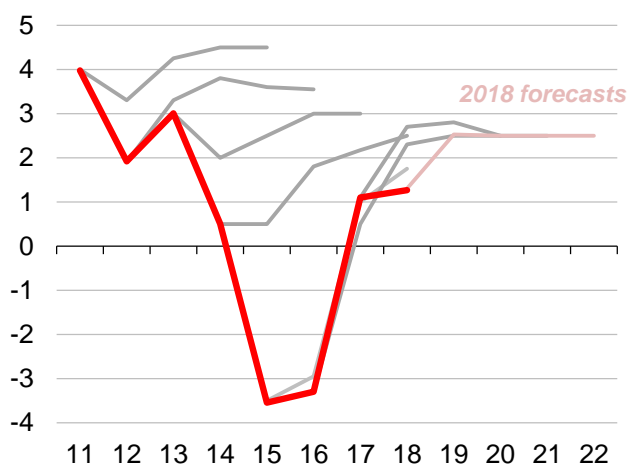
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**Chart of the Week: GDP Growth Forecasts vs. Reality**

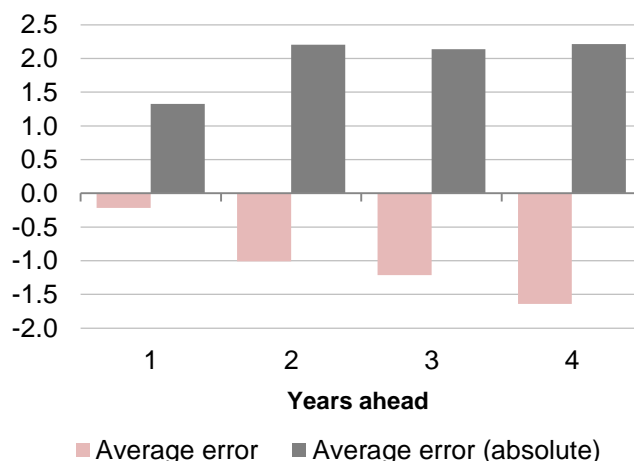
Our “Chart of the Week” checks how accurate market consensus GDP growth forecasts have been over the past eight years. The chart on the left-hand side below compares actual GDP growth (the thick red line) with median forecasts for the following four years registered in the last Focus report (the Central Bank weekly survey on market expectations) of each year (the thinner gray and light red lines). Most of the expectation lines lie above the actual GDP growth line, which means that markets have been, in the period analyzed, overestimating GDP growth (there is too little data to affirm that this is a systematic bias, though). The chart on the right-hand side shows the extent of that exaggerated optimism: even growth forecasts for the year immediately following are, on average, off the mark (in absolute value) by 1.3 percentage point. The much smaller (close to zero) average error associated with such forecasts suggests that, over time, positive and negative surprises tend to offset each other. That has not been the case for projections made for growth two, three, and four years ahead, which have been off, on average, by at least one percentage point. Most of the time market participants have anticipated acceleration in long-term growth (regardless of the starting point, as most expectation curves slope upward) that often fails to materialize.

Is this time different? We believe so, as we think Brazil can finally deliver a consumption-based cyclical recovery, with yearly growth above consensus (around 3%), in the next few years. However, given the string of disappointments over the past few years, it is understandable that such optimism frequently raises so much skepticism. Our *mea culpa* on a recent forecast error: in December 2017, we forecast 2018 GDP growth at 3.0% – actual growth will probably end up at around 1.3%.

**Brazil Yearly GDP Growth (%),  
Median Forecasts vs. Realized, 2011-18**



**Average Error of Median GDP Growth Forecasts  
(Percentage Points), 2011-18**



Sources: Brazil Central Bank, Santander. 2018 GDP growth assumed at 1.3%.

**IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE “IMPORTANT DISCLOSURES” SECTION OF THIS REPORT.**

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## Political Agenda: Mr. Bolsonaro Goes to Davos

President Jair Bolsonaro will make his international debut next week at the World Economic Forum in Davos, Switzerland. The trip should provide a temporary distraction from pension reform discussions, although it will also serve to set expectations on the timing of the unveiling of the government's proposal – the president's chief of staff, Onyx Lorenzoni, said this week that Bolsonaro will settle on a pension reform model once he returns to Brazil. So far the economic team has not announced key parameters of the reform, which are needed to estimate potential savings and compare its impact to a baseline. We expect the government to present its proposal to Congress in the first week of the legislative year, which starts on February 1.

## What's New: November Retail Sales

November core retail sales came in at +2.9% m/m, significantly stronger than market consensus (+1.0% m/m) and our forecast (+1.25% m/m). That positive surprise was also reflected in the headline indicator, which grew 1.5% m/m (we expected +0.75% m/m). We think "Black Week" discounts probably drove strong monthly growth (+5% m/m) in sales of furniture and home appliances, the main contributors to the overall result. Coincident indicators released so far point to weaker performance for the retail sector in December, with core sales relative to November close to flat.

## Upcoming Data

Next week, the main important indicator to be released is the January IPCA-15. We expect an acceleration to 0.32% m/m, led by food-at-home inflation (+0.96% m/m), in line with the seasonal pattern. With this result, we expect yearly inflation to fall to 3.79% (from 3.86%), still below the Central Bank target of 4.25%. Core inflation should continue to be subdued, hovering at around 2.0% y/y.

## Number of the Week

# 2.9%

Retail sales rose 2.9% in November 2018, the strongest monthly growth for the month of November since 2000. See more in "What's New" above.

## Quote of the Week

*"They say he's the Donald Trump of South America, do you believe that? He's happy with that. If he wasn't, I wouldn't like the country so much. But I like him."*

— **President Donald Trump**, addressing a crowd at the American Farm Bureau Federation convention in New Orleans, as reported by *Agence France-Presse* (January 15, 2019).

## What We've Been Reading

- "Brazil and Mexico Are Tired of Being Global Good Guys," by Mac Margolis (Bloomberg Opinion, January 15, 2019). Multilateralism is becoming out of favor in Latin America's two biggest countries, argues Margolis.
- "Here's How Jair Bolsonaro Wants to Transform Brazil," by Shannon Sims (*The Atlantic*, January 12, 2019). A summary of Bolsonaro's plans in four key areas: land rights, education, the economy, and public security.
- "Risks to the Global Economy in 2019," by Kenneth Rogoff (*Project Syndicate*, January 11, 2019). A Chinese growth slowdown, rising long-term real interest rates, and an escalation in populism are the top risks this year, in Rogoff's opinion.
- "Why Brazilians love baby talk," by Ian Walker (*BBC Travel*, January 15, 2019). What is behind the ubiquitous use of diminutives in Brazilian Portuguese.



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## Recent Publications (Available on Our Website)

- *Brazil Macro Scenario: 10 Macro Propositions for 2019* (January 7, 2019)
- *Economic and Political Calendar: What to Watch in Brazil in 2019* (December 5, 2018)
- *Risks for the Selic in 2019 Expected to Become Even Less Asymmetric* (November 6, 2018)
- *20 Charts that Explain Brazil's New Political Power Structure* (October 29, 2018)
- *Brazil Post Elections: Honeymoon and Marriage* (October 25, 2018)



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