Macro Outlook

February 2025

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Macro Outlook

- In the US, with labor markets still solid, and inflation convergence happening more gradually than expected, the balance of risks for the FOMC has shifted back towards inflation. Accordingly, the FOMC decided to maintain the Fed funds rate unchanged at the range of 4.25-4.50% in their January meeting and signaled that cuts will not resume until inflation progress resumes, or the labor market weakens. Chair Powell described that the committee is in “wait and see mode”, reflecting the environment of elevated uncertainty amid policy changes since Trump took office;

- Regarding China, real GDP grew 5.0% in 2024, only slightly slower than the 5.2% in 2023, and a positive surprise as it achieved the center of Beijing’s annual growth target. Momentum increased in December, with retail sales rebounding after a weak November reading and industrial production remaining strong, boosted by solid exports growth. However, the outlook is challenging given that unbalances between supply and domestic demand persists - as signaled by the 7^{th} consecutive quarter of negative GDP deflator – and external demand is under pressure by the risks of another trade war with the US.

- In Brazil, monthly indicators of economic activity posted negative signs in November. Services and retail sales were below expectations, decreasing, respectively, 0.9% MoM and 1.8% MoM, while the industrial production fell 0.6% MoM, in line with expectations. The IBC-BR, in turn, still showed a slight increase of 0.1% MoM. Looking forward, the confidence surveys of all economic sectors contracted in January, anticipating some slowdown in economic growth ahead. Following lower-than-expected November data, we reduced marginally our forecast for GDP growth in 2024 from 3.6% to 3.5% and for the fourth quarter from 0.7% to 0.5% QoQ.

- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 100 bps to 13.25% p.a. at its January meeting. BCB inflation projections six trimesters ahead stand at 4.0% in the third quarter of 2026 in a scenario where rates peak at 15.0% through 2025 but decrease to 12.5% in 2026. The balance of risks for inflation remains asymmetric. The statement continues to anticipate another hike of the same magnitude in March but gave no explicit guidance for May. This flexibility will allow the Committee to reduce the tightening pace if the economy decelerates during the first quarter, as we expect. The statement reinforced that further adjustments are tied to the firm commitment to inflation convergence to the target;

- January IPCA-15 rose by 0.11% MoM, well above expectations of -0.02% MoM. The 12-month variation declined to 4.50% in January from 4.71% in December. The main upward deviation came from airfares. The Itaipu Bonus discounts on electricity fares (-15.5% MoM) explains the variation well below the seasonality. In turn, services surprised to the upside. Regarding the breakdown, core services advanced 0.96% MoM, with its 3M SAAR edging up to almost 8%. The surprise in services inflation was widespread, even inertial items (such as rents) showed an important acceleration in January. Labor intensive services, which is more related to monetary policy and closely monitored by the Central Bank, advanced to 7.5%. The average of core inflation 3M SAAR increased from 5.1% to 5.5%, also drifting away from the target of 3%. After January IPCA-15 result, we increased our forecast for 2025 to 5.9%. For 2026 we forecast 4.5%, as the lagging effects of monetary policy on inflation will tend to become more visible thought the next year;

- In the fiscal scenario, the Central Government met the primary target in 2024, reaching a deficit of R$43bn (-0.4% of GDP). Excluding R$32bn in expenses which are not accounted for in the target (most of which were spent on dealing with the floods in Rio Grande do Sul), the primary deficit for the year totaled R$11bn. In 2024, net revenue grew 8.9% thanks to economic growth, inflation and pro-revenue measures approved in 2023. In turn, total spending inched down 0.7% thanks to the anticipation of around BRL 40 billion of expenditures from 2024 to 2023. Excluding this effect, we would have an increase of about 4.0% in total expenditure. General government gross debt reached 76.1% of GDP, a growth of 2.2 p.p. over 2024, mainly driven by nominal interest (7.5 p.p.).

China: 2024 GDP

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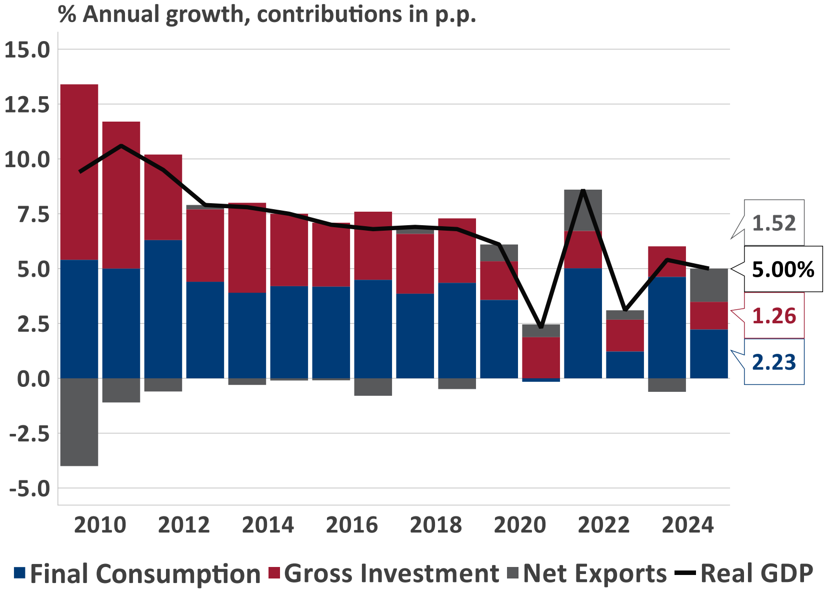
- China's real GDP grew **5.0%** in 2024, only slightly below the 5.2% growth in 2023, but achieving the annual growth target of "around 5.0%";
  - On a quarterly basis, GDP sharply accelerated above expectations in Q4 to **5.4%** YoY (vs exp. 5.0%) from 4.6% in Q3;
  - Nominal GDP growth was below real growth for another quarter (4.6% YoY in Q4, up from 4.0% YoY in Q3), marking the 7th consecutive quarter of negative GDP deflator, reflecting the detachment between production and domestic demand;

- This unbalance is also highlighted on the composition of real GDP, in which final consumption contributed to just 44% of growth last year (down from 89% in 2023), as indicators for household consumption slowed;

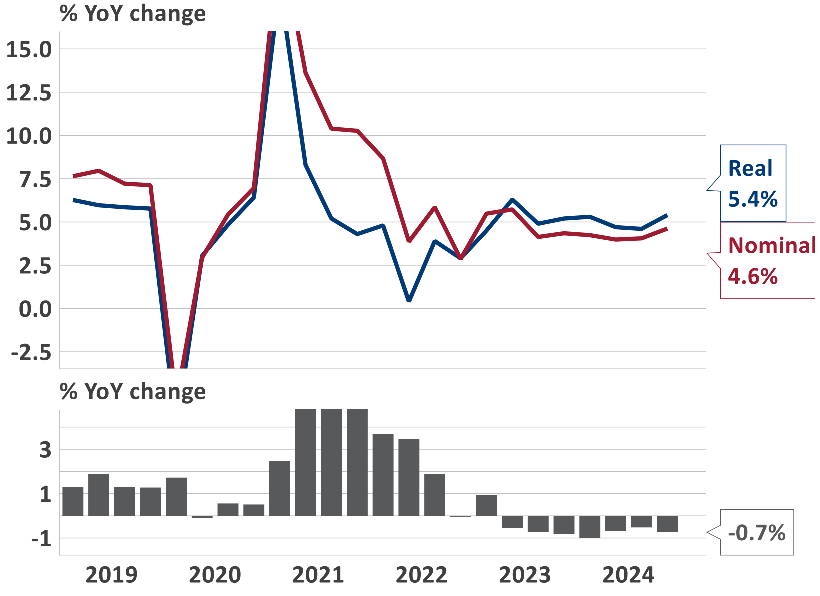
- On the upside, its slowdown was almost fully compensated by an increase in net exports contribution, as the trade balance reached an all time high;

China: Contributions to Real GDP



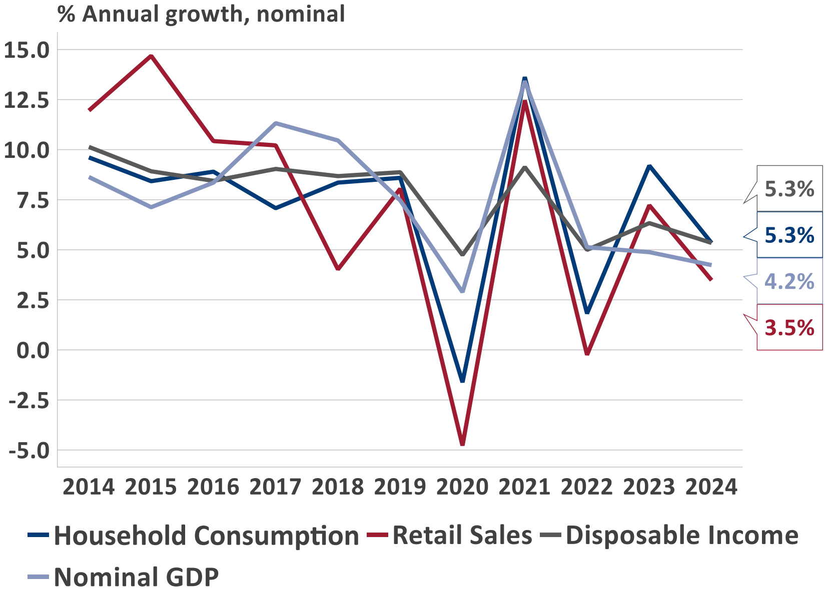
Source: BOCOM BBM, Macrobond, NBS

China: Quarterly GDP (Real x Nominal)



Source: BOCOM BBM, Macrobond, NBS

China: Consumption Indicators x Income x Nominal GDP



Source: BOCOM BBM, Macrobond, NBS

China: Economic Activity

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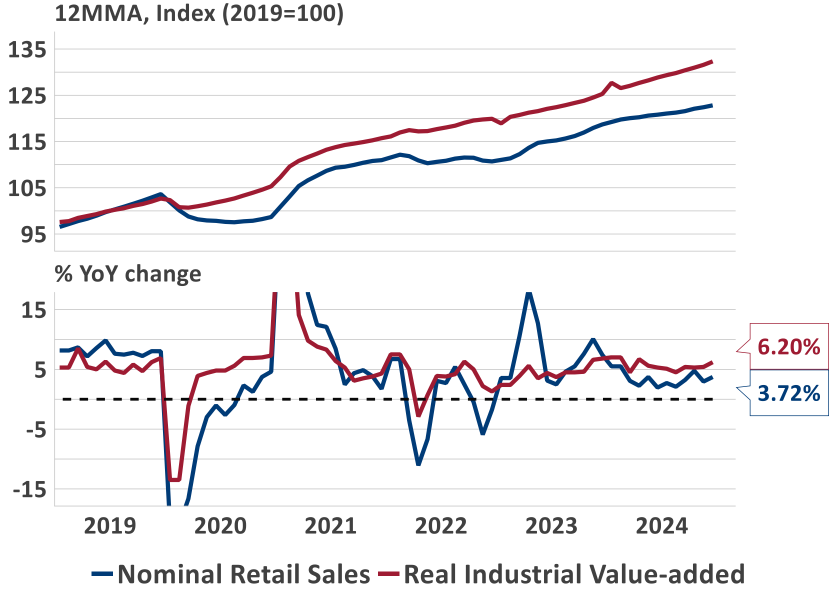
- **Growth momentum increased in December,** with retail sales rebounding after a weak November reading and IP rising considerably;
- **Retail sales rebounded** from 3.0% to 3.7% YoY (exp. 3.6%), still supported by the consumer goods trade-in programs (home appliances back to 39% YoY);
- **Industrial prod. improved** from 5.4% to 6.2% YoY (exp 5.4%): this improvement was concentrated in the manufacturing sector, following strong export growth boosted by the front-loading of exports to the US ahead of Trump's anticipated tariffs;
- **FAI slowed** to 3.2% YTD YoY (exp. 3.5%), above the 3.0% growth in the same period of 2023, still heavily tilted towards manufacturing and infrastructure;
- On a 12 months accumulated perspective, **housing sales began to stabilize** near 814M square meters by end-2024, the lowest level since 2008, but a positive sign that the decline for housing demand could be bottoming out.

China: Activity (% YoY)

	12/2024	11/2024	12/2023
Industrial Production	6.20	5.40	6.80
Mining	2.40	4.20	4.70
Manufacturing	7.40	6.00	7.10
Utilities	1.10	1.60	7.30
Fixed Asset Investment (YTD)	3.20	3.30	3.00
Manufacturing	9.20	9.30	6.50
Real Estate	-10.60	-10.40	-9.60
Infrastructure	4.40	4.20	5.90
Retail Sales	3.72	2.96	7.42
Catering Services	2.70	4.00	30.00
Consumer Goods	3.90	2.80	4.80
Clothing	-0.30	-4.50	26.00
Automobiles	0.50	6.60	4.00
Furniture	8.80	10.50	2.30
Cellphones	14.00	-7.70	11.00
Home Appliances	39.30	22.20	-0.10
Construction	0.80	2.90	-7.50

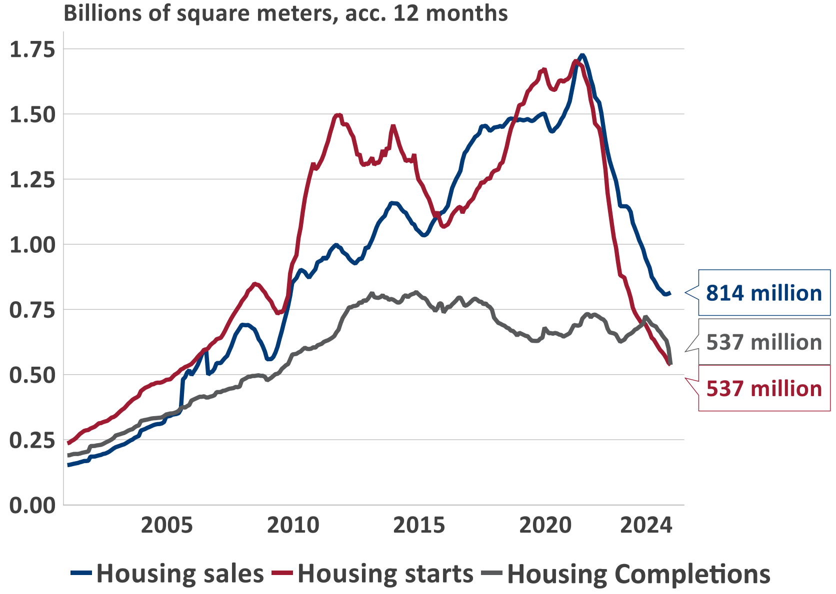
Source: BOCOM BBM, Macrobond

China: Industrial Production x Retail Sales



Source: BOCOM BBM, Macrobond, NBS

China: Housing Indicators



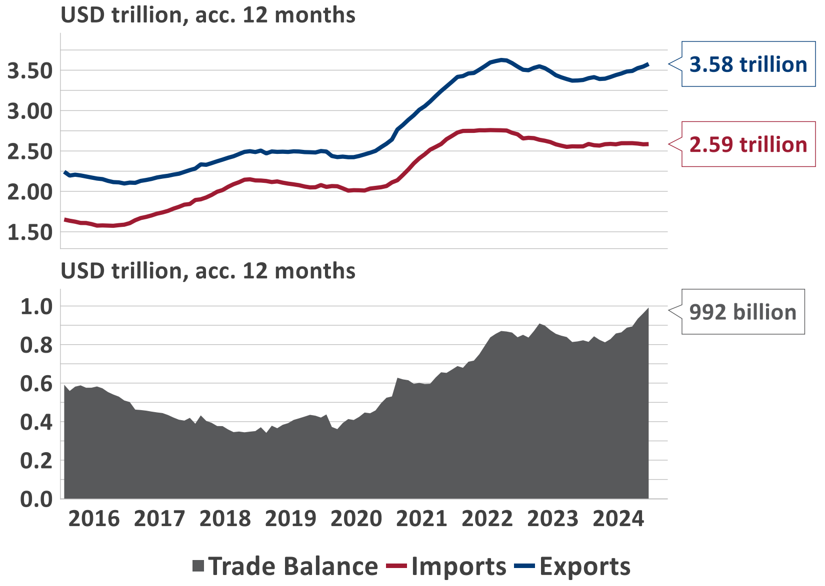
Source: BOCOM BBM, Macrobond, NBS

China: Economic Scenario

- **One of the main highlights in the Chinese economy in 2024 was exports**, which bolstered the strength in industrial production data:
  - Trade surplus reached an all-time-high in 2024 of USD 992bn;
  - In real terms, exports were even better growing by double digits rates throughout the year, more than offsetting the decline in prices which are making Chinese products more competitive worldwide;

- December **CPI** inflation decelerated from 0.2% to **0.1%** YoY, in line with expectations;
  - Core inflation inched up from 0.3% to **0.4%** YoY, still low and below historical pre-COVID level;
  - **General price trends for consumer goods and services remained soft**: soft figures on both services (0.5% YoY) and goods (-0.2% YoY), which declined for the first time since June, still suggests demand-supply imbalances, and possibly excess industry capacity in some sectors.

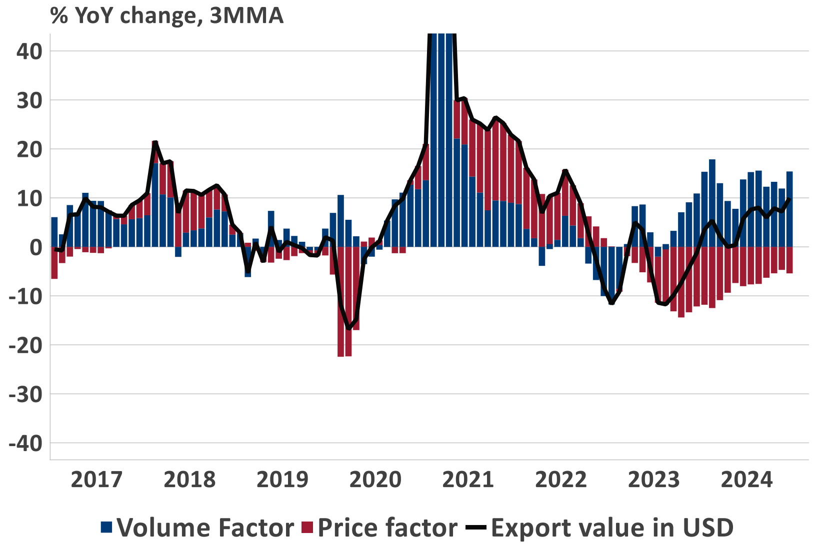
China: Trade Balance



Source: BOCOM BBM, Macrobond, CCS

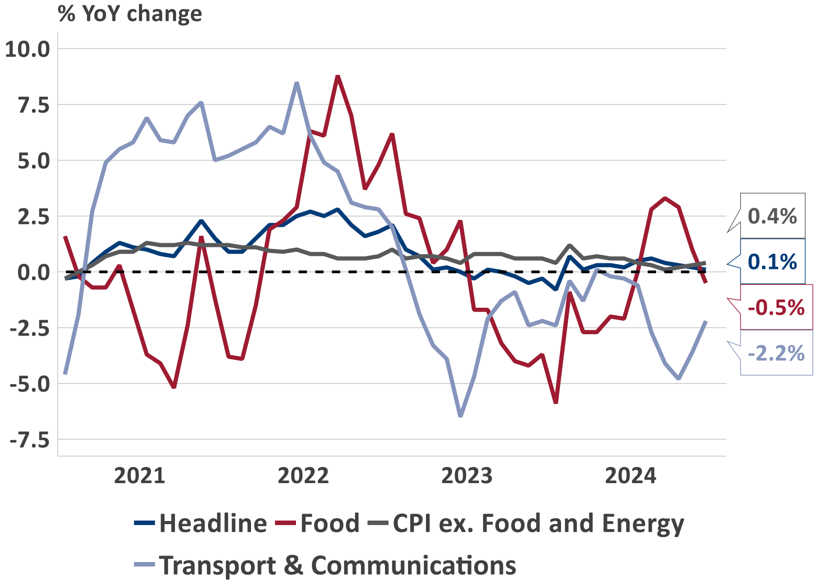
China: Exports (Price x Volume)

Last observation at Dec-24



Source: BOCOM BBM, Macrobond, GAC, CCS

China: CPI



Source: BOCOM BBM, Macrobond, NBS

USA: 2024 GDP

- **Real GDP ended 2024 with an annual growth of 2.8%,** way above the 1.5% initial expectation in the beginning of last year (but in line with end-year expectation);
  - **The main source of strength was consumer spending**, which grew by **2.8%**, reflecting an acceleration in both goods and services;
  - **Business investment slowed to 3.7%,** reflecting the effects from restrictive monetary policy, despite the strong support from government policies;

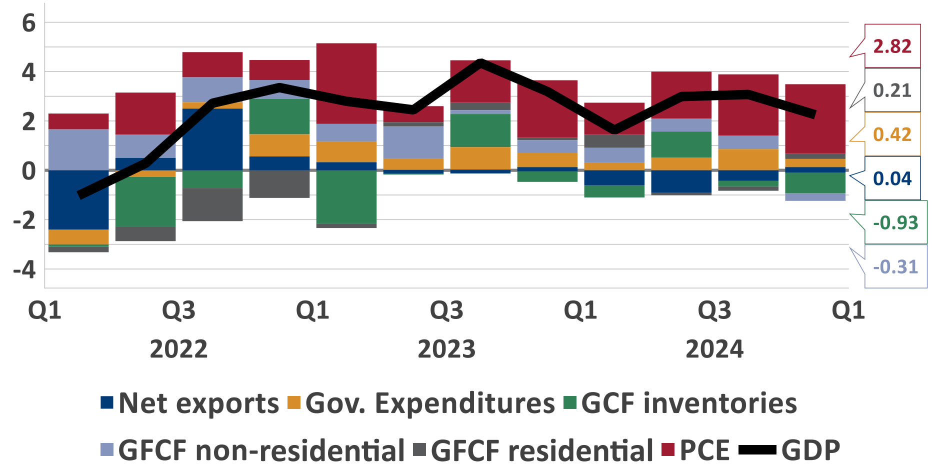
- **Private domestic final purchases (PDFP)**, a better indicator of underlying domestic demand, which excludes volatile items such as net exports, inventories and the government sector, accelerated to **3.0%.**

US: GDP Annual Growth

US GDP Growth (QoQ SAAR, %)	Weights (%)	2024	2023	2022	2021	2020	2019
Real GDP	100.00	**2.78**	2.89	2.51	6.06	-2.16	2.58
PDFP (C + I)	85.99	**2.98**	2.50	2.96	8.45	-2.41	2.27
Personal Consumption Expenditures	68.21	**2.77**	2.53	3.04	8.77	-2.53	2.15
Goods	21.41	2.40	1.86	-0.61	11.34	4.64	3.08
Durable Goods	7.52	3.28	3.90	-1.93	16.61	7.07	3.33
Non-durable Goods	13.89	1.94	0.79	0.12	8.57	3.41	2.95
Services	46.80	2.95	2.86	4.96	7.49	-5.77	1.72
Business Fixed Investment	13.74	**3.65**	6.00	6.96	6.03	-4.63	3.79
Structures	3.05	3.22	10.84	3.63	-2.63	-9.16	2.34
Equipment	5.11	3.42	3.46	4.36	6.69	-10.11	1.02
Intellectual Property Products	5.58	4.11	5.76	11.24	10.20	4.51	8.17
Residential Fixed Investment	4.04	**4.21**	-8.29	-8.55	10.89	7.67	-0.90
Inventories contrib. (pp)	0.03	**0.06**	-0.41	0.59	0.26	-0.48	0.08
Net exports contrib. (pp)	-3.18	**-0.39**	0.49	-0.42	-1.26	-0.24	-0.11
Exports	10.83	3.23	2.76	7.51	6.48	-13.13	0.53
Imports	14.00	5.38	-1.17	8.59	14.67	-8.98	1.18
Government Expenditures	17.16	**3.38**	3.87	-1.12	-0.28	3.37	3.91
Federal	6.47	2.52	2.94	-3.24	1.83	6.27	3.84
State & Local	10.69	3.89	4.42	0.18	-1.55	1.65	3.94
Nominal GDP		**5.26**	6.59	9.82	10.90	-0.86	4.28
GDP Deflator		2.42	2.57	6.50	6.20	1.65	1.45
PCE Deflator		**2.44**	2.80	6.02	5.83	1.19	1.40
Core PCE Deflator		**2.81**	3.23	5.20	4.88	1.44	1.56

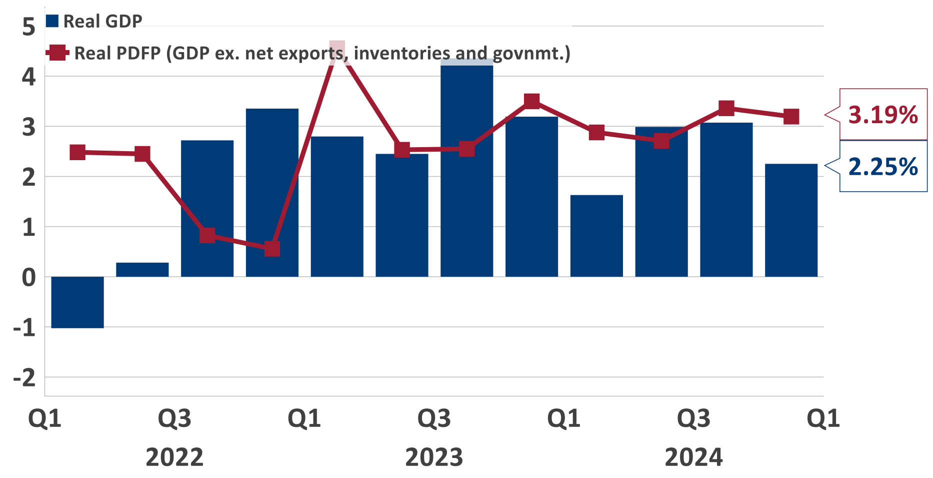
Source: BOCOM BBM, Macrobond, BEA

US: Contribution to GDP-growth (QoQ SAAR, %)



Source: BOCOM BBM, Macrobond, BEA

US: Private Domestic Final Purchases (QoQ SAAR)

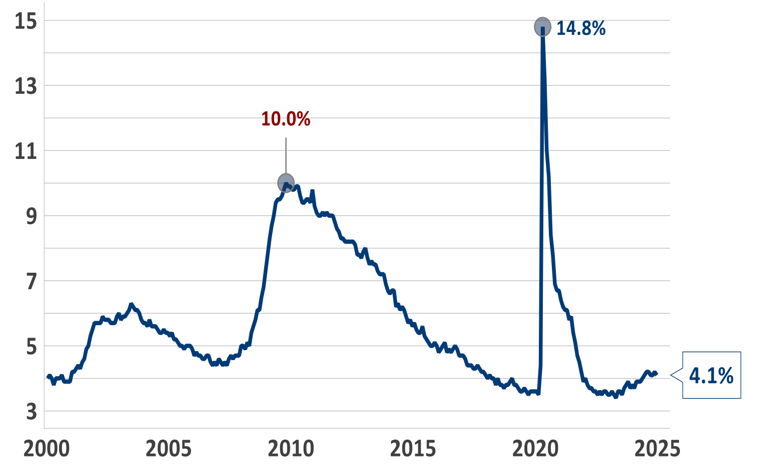


Source: BOCOM BBM, Macrobond, BEA

USA: Labor Market

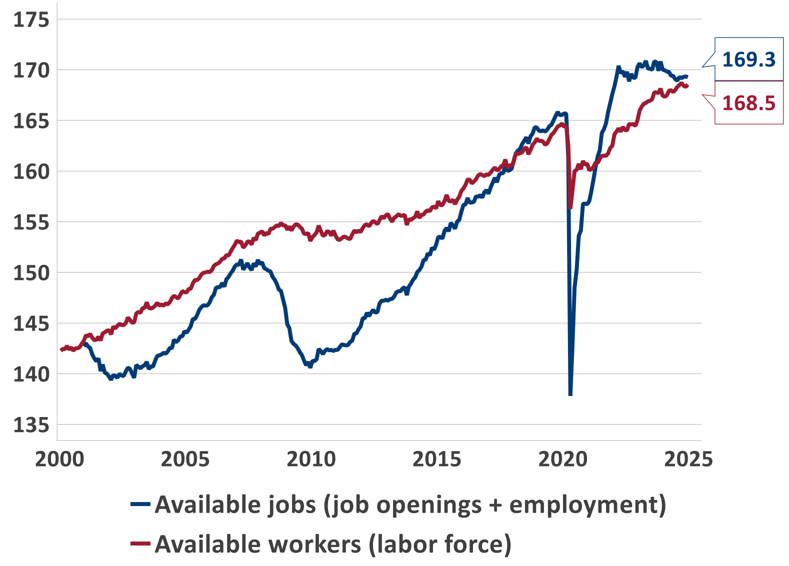
- **December labor market report came in strong, sustaining the strong pace from Nov. following the noisy Oct. reading, indicating a tighter labor market;**
  - December payroll showed a job gain of **256k**, above market expectations of 165k, with a two-month net revision of -8k in November (-15k) and October (+7k);
  - The unemployment declined from 4.25% to 4.08%, below expectations;
- In December, the **jobs-workers gap stood at 0.7M** and it has hovered between 0.5M-1M throughout 24H2, consistent with 2018/2019 → **tight, but not overheated labor market;**
- December avg. hourly earnings **decelerated slightly to 0.3% MoM,** in line with expectations of 0.3%;
  - The annual rate declined to **3.9%** from 4.0% YoY. Wage growth remains solid across a broad range of indicators, still supportive for household consumption, although with a very gradual deceleration when compared to early-2024 figures;

US: Unemployment Rate SA (%)



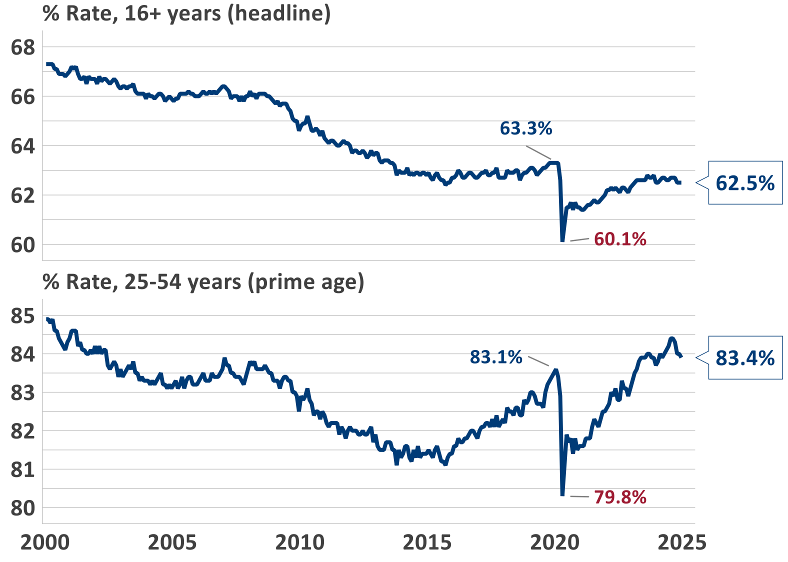
Source: BOCOM BBM, Macrobond, BLS

US: Jobs-workers gap (millions)



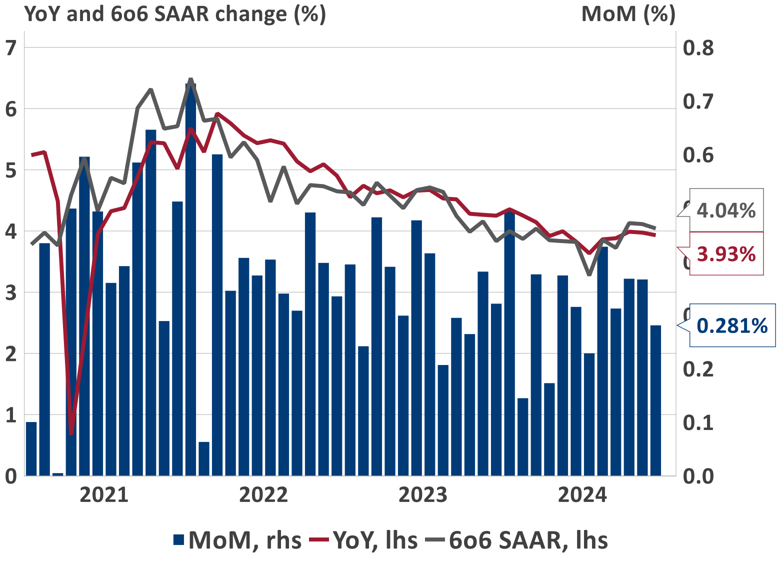
Source: BOCOM BBM, Macrobond, BLS

US: Labor Force Participation Rate (%)



Source: BOCOM BBM, Macrobond

US: Average Hourly Earnings Growth (%)

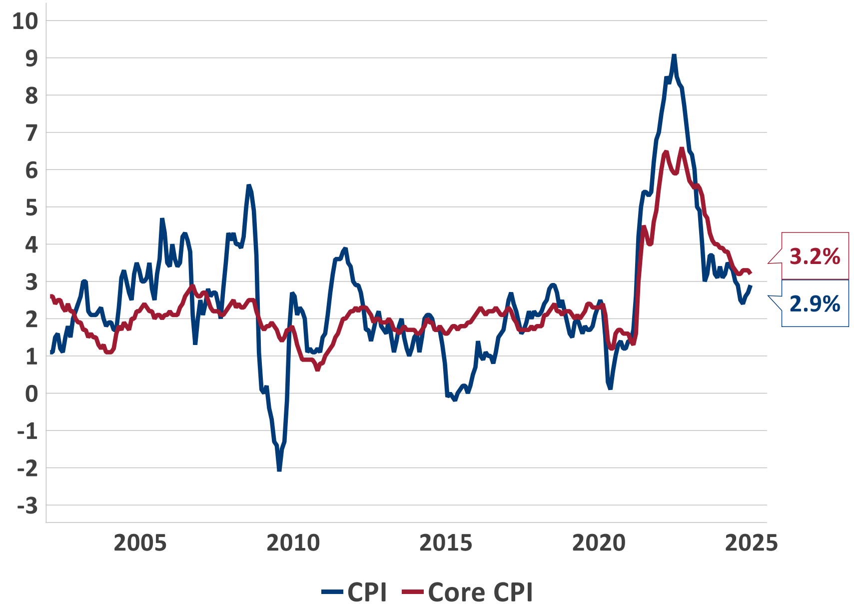


Source: BOCOM BBM, Macrobond

USA: Inflation

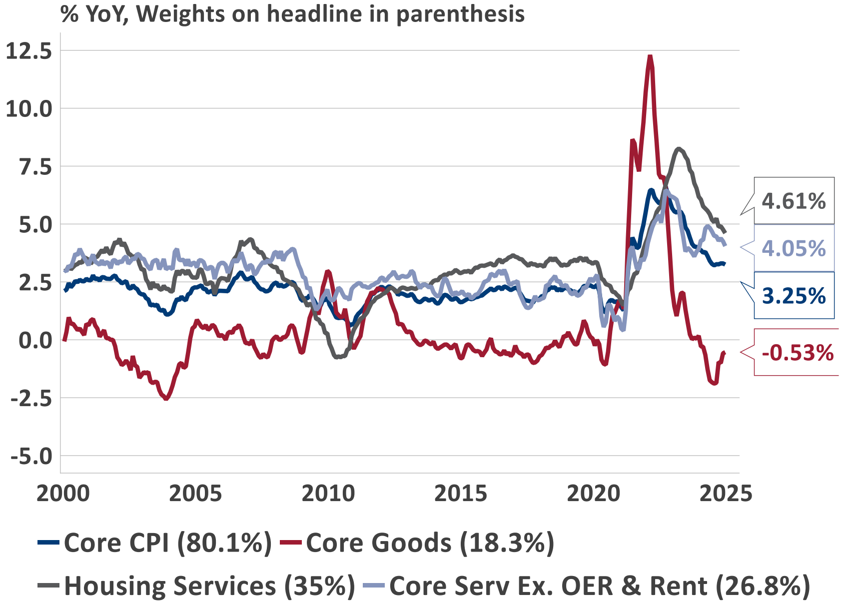
- December **headline CPI** rose **0.39% MoM** aligned with an expectations (0.4%), leading to an annual growth rate surge from 2.75% to **2.89% YoY:**
  - Both energy (2.63% MoM) and food (0.31% MoM) prices accelerated, with the first being influenced by seasonal factors;
- **Core CPI** rose **0.22% MoM** (exp. 0.3%) and the annual growth rate went down from 3.3% to **3.2% YoY;**
  - Core goods (0.05% MoM): below expectations, mainly due to a surprise in ex-cars components, although vehicles prices remained firm;
  - Housing services slightly rebounded from the weak November reading, although still in line with expectations and one of the lowest prints of 2024 (OER: 0.31% MoM vs exp. 0.32% and Nov. 0.23%);
  - Core Serv. Ex-Housing (0.21% MoM): slightly below the expected (exp. 0.25%), despite the big upside surprise in airfares – the reversal of November's increase in labor intensive services and lodging away from home were the main drivers of this slowdown;
- All in all, US **inflation remained somewhat elevated, with little progress in 2024** – the outlook for 2025 remains uncertain following upside risks from changes in trade, immigration and fiscal policies;

US: CPI (YoY, %)



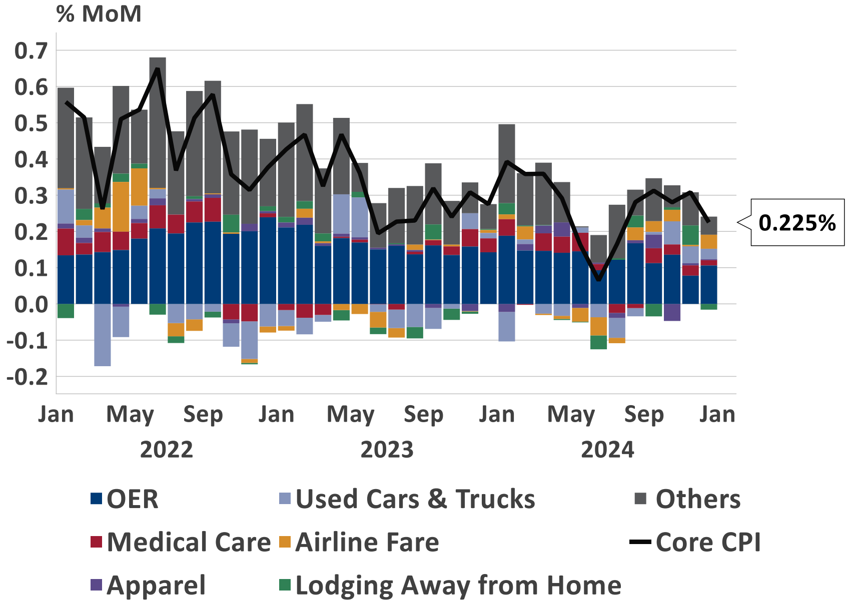
Source: BOCOM BBM, Macrobond, BLS

US: Core CPI Main Components (%)



Source: BOCOM BBM, Macrobond, BLS

US: Core CPI MoM Contributions

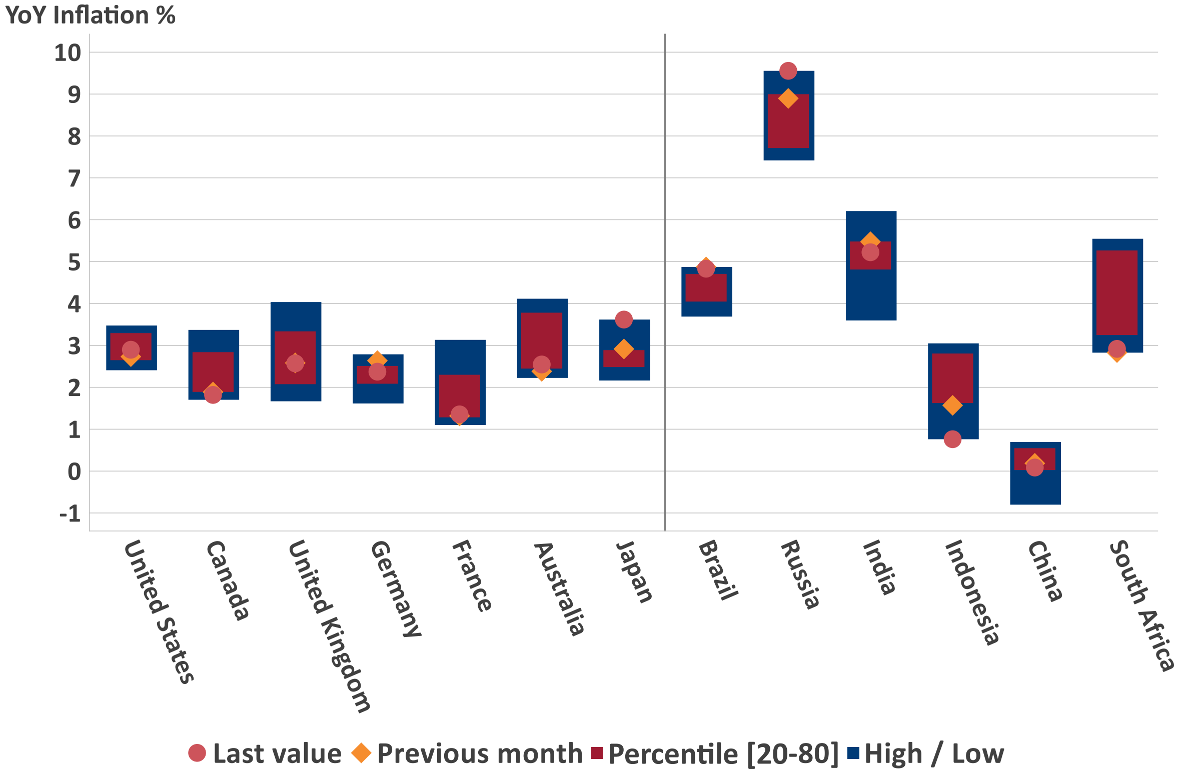


Source: BOCOM BBM, Macrobond, BLS

Global: Inflation & Activity

- Progress in inflation numbers are being seen in several developed markets, however, it seems to have stalled in some (like the US) and is heterogenous among emerging markets;
- Many central banks tightened sharply their monetary policy in previous years resulting in a slowdown of economic activity across several countries, although global growth continued surprising up and remained resilient in 2024;
- Prospects for easing policy are improving expectations this year, as we should see another year of solid global growth in 2025.

Inflation range during the past 12 months



Source: BOCOM BBM, Macrobond

G20: GDP Growth Tracker (QoQ, %)

Countries marked in red indicates a technical recession:
2 consecutive quarters of negative sequential growth

	Q4 2024	Q3 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Argentina		3.9	-1.7	-2.1	-1.9	1.8	-2.8	1.5
Australia		0.3	0.2	0.2	0.2	0.5	0.3	0.5
Brazil		0.9	1.4	1.1	0.2	0.2	0.8	1.4
Canada		0.3	0.5	0.5	0.2	-0.1	0.2	1.0
China	1.6	1.3	0.9	1.5	0.9	1.5	1.2	1.7
Euro Area	0.0	0.4	0.2	0.3	0.0	0.0	0.1	0.5
France	-0.1	0.4	0.3	0.1	0.5	0.2	0.7	-0.1
Germany	-0.2	0.1	-0.3	0.2	-0.4	0.2	-0.2	0.1
India		1.1	-7.6	7.8	4.7	2.3	-6.7	8.6
Indonesia	0.5	1.5	3.8	-0.8	0.5	1.6	3.9	-0.9
Italy	0.0	0.0	0.2	0.4	-0.1	0.2	-0.2	0.4
Japan		0.3	0.5	-0.6	0.2	-1.0	0.5	1.2
Mexico	-0.6	1.1	0.4	0.1	0.1	0.7	0.9	0.7
Russia		0.7	0.5	1.1	1.0	1.3	1.6	0.9
Saudi Arabia	7.3	2.3	-2.3	-2.6	5.7	-0.8	-3.7	-5.2
South Africa		-0.3	0.3	0.0	0.3	-0.4	0.7	0.6
South Korea	0.1	0.1	-0.2	1.3	0.5	0.8	0.6	0.4
Turkey		12.7	5.0	-15.0	1.5	13.0	8.0	-15.5
United Kingdom		0.0	0.4	0.7	-0.3	-0.1	0.0	0.1
United States	0.6	0.8	0.7	0.4	0.8	1.1	0.6	0.7

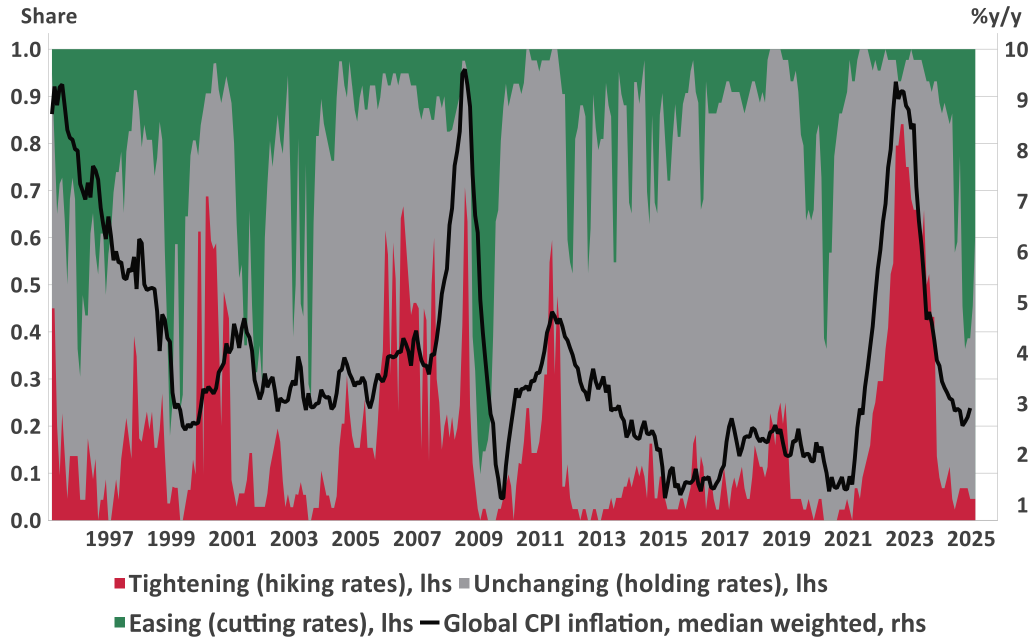
Sources: BOCOM BBM, Macrobond, National Sources

Global: Monetary Policy

- Several emerging markets are on the process of easing monetary policy, such as Colombia, Chile and Mexico;
- Developed markets central banks took a little longer, but several also began cutting rates in 2024;
- In its January meeting, the FOMC decided to maintain the Fed funds rate at the range of 4.25-4.50%.
- Fed Chair, Powell, made clear that they are in no rush to resume cuts, as they wait for progress in inflation to resume and see the exact policies to be enacted by the new government administration;

Global monetary breadth

Share of economies (GDP top 50) with higher/unchanged/lower policy rates; monthly/mtd avg, 5-Feb-25



Source: BOCOM BBM, Macrobond, World Bank

Central bank tracker: G20 & OECD Countries

	CPI Y/Y %	Core CPI Y/Y %	Key rate	Last decision		Last Move	Months since last hike	Months since last cut
Argentina	117.8	105.5	29.00	-3.00	Cut	1/2025	16	0
Australia	2.4	2.7	4.35	0.25	Hike	11/2023	15	51
Brazil	4.8	4.5	13.25	1.00	Hike	1/2025	0	9
Canada	1.8	1.8	3.00	-0.25	Cut	1/2025	19	0
Chile	4.5	4.0	5.00	-0.25	Cut	12/2024	28	2
China	0.1	0.4	3.10	-0.25	Cut	10/2024	132	4
Colombia	5.2	5.7	9.50	-0.25	Cut	12/2024	21	2
Costa Rica	0.8	1.0	4.00	-0.25	Cut	10/2024	27	4
Czech Republic	3.0	0.1	4.00	-0.25	Cut	11/2024	32	3
Denmark	1.9	1.5	2.50	-0.25	Cut	1/2025	17	0
Euro Area	2.5	2.7	2.90	-0.25	Cut	2/2025	17	0
Hungary	4.6	4.7	6.50	-0.25	Cut	9/2024	28	4
Iceland	4.7	4.7	8.00	-0.50	Cut	2/2025	18	0
India	5.2	3.6	6.50	0.25	Hike	2/2023	24	57
Indonesia	0.8	2.4	5.75	-0.25	Cut	1/2025	9	1
Israel	3.3	3.1	4.50	-0.25	Cut	1/2024	21	13
Japan	3.6	2.4	0.50	0.25	Hike	1/2025	0	108
Mexico	4.2	3.7	10.00	-0.25	Cut	12/2024	22	2
New Zealand	2.2	3.0	4.25	-0.50	Cut	11/2024	21	2
Norway	2.2	2.8	4.50	0.25	Hike	12/2023	14	57
Poland	4.8	4.0	5.75	-0.25	Cut	10/2023	29	16
Russia	9.6	8.9	21.00	2.00	Hike	10/2024	3	29
Saudi Arabia	1.9		5.00	-0.25	Cut	12/2024	18	2
South Africa	2.9	3.6	7.50	-0.25	Cut	1/2025	20	0
South Korea	2.2	1.9	3.00	-0.25	Cut	11/2024	25	2
Sweden	0.8	1.5	2.25	-0.25	Cut	2/2025	16	0
Switzerland	0.6	0.7	0.50	-0.50	Cut	12/2024	20	2
Turkey	42.1	42.6	45.00	-2.50	Cut	1/2025	11	0
United Kingdom	2.6	3.2	4.75	-0.25	Cut	11/2024	18	3
United States	2.9	3.2	4.50	-0.25	Cut	12/2024	18	2

Source: BOCOM BBM, Macrobond

Brazil: Forecasts

BANK OF COMMUNICATIONS BBM

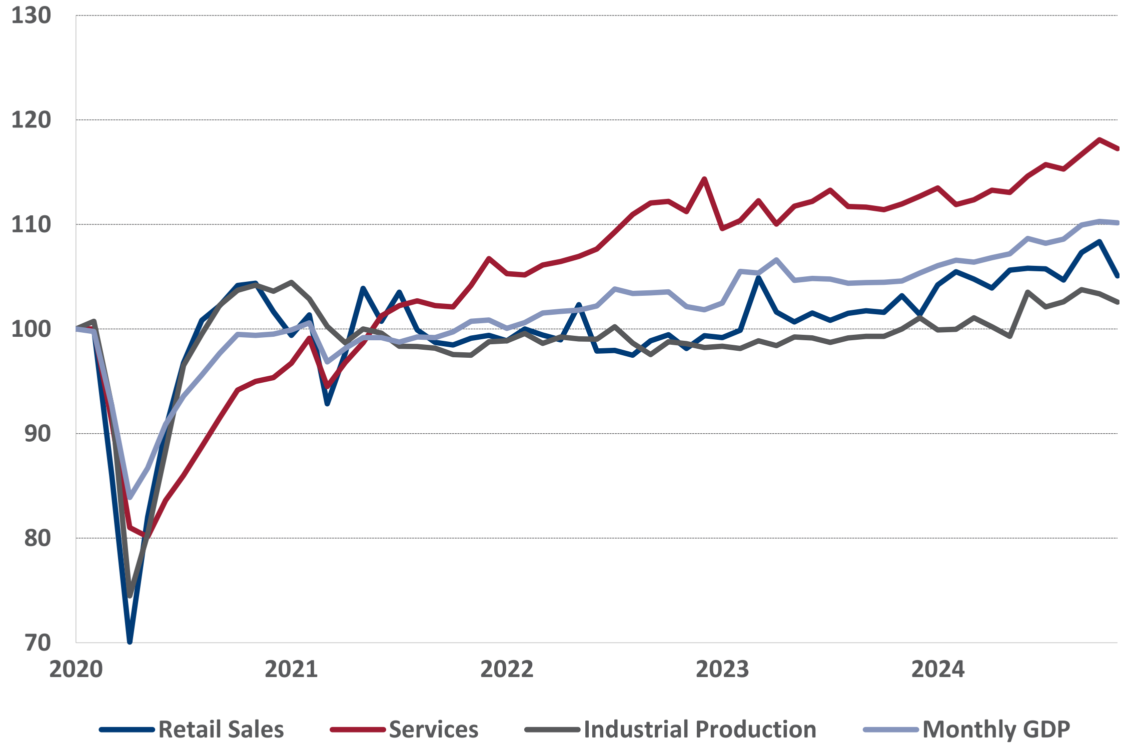
ECONOMIC FORECASTS	2020	2021	2022	2023	2024F	2025F	2026F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.5%	2.2%	1.3%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	5.9%	4.5%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	6.2%	6.8%	7.5%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	12.0%
External Accounts							
Trade Balance (US$ bn)	36	42	52	92	67	77	86
Current Account Balance (US$ bn)	-25	-40	-41	-25	-56	-49	-46
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.1%	-1.2%	-2.5%	-2.2%	-2.0%
Fiscal Policy							
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.7%	-0.8%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	82.2%	87.5%

Source: BOCOM BBM, IBGE

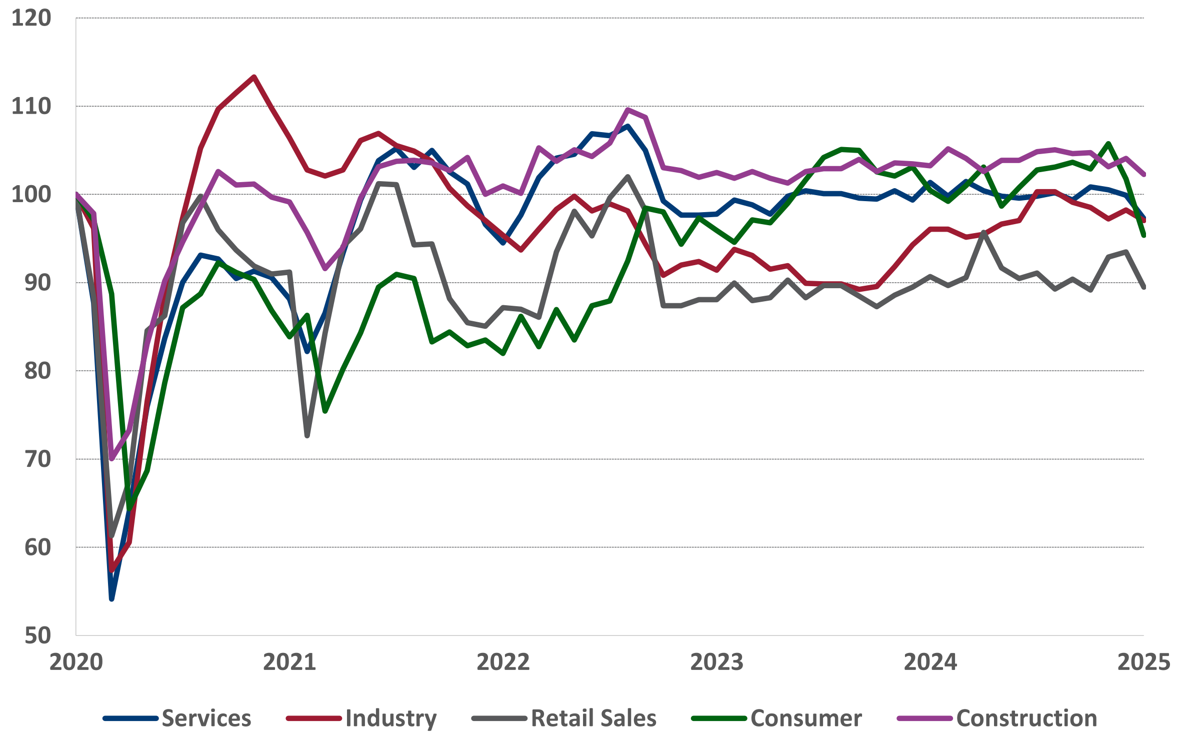
Brazil: Activity

- In November, monthly indicators of economic activity posted negative signs. Services and retail sales were below expectations, decreasing, respectively, 0.9% MoM and 1.8% MoM, while the industrial production fell 0.6% MoM, in line with expectations. The IBC-BR, in turn, still showed a slight increase of 0.1% MoM;
- Looking forward, the confidence surveys of all economic sectors contracted in January, anticipating some slowdown in economic growth ahead.

Brazil - Economic Activity Indicators (Jan/20=100)



Brazil - Economic Confidence Index (Jan/20 = 100)

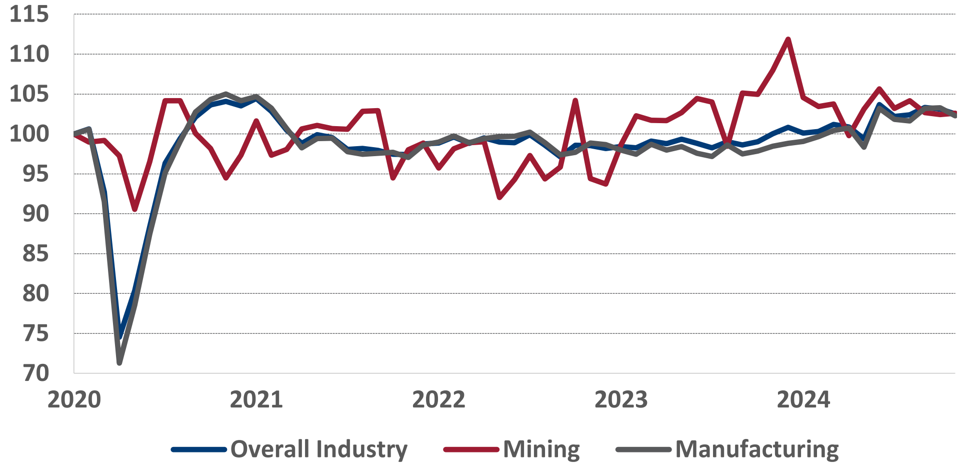


Source: BOCOM BBM, IBGE, FGV

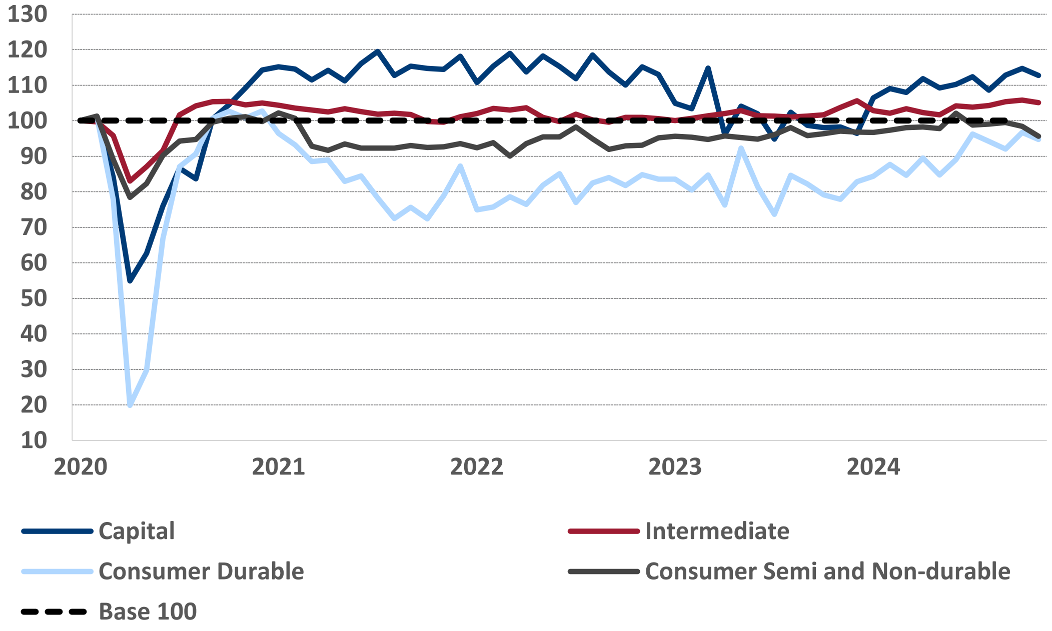
Brazil: Industrial Production

- Industrial output dropped by 0.6% MoM in November, in line with expectations, decreasing for the second month in a row
- The release had predominantly negative numbers, with all four economic categories and 19 out of the 25 industrial activities dropping in November from October;
- The negative highlights were durable goods (-2.1% MoM), semi and non-durable goods (-2.8% MoM) and capital goods (-1.7% MoM);
- Despite the setback in November, the indicator's performance remains strong on a yearly basis.

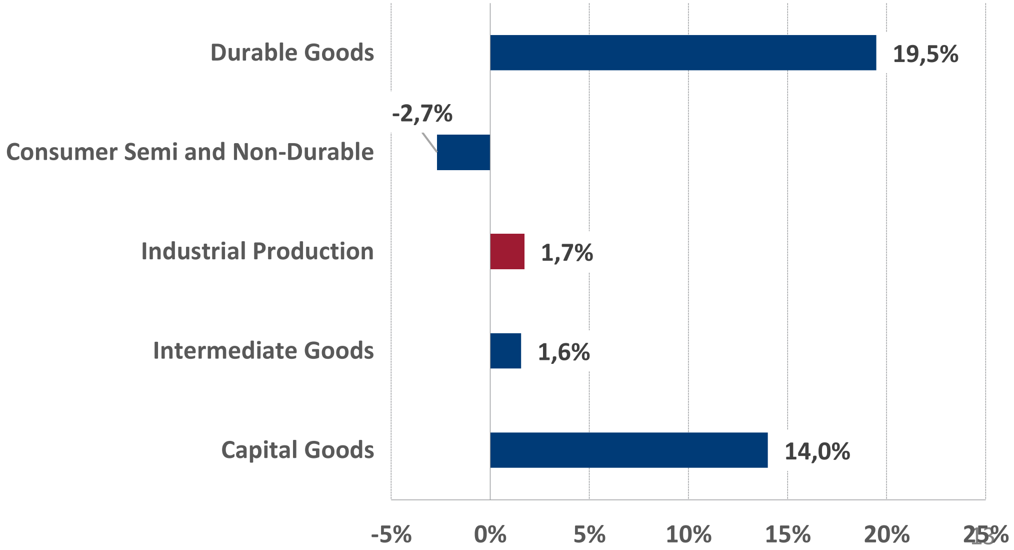
Industrial Production Index SA (Jan/20=100)



Industrial Production Index SA (Jan/20=100)



Industrial Production by Category - 11/2024 (YoY)

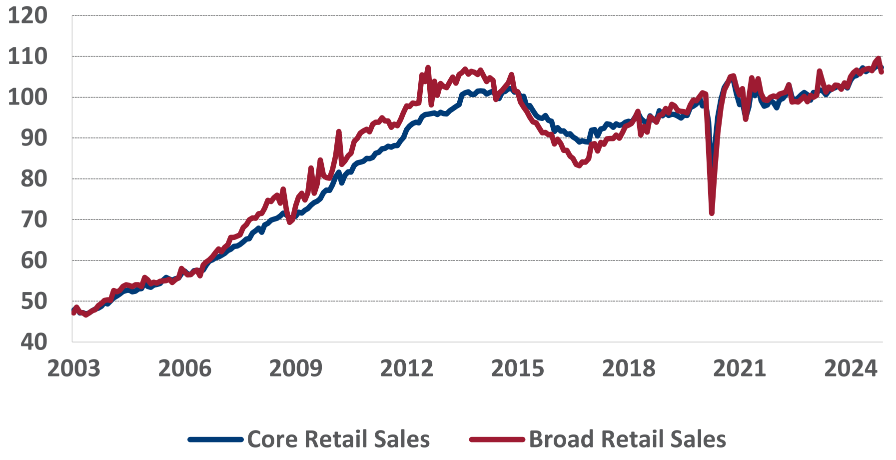


Source: IBGE, BOCOM BBM

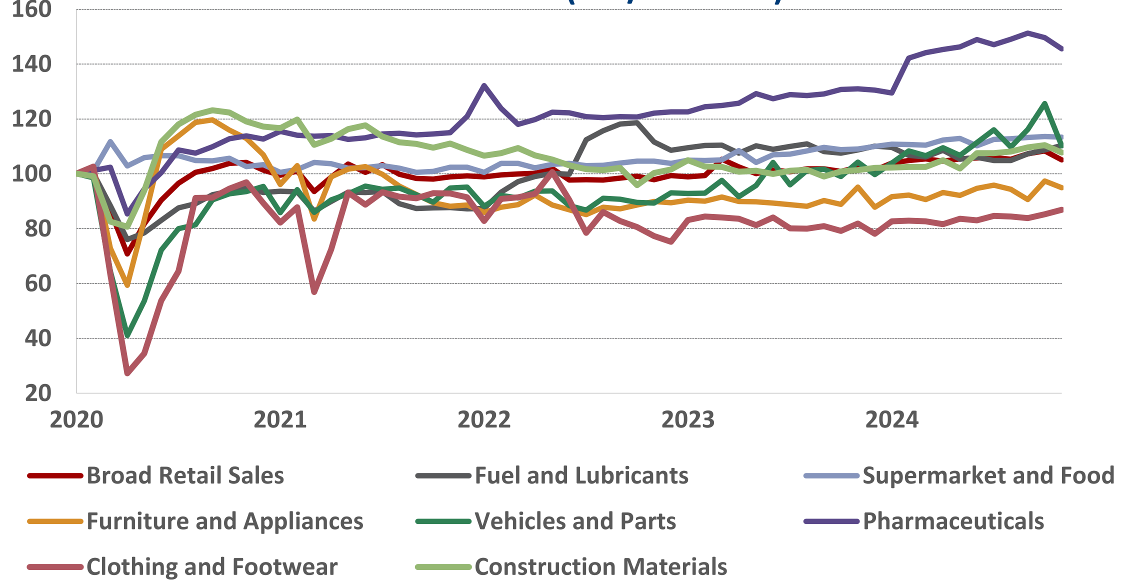
Brazil: Retail Sales

- Broad retail sales tumbled 1.8% MoM in November (+2.1% YoY), far below market expectations of -0.5% MoM (+4.7% YoY), offsetting the accumulated increase in the previous two months;
- It was primarily attributed to a decrease in vehicles and cash & carry activities, considering the positive performance observed in October;
- Core retail sales, in turn, came in line with projections, falling by 0.4% MoM (+4.7% YoY);
- On the one hand, there was a decline in furniture & household appliances (-2.8%) after a significant gain in the previous reading. On the brighter side, electronic products (3.5%) and clothing & footwear (1.4%) recorded the second advance in a row;
- In general, markets had already anticipated that November data would reflect some monthly corrections, keeping the expected behavior for the last quarter unchanged.

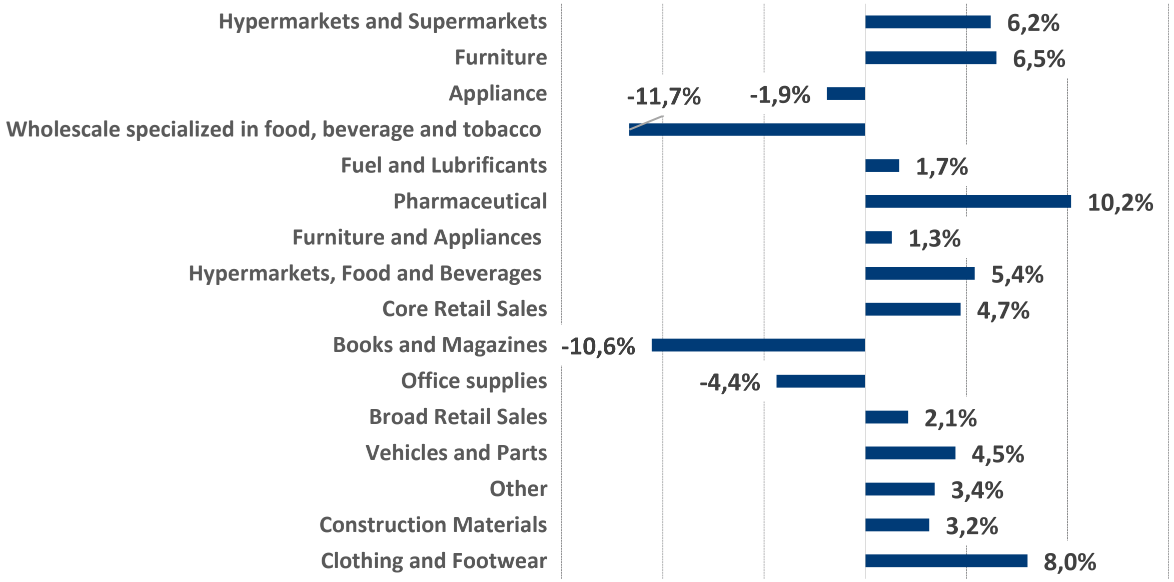
Broad Retail Sales SA x Core Retail Sales SA



Retail Sales - Index SA (Jan/20 = 100)



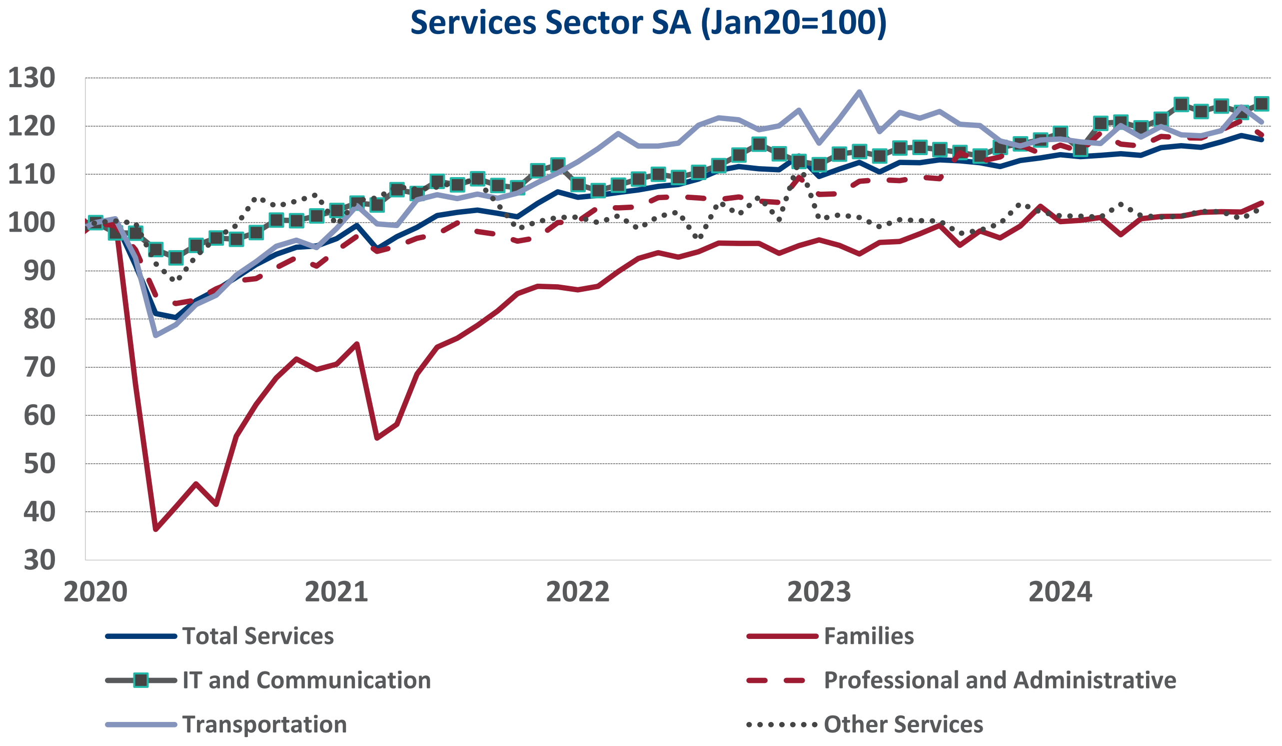
Retail Sales - YoY (11/2024)

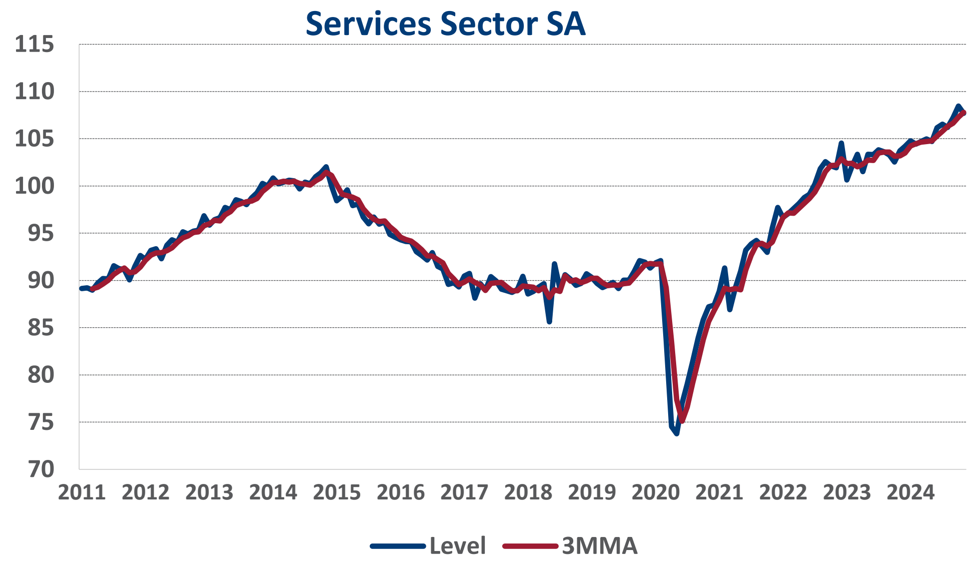


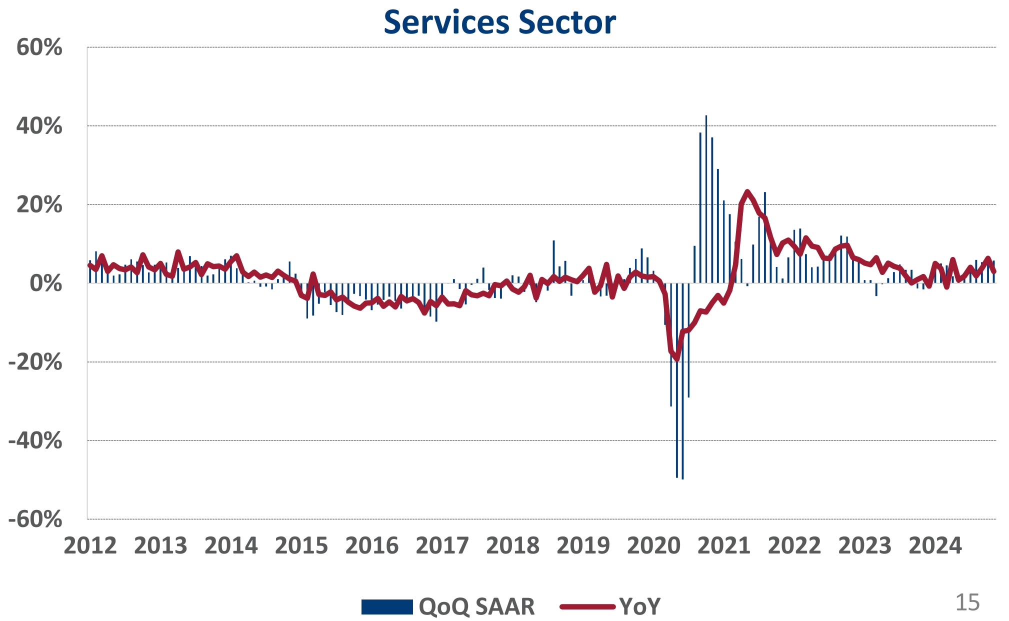
Source: IBGE, BOCOM BBM

Brazil: Services

- The services sector dropped by 0.9% MoM in November, below expectations (-0.5% MoM), with sectors more linked to corporate demand surprising to the downside and the ‘payback effect’ in air transportation services smoother than expected;
- The negative highlight was technical-professional services that tumbled 5.1% in November, more than offsetting the increase recorded in the previous reading. Besides, road freight transport remained on a downward trend;
- On the other hand, services more linked to household demand gained steam, with services rendered to families increasing by 1.7% MoM in November, mostly driven by food & accommodation services;
- In all, November’s figures partially offset the bullish surprise recorded one month ago.



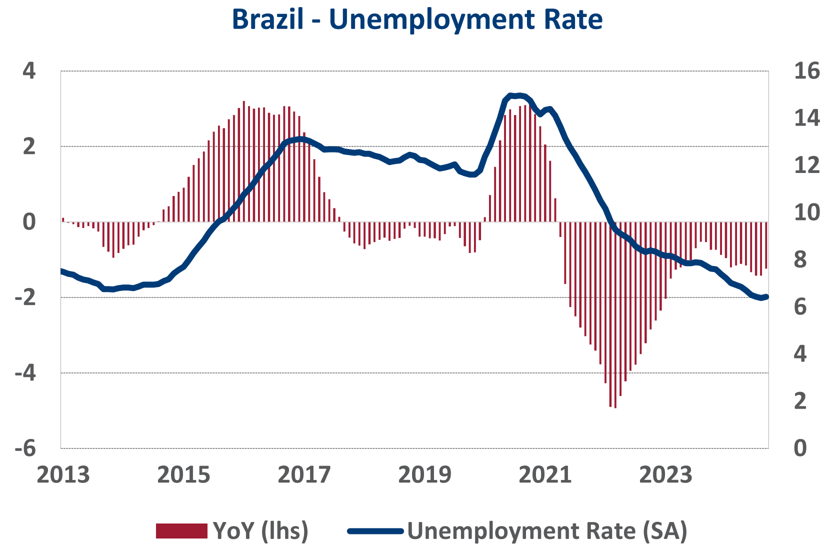


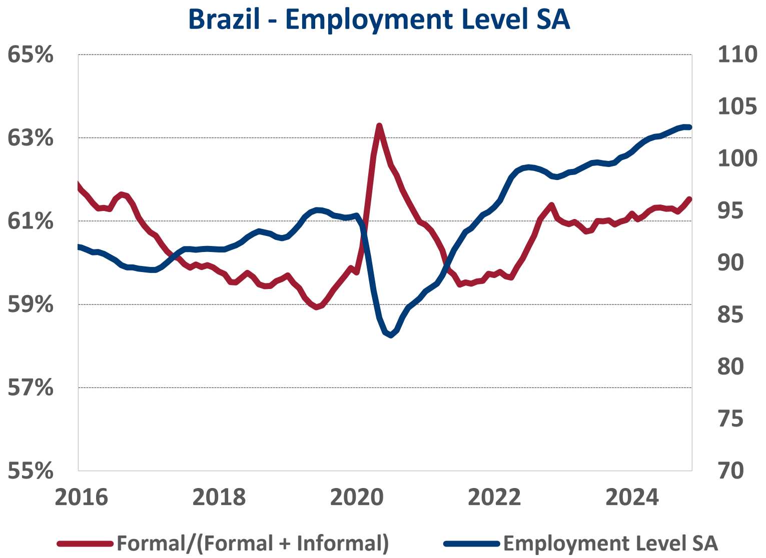


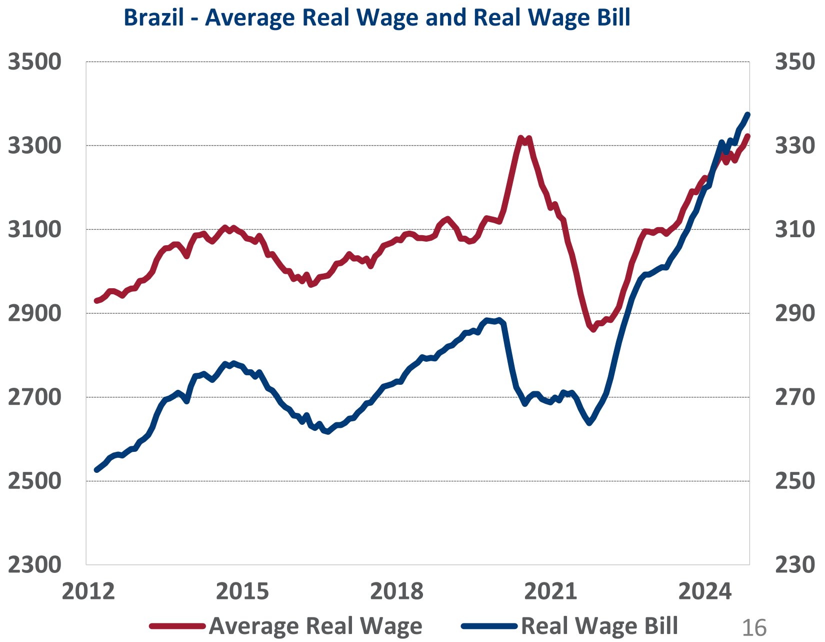
Source: IBGE, BOCOM BBM

Brazil: PNAD

- The unemployment rate increased to 6.2% in the moving quarter up to December, from 6.1% on the previous period;
- Seasonally adjusted, the indicator reached 6.42% in November, still a historically low level;
- Total employment (-0.02% MoM) and labor force (0.04% MoM) both had almost no variation;
- The labor force participation rate remained stable at 62.4% in November, still running considerably below pre-pandemic levels (around 63.5%);
- Real labor earnings increased 0.72% MoM, reflecting a tight labor market;
- In turn, real aggregated labor income increased 0.64% MoM and 7.4% YoY in December .



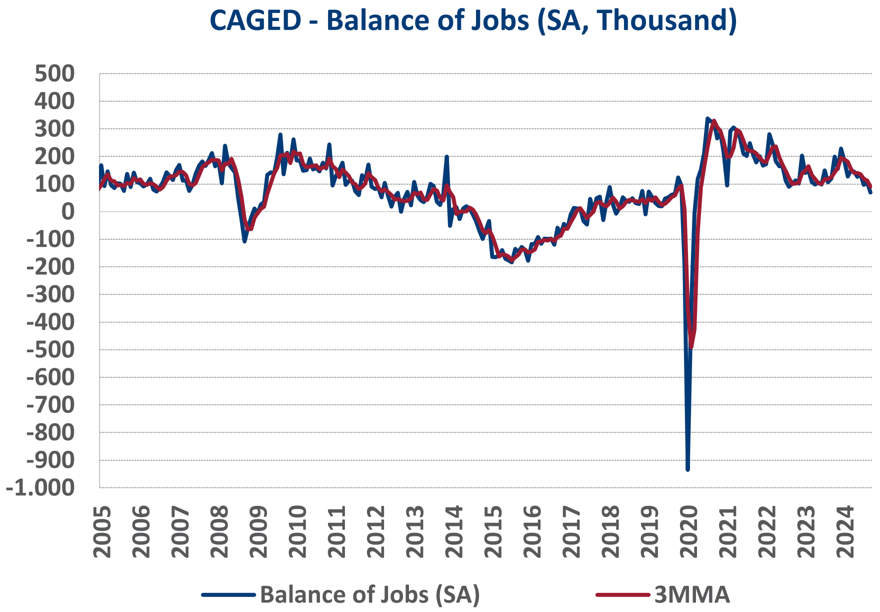


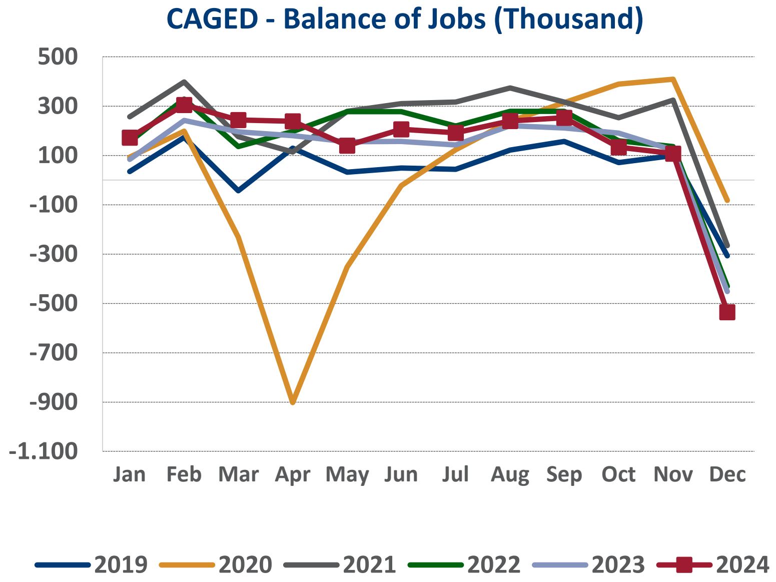


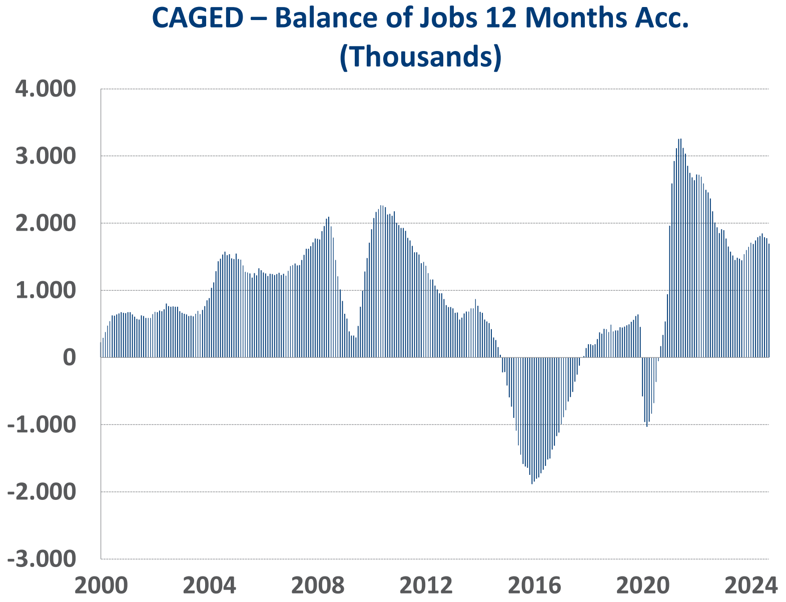
Source: IBGE, BOCOM BBM, MTE

Brazil: Formal Labor Market

- Caged registered a net destruction of 535.5k formal jobs in December, much lower than market expectations (-405.4k);
- There was a net creation of 1.694 million jobs in the 12-month rolling sum up to December, after 1.777 million jobs up to November;
- Formal job hiring tumbled 6.5% MoM, the second significant decline in a row;
- All in all, the data reinforces the scenario of a gradual slowdown in domestic activity and labor supply constraints.





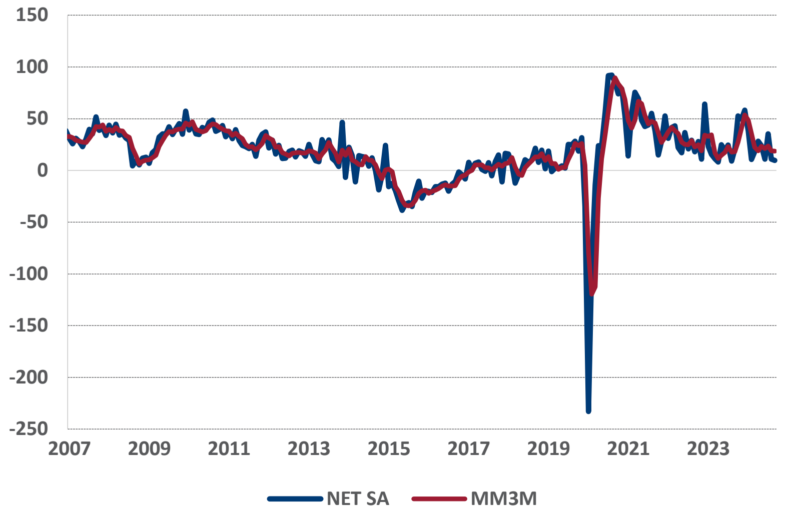


Source: BOCOM BBM, MTE

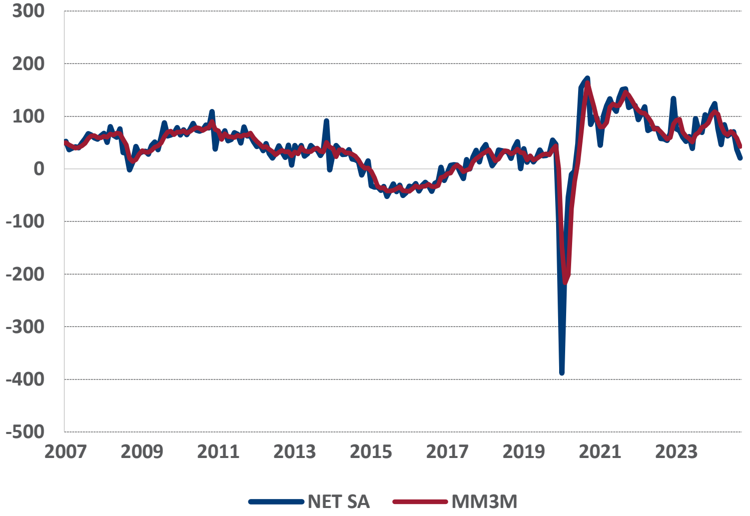
Brazil: Formal Labor Market

- The breakdown shows that all sectors weakened in December;
- The net addition of jobs in the Services sector totaled 21k, decelerating from the 30k recorded in November and the 55k seen in October;
- Retail sales, in turn, decreased from 21k to 11k in December;
- Manufacturing Industry (to 6k from 28k) also slowed down substantially in the monthly comparison;
- Besides, Construction (to -10k from 2k) and Agriculture & Livestock (to -5k from 6k) posted net destruction of jobs in the month.

Brazil - Retail Net Payroll Job Creation (SA)

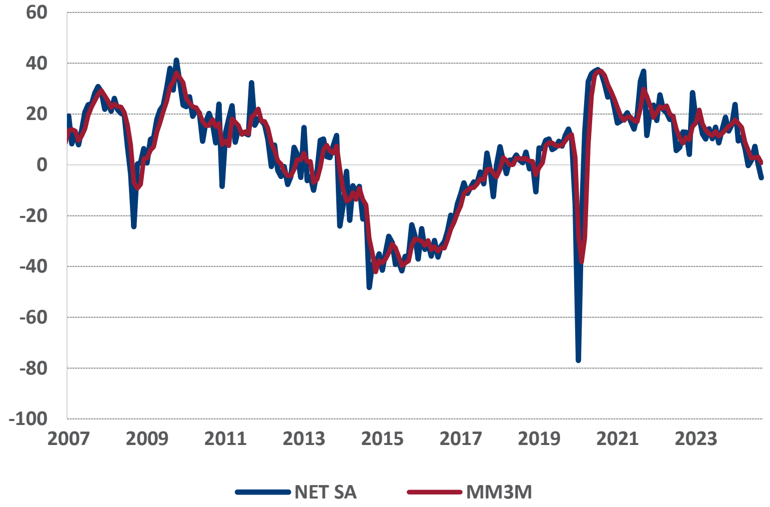


Brazil - Services Net Payroll Job Creation (SA)



Brazil - Industry Net Payroll Job Creation (SA)

Brazil - Construction Net Payroll Job Creation (SA)

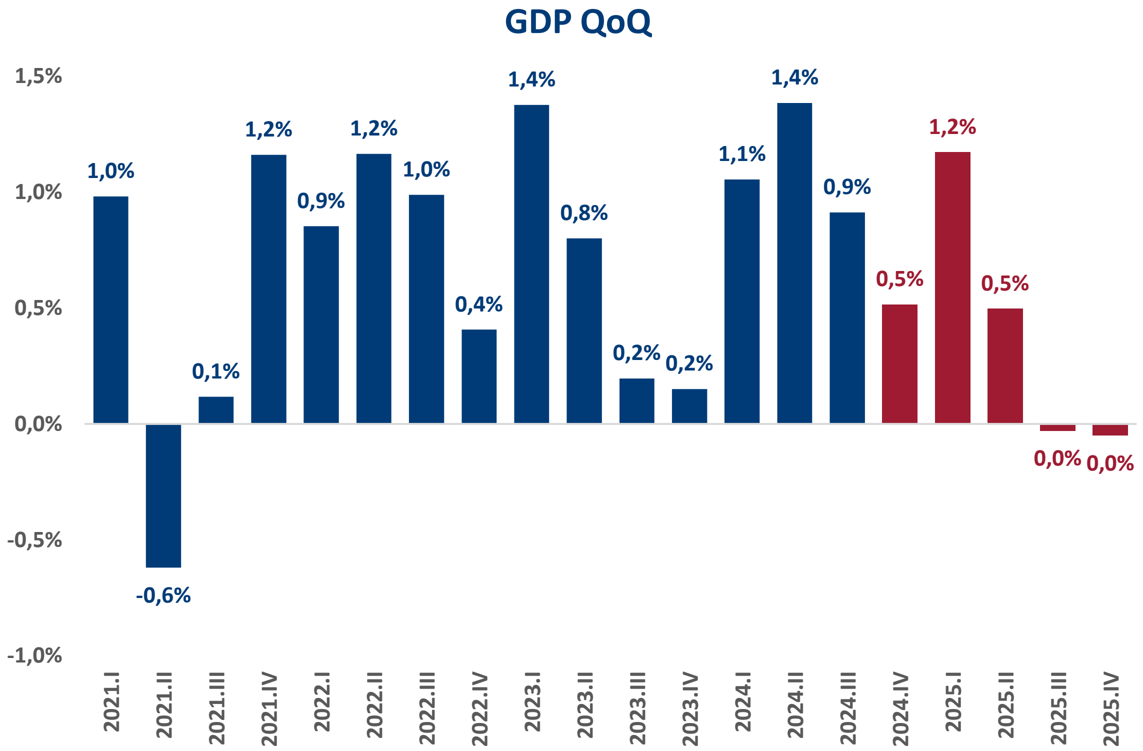


Source: BOCOM BBM, MTE

Brazil: GDP Forecast

- Following lower-than-expected November data, we reduced marginally our forecast for GDP growth in 2024 from 3.6% to 3.5% and for the fourth quarter from 0.7% to 0.5% QoQ;
- Economic activity began to show signs of losing momentum at the end of 2024 and confidence surveys indicate that this movement could intensify at the beginning of 2025;
- Growth in 2025 should remain at around 2%, thanks to the contribution of less cyclical sectors of the economy (such as agriculture and extractive industries);
- By 2026, the lagged effects of monetary policy should be more significant, reducing growth to a level close to 1%.

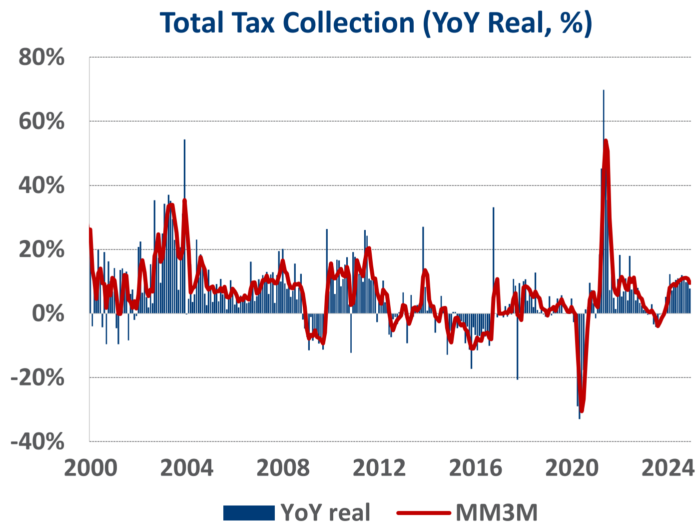
Forecast					
	2024.IV QoQ	2024.IV YoY	2024	2025	2026
GDP	**0.5%**	**4.1%**	**3.5%**	**2.2%**	**1.3%**
Agriculture	**-1.7%**	**-0.5%**	**-3.1%**	**6.0%**	**3.6%**
Industry	**0.3%**	**2.6%**	**3.3%**	**0.9%**	**1.2%**
Mining	0.7%	-3.6%	0.5%	5.0%	6.1%
Manufacturing	0.4%	4.8%	3.6%	-0.6%	-0.1%
Electricity	5.1%	2.5%	5.2%	2.9%	1.9%
Civil Construction	1.0%	3.7%	4.0%	0.9%	0.4%
Services	**0.7%**	**4.3%**	**3.9%**	**2.2%**	**1.2%**
Retail	0.4%	5.0%	3.9%	1.0%	0.2%
Transports	0.4%	4.1%	2.0%	1.5%	0.1%
Information and Communication	-0.1%	6.5%	6.3%	3.3%	2.0%
Financial Services	1.1%	4.9%	4.4%	5.2%	2.4%
Rents	1.0%	3.6%	3.6%	3.1%	2.9%
Other Services	0.7%	5.6%	5.6%	2.1%	0.7%
Public Administration	0.1%	1.9%	1.9%	1.2%	1.3%

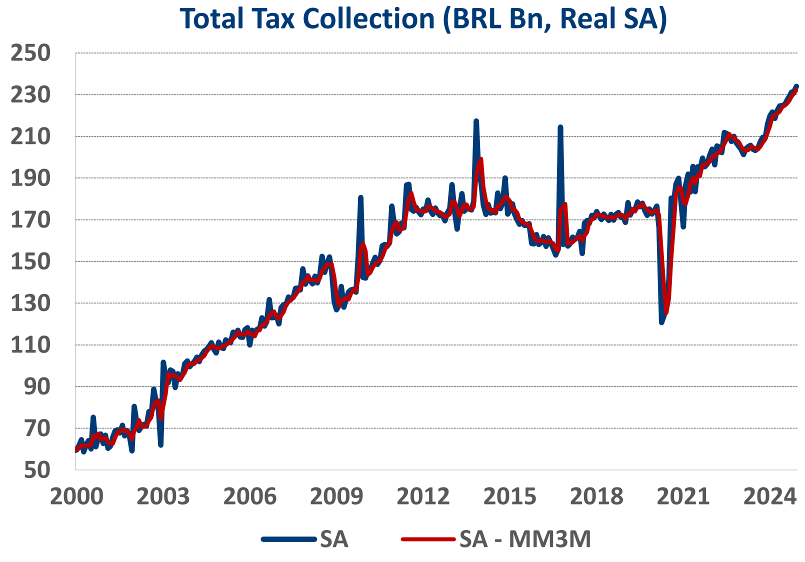


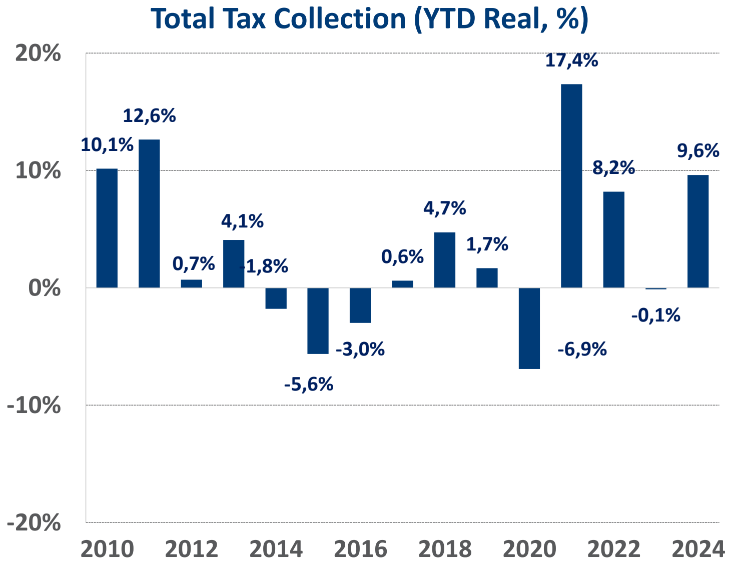
Source: BOCOM BBM, IBGE

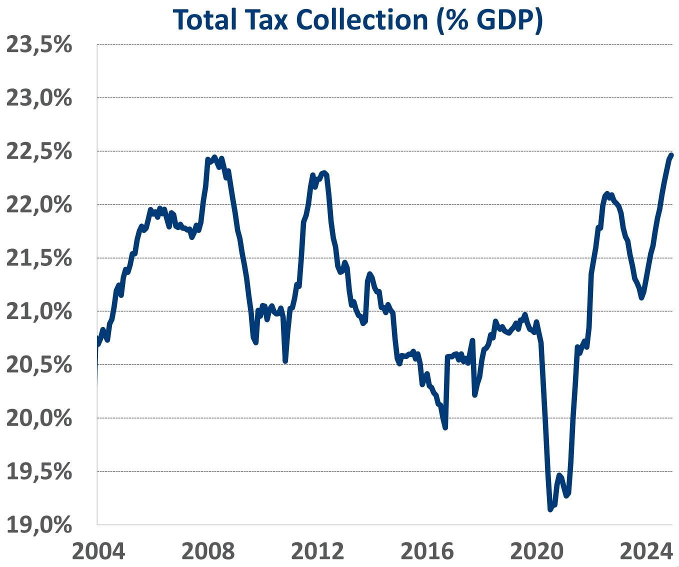
Brazil: Federal Tax Collections

- In December, total federal tax collections reached BRL 261.3 bn (7.8% YoY), representing the best performance for the month in the historical record;
- As for 2024, tax collection rose 9.6% to BRL 2,652.7 bn, reaching an all-time-high. The highlights of this result were PIS/Cofins (18.6%), social security revenue (5.2%), and import tax (37.2%). In turn, other revenue administered by RFB (-2.1%) frustrated mostly due to lower-than-expected revenue related to CARF;
- Overall, tax collection records for 2024 reflect the government's efforts to increase collection and the economic scenario that favored growth in the tax base. Additionally, the rise in prices seen last year caused a nominal rise in the entire tax base;
- As economic activity decelerate, tax collection is expected to grow more moderately, which will most likely require new measures to increase collection or cut spending to reach the primary result target in 2025.





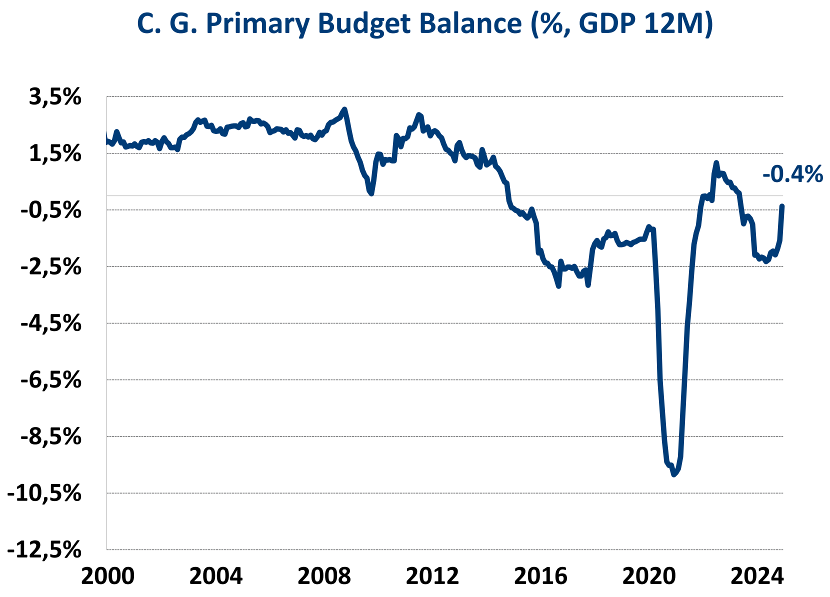


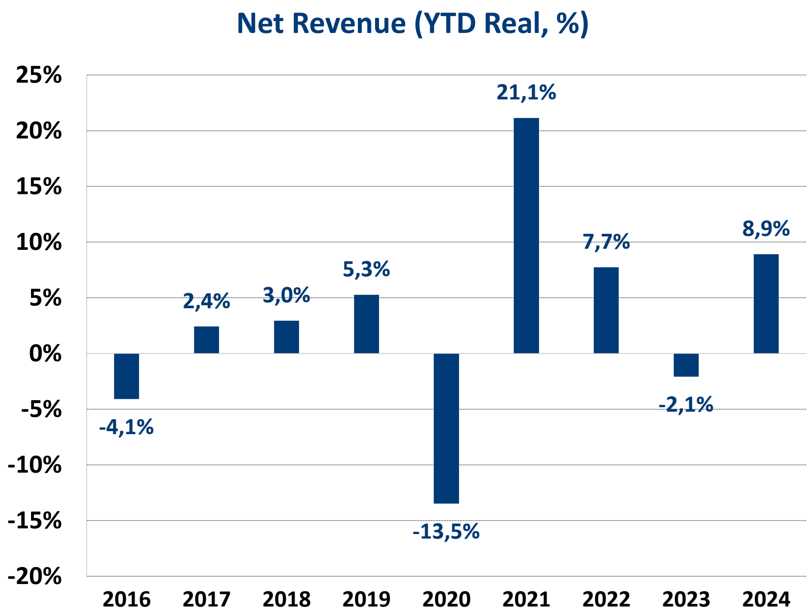


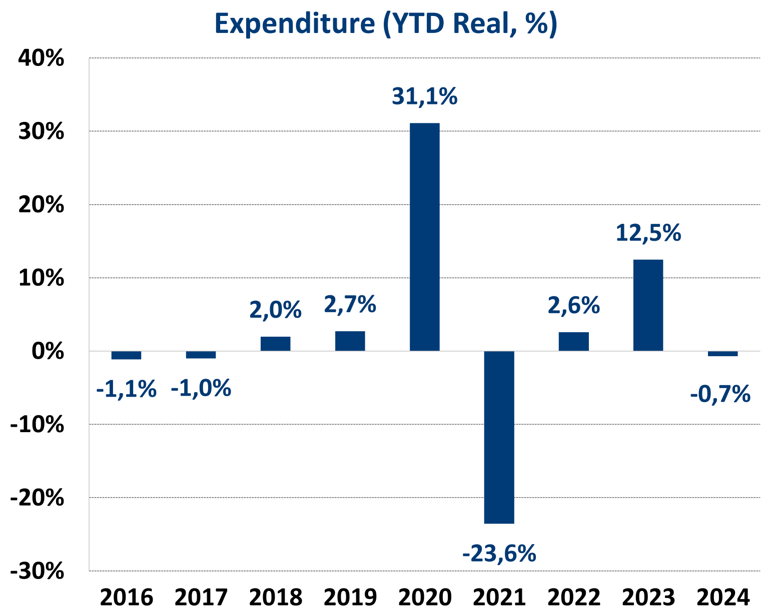
Source: BOCOM BBM, RFB

Brazil: Central Government Primary Result

- In December, the central government's primary balance posted a surplus of BRL 24 bn, above market expectations (BRL 20.5 bn). In 2024, the deficit reached BRL 43.0 billion (0.4% of GDP), much better than the BRL 228.5 bn (2.1% of GDP) billion in 2023;
- Net revenue surged 20.4% YoY in real terms, pushed by concessions and permissions, dividends, import tax, and IRPJ/CSLL;
  - In 2024, net revenue grew 8.9%
- Total spending fell 33.3% YoY in real terms, mainly explained by the payment of financial support to states and municipalities (BRL 8.0 bn) and court-ordered debts (BRL 94.2 billion) in the previous year without any correspondence in 2024. There was also a sharp decline in discretionary spending (25.2%), reflecting the restraints in parliamentary amendments execution imposed by the Supreme Court;
  - For 2024, total spending inched down 0.7% thanks to the anticipation of around BRL 40 billion of expenditures from 2024 to 2023. Excluding this effect, we would have an increase of about 4.0% in total expenditure.





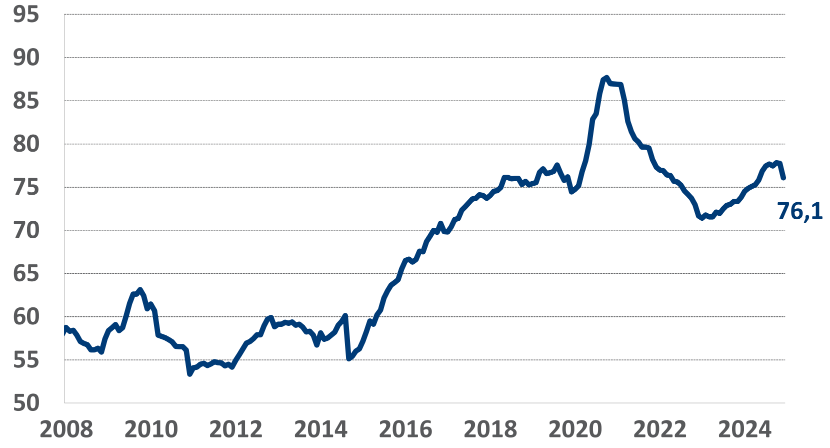


Source: BOCOM BBM, RTN

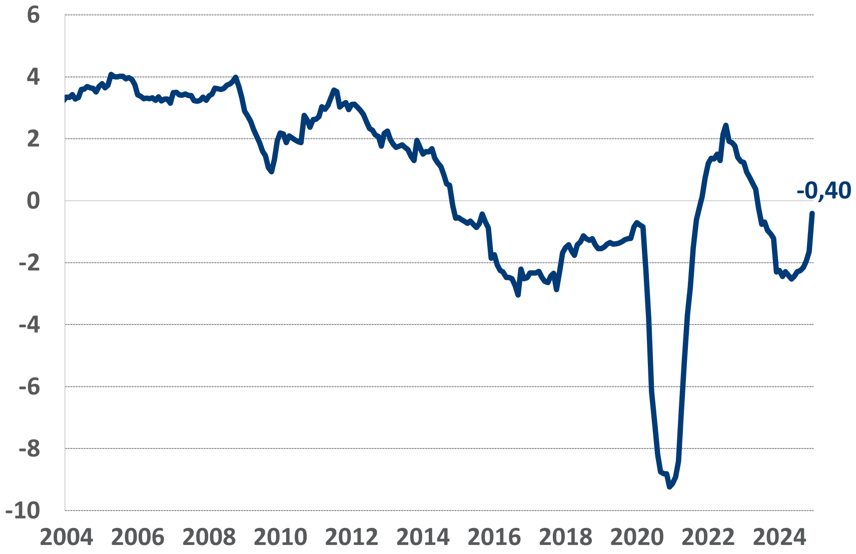
Brazil: Consolidated Public Sector Budget

- The consolidated public sector recorded a primary surplus of BRL 15.7 billion in December, above market consensus (BRL 10.4 billion);
- Central government and state-owned companies posted a surplus of BRL 26.7 bn and BRL 1.0 bn, respectively, while states and municipalities presented a deficit of BRL 12.0 bn;
- Consequently, the public sector accumulated a BRL 47.6 bn deficit (0.4% of GDP) in 2024;
- General government gross debt fell 1.6 p.p. from November, reaching 76.1% of GDP, mainly driven by net issuances (-1.7 p.p.) on the back of the operations with international reserves;
- The gross debt increased by 2.2 p.p. over 2024, mainly driven by nominal interest (7.5 p.p.).

Gross General Government Debt (% GDP)

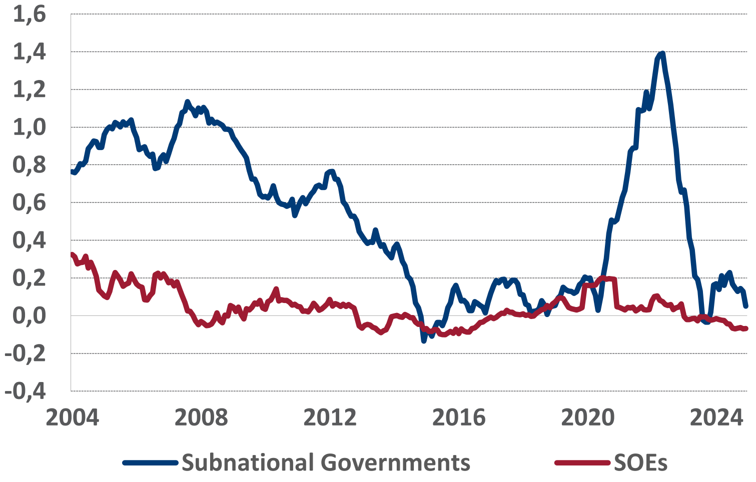


Primary Budget Balance (% GDP 12M)



Primary Balance: Central Government (% GDP 12M)

Primary Balance: Subnational governments and SOEs (% GDP 12M)

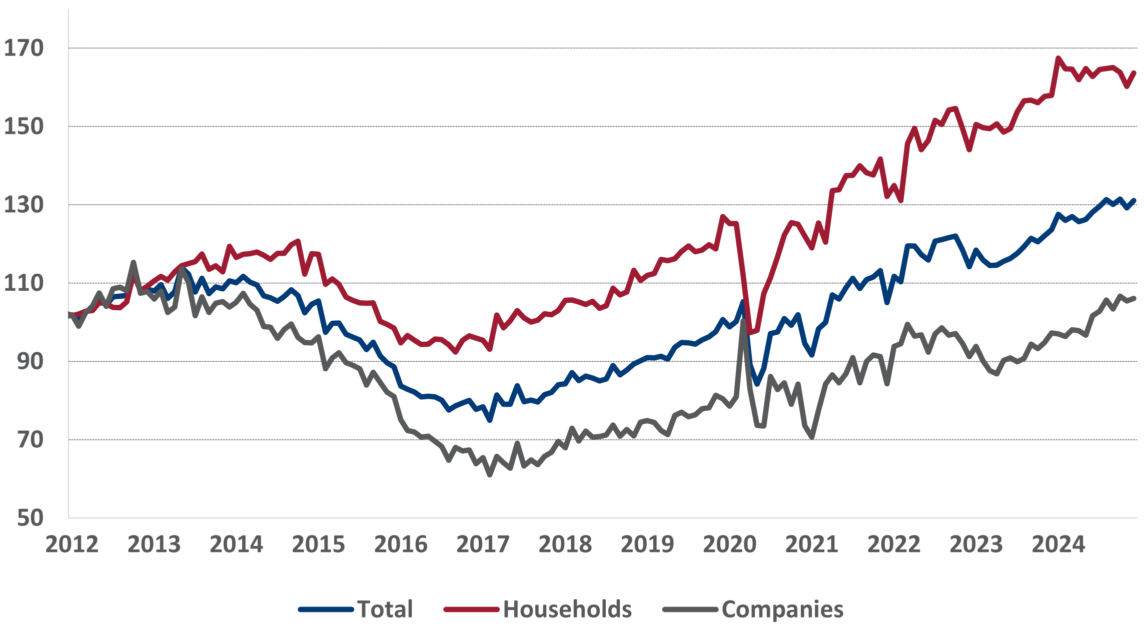


Source: BOCOM BBM, BCB

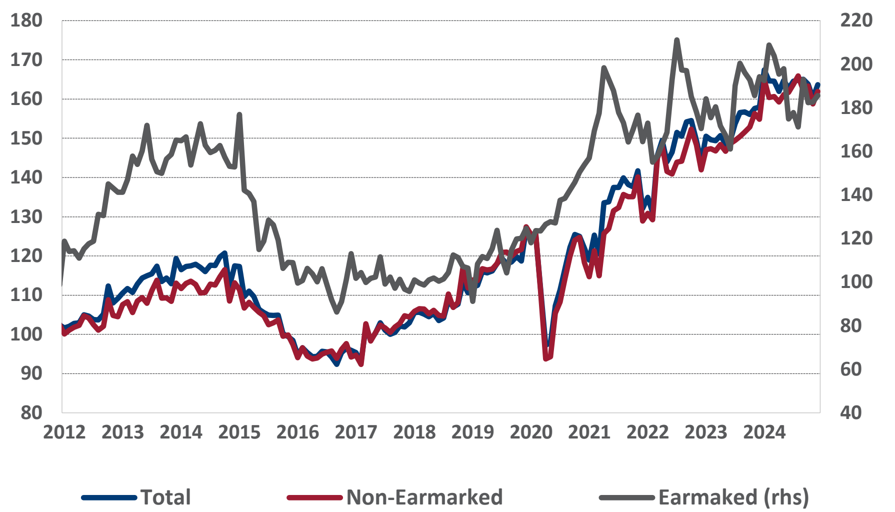
Brazil: Credit Statistics

- In December, total credit concessions increased 1.5% MoM in real terms, after decreasing 1.7% in the last month;
- Non-earmarked credit concessions increased 5.3% to companies and 2.0% to households in real terms;
- Earmarked credit concessions, in turn, grew 5.4% MoM to companies and by 1.6% MoM to households in real terms;
- Overall, concessions reaccelerated at the margin, after giving signs of a downward trend in November.

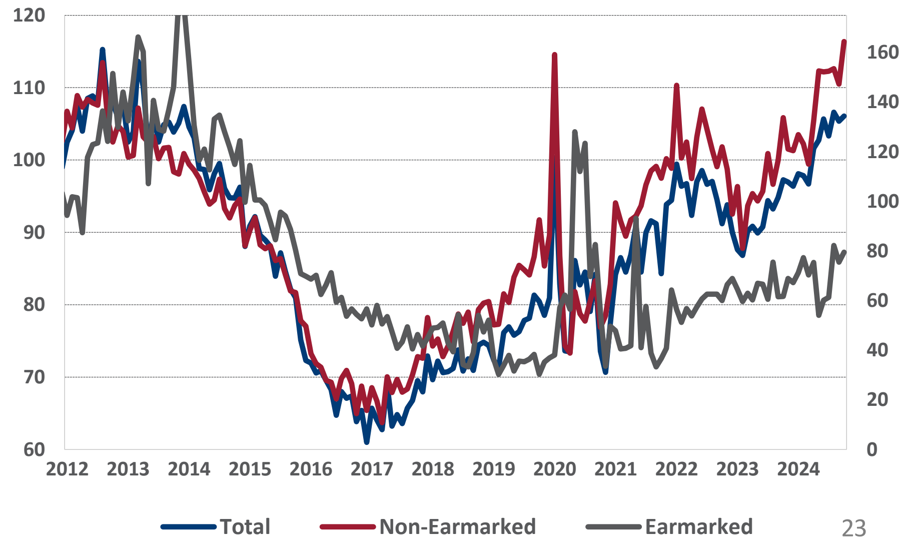
New Credit Operations SA (Real) - mar/11 = 100



Concessions - Households SA (Real) - Mar/11 = 100



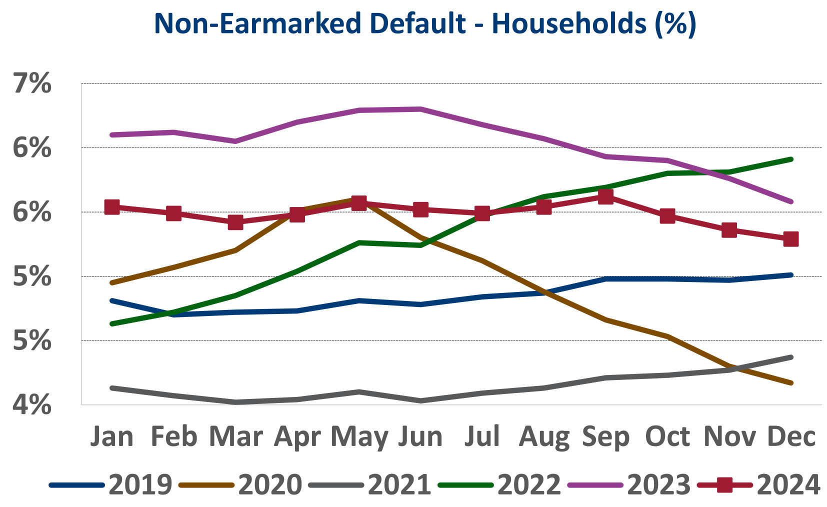
Concessions - Companies SA (Real) - mar/11 = 100

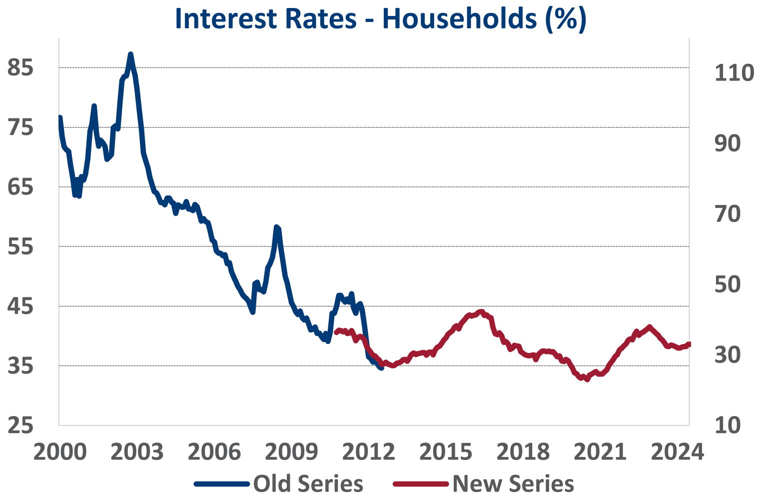


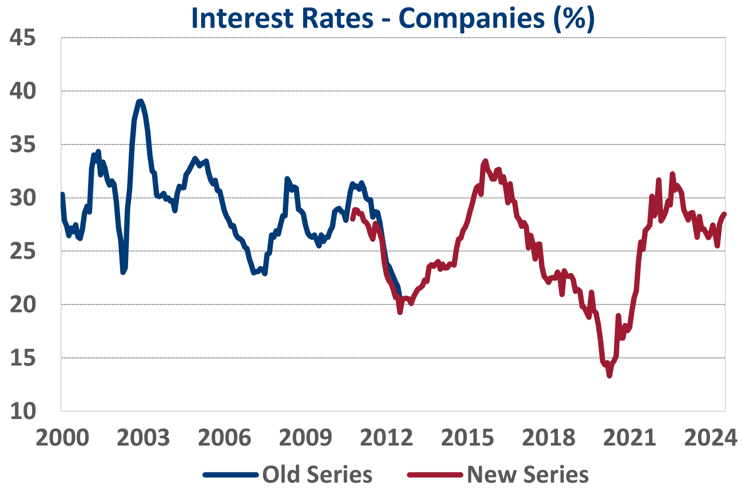
Source: BOCOM BBM, BCB

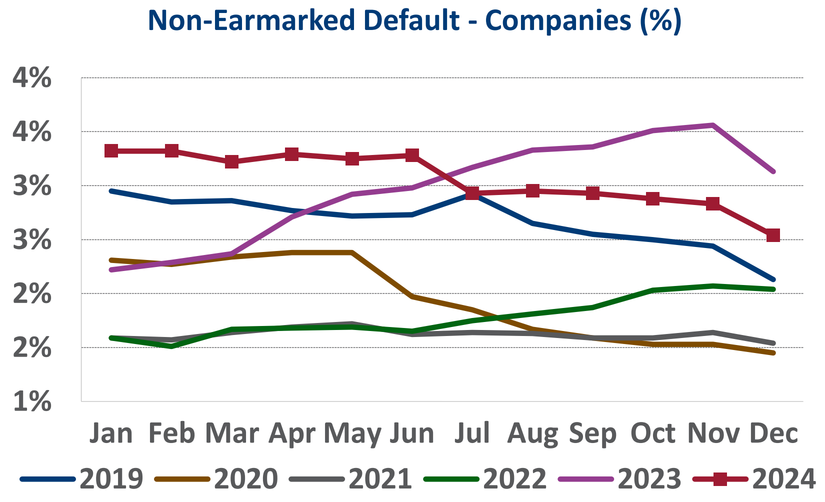
Brazil: Credit Statistics

- Lending rates stayed at 33.0% for individuals and increased from 19.4% to 19.6% for companies;
  - This data indicates that the new interest rate hike cycle initiated in September is beginning to impact bank credit, with increases in interest rates;
- In turn, non-earmarked default rate decreased from 5.4% to 5.3% to individuals and from 2.8% to 2.5% to companies.





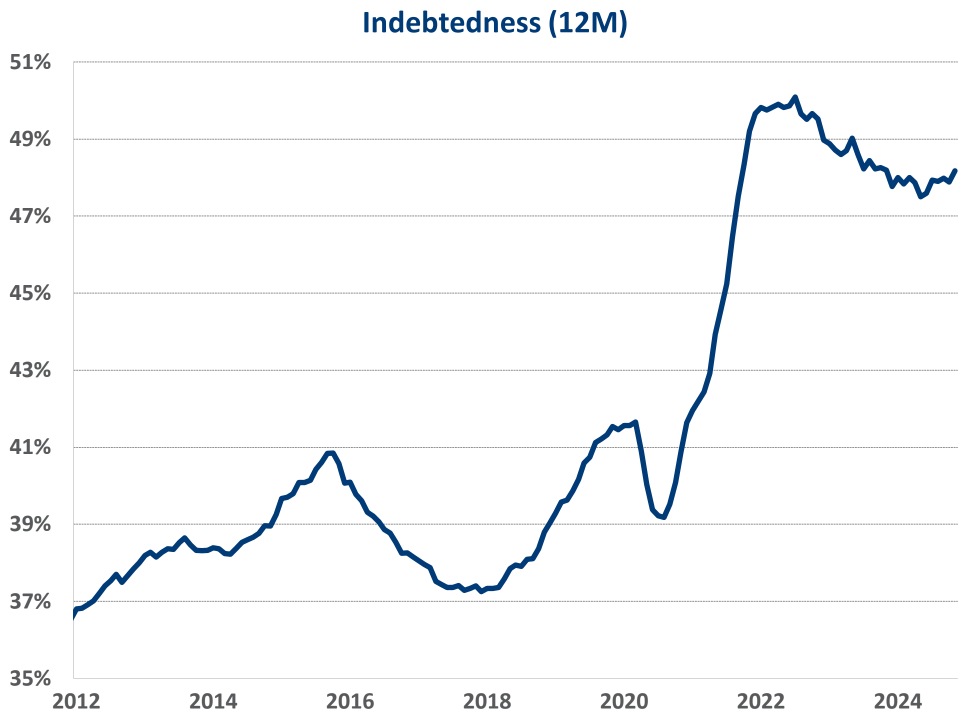


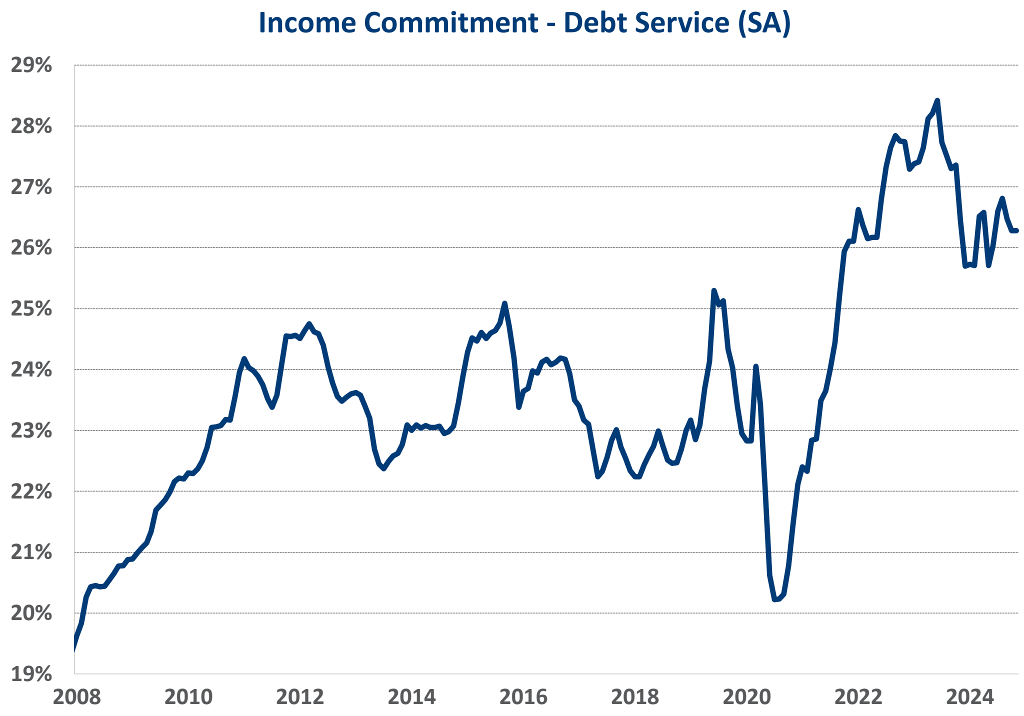


Source: BOCOM BBM, BCB

Brazil: Credit Statistics

- The household indebtedness increased to 48.2% in November (30.2% excluding mortgage debt);
- Income commitment remained at 26.3%;

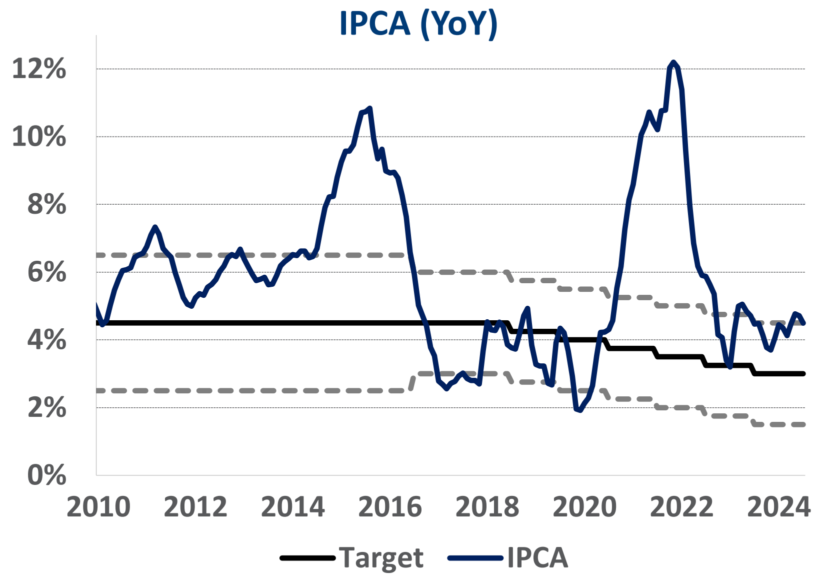


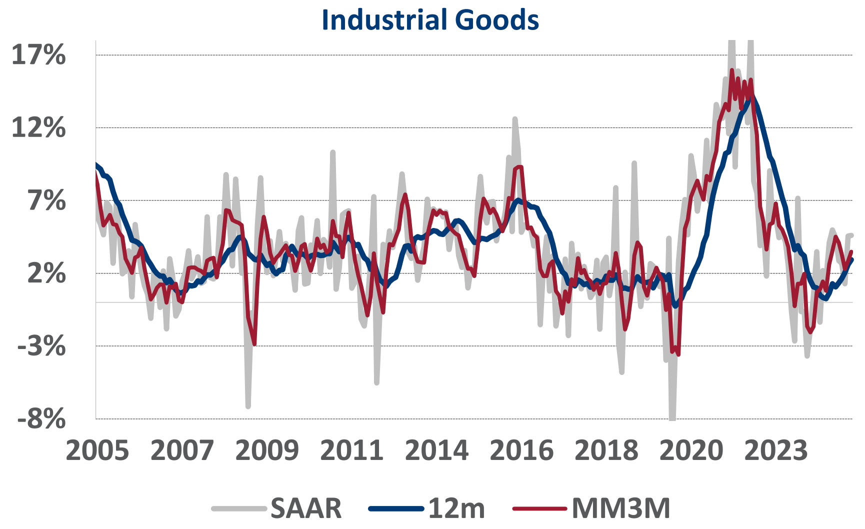


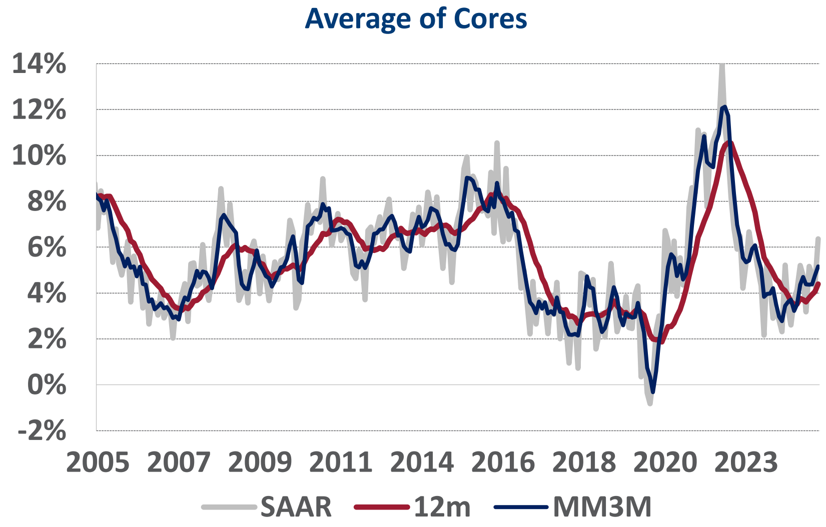
Source: BOCOM BBM, BCB

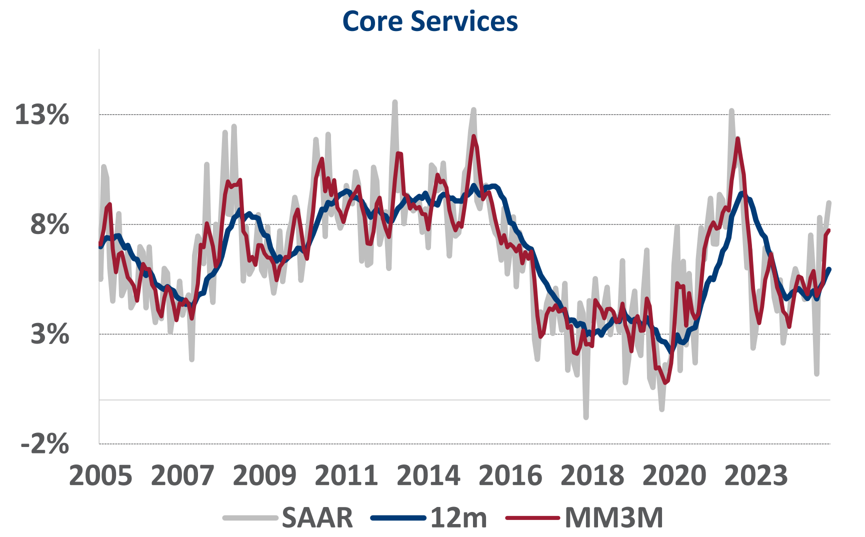
Brazil: Inflation 2025

- January IPCA-15 rose by 0.11% MoM, well above expectations of -0.02% MoM;
- The 12-month variation declined to 4.50% in January from 4.71% in December;
- The main upward deviation came from airfares. The Itaipu Bonus discounts on electricity fares (-15.5% MoM) explains the variation well below the seasonality. In turn, services surprised to the upside;
- Regarding the breakdown, core services advanced 0.96% MoM, with its 3M SAAR (3-month seasonally adjusted annualized moving average) edging up to almost 8%. The surprise in services inflation was widespread, even inertial items (such as rents) showed an important acceleration in January;
- The average of core inflation 3M SAAR increased from 5.1% to 5.5%, also drifting away from the target of 3%.





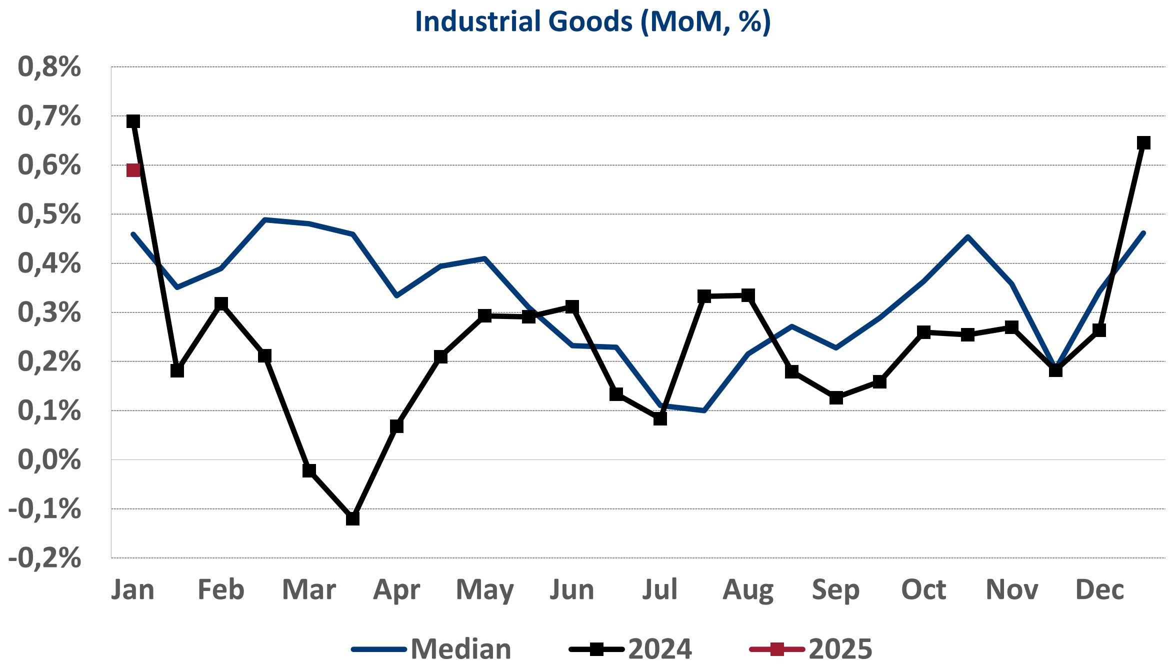


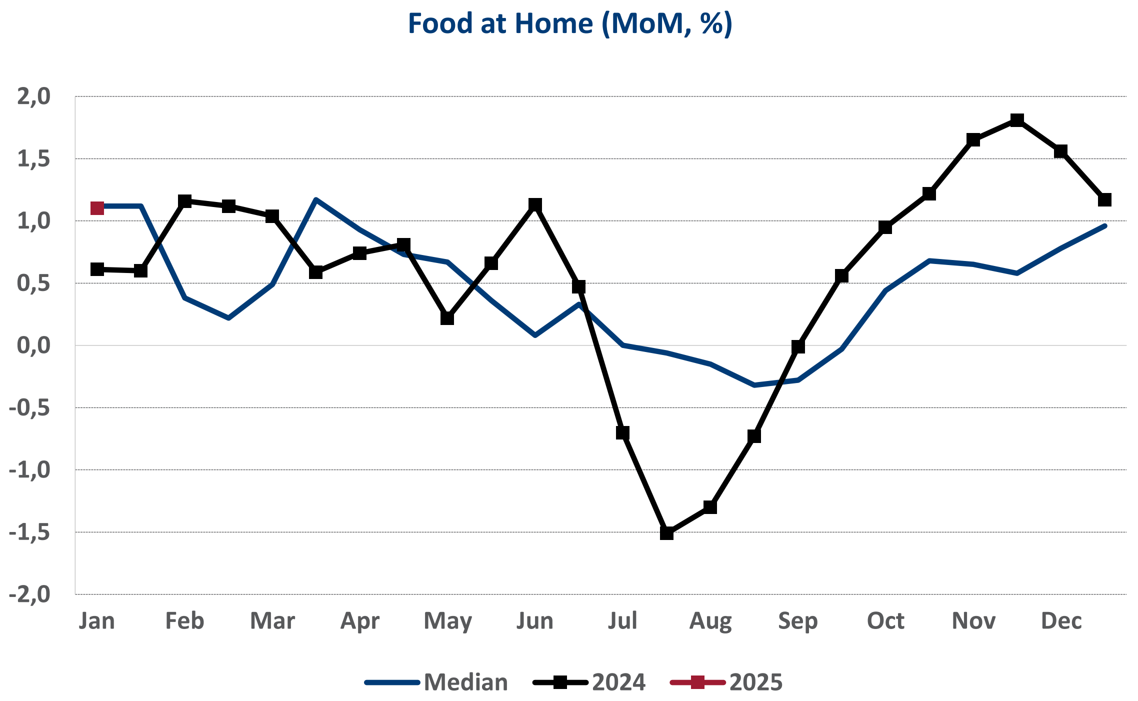


Source: BOCOM BBM, IBGE

Brazil: Inflation 2025

- Foodstuff prices rose by 1.10% MoM on the heels of higher protein prices;
- Industrial goods prices advanced 0.61% MoM, accelerating at the margin due to the currency depreciation and the Black Friday payback;
- Industrial goods inflation 3M SAAR remained at 3.7%.





Source: BOCOM BBM, IBGE

Brazil: Inflation

- After January IPCA-15 result, we increased our inflation forecast for 2025 to 5.9%;
- For 2026 we forecast 4.5%, as the lagging effects of monetary policy on inflation will tend to become more visible thought the year.

IPCA (%, annual)

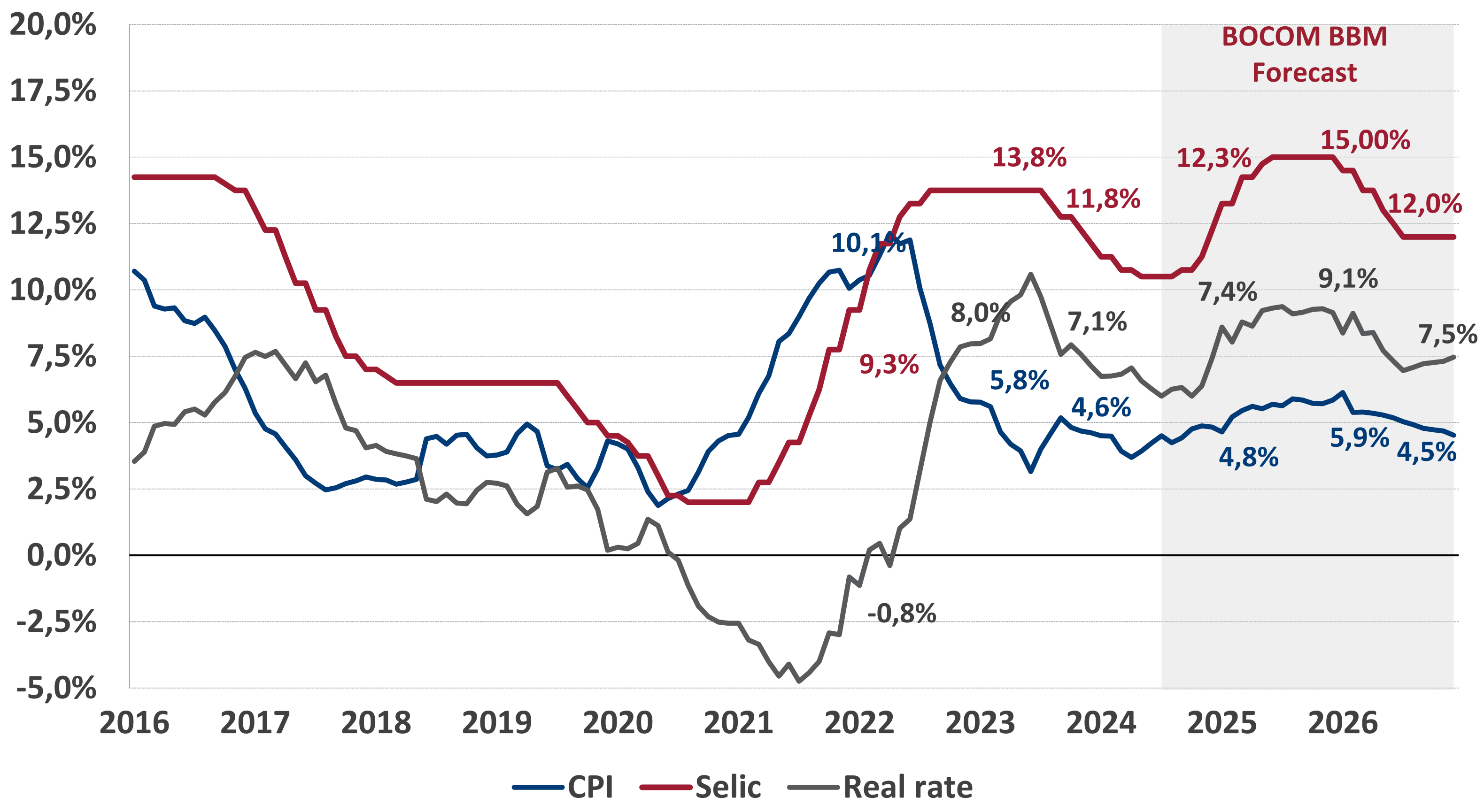
	Weight	2020	2021	2022	2023	2024	2025	2026
Regulated	**26.6**	**2.6**	**16.9**	**-3.8**	**9.1**	**4.7**	**4.9**	**4.5**
Industrial goods	**23.6**	**3.2**	**11.9**	**9.5**	**1.1**	**2.9**	**4.7**	**3.9**
Durable goods	10.3	4.5	12.9	6.1	-0.4	1.5	3.0	-
Semi-durable goods	5.9	-0.1	10.2	15.7	2.7	2.0	3.6	-
Non-durable goods	7.3	4.0	11.9	9.5	1.7	5.4	8.0	-
Food at home	**15.7**	**18.2**	**8.2**	**13.2**	**-0.5**	**8.2**	**7.6**	**4.8**
Services	**34.1**	**1.7**	**4.8**	**7.6**	**6.2**	**4.6**	**6.6**	**4.9**
Food away from home	5.6	4.8	7.2	7.5	5.3	6.3	6.5	4.7
Related to minimum wage	5.2	1.5	3.3	6.3	5.2	5.0	6.3	4.9
Sensitive to economic activity	8.2	0.2	5.1	6.3	9.5	0.9	6.5	4.7
Inertial	15.0	1.6	4.2	8.8	5.1	6.0	6.8	5.0
IPCA		**4.5**	**10.1**	**5.8**	**4.6**	**4.8**	**5.9**	**4.5**

Source: BOCOM BBM, IBGE

Brazil: Monetary Policy

- Concerning monetary policy, the Brazilian Central Bank (BCB) raised the Selic rate by 100 bps to 13.25% p.a. at its January meeting. BCB inflation projections six trimesters ahead stand at 4.0% in the third quarter of 2026 in a scenario where rates peak at 15.0% through 2025 but decrease to 12.5% in 2026. The balance of risks for inflation remains asymmetric. The statement continues to anticipate another hike of the same magnitude in March but gave no explicit guidance for May. This flexibility will allow the Committee to reduce the tightening pace if the economy decelerates during the first quarter, as we expect. The statement reinforced that further adjustments are tied to the firm commitment to inflation convergence to the target.

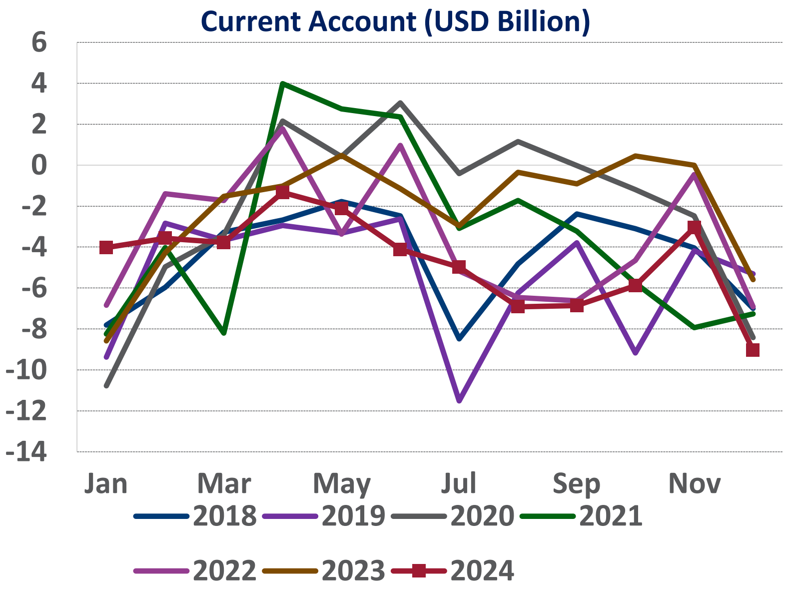
CPI, Selic Rate and Real Ex-post Interest Rate (YoY, %)

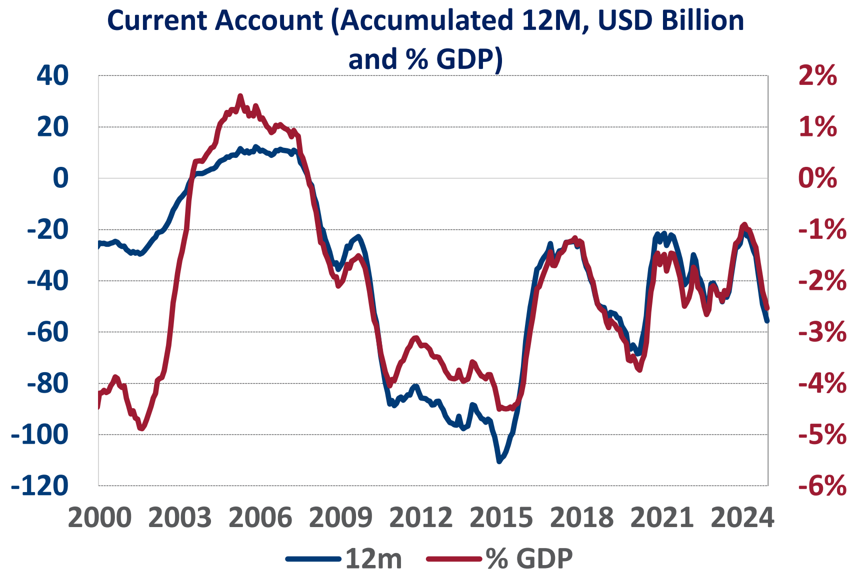


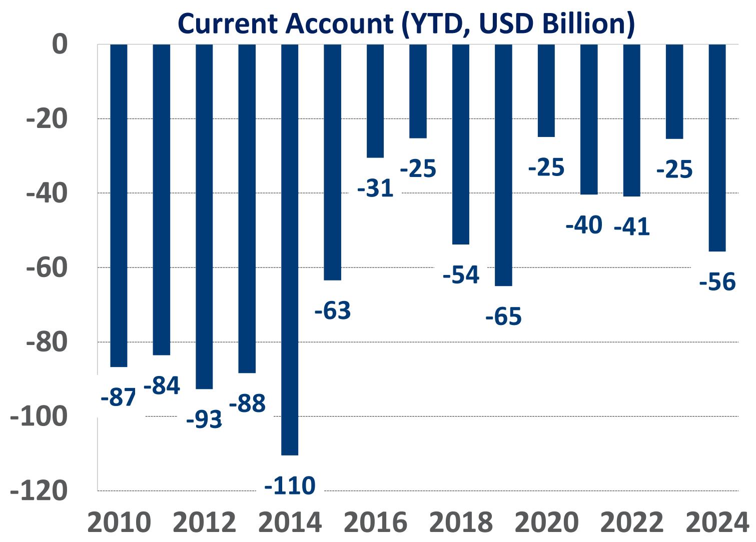
Source: BCB, BOCOM BBM, IBGE

Brazil: Balance of Payments

- The Brazilian current account recorded a USD 9.0 billion deficit for December, which came in much better than what the market expected (USD -12.8 billion);
- Therefore, the current account accumulated a deficit of USD 55.9 billion in 2024 (-2.55% of the GDP) more than doubling when compared to the USD 24.5 billion deficit in 2023 (1.1% of the GDP);
- The weaker trade balance and the higher deficit in the services account accounted for the worsening throughout 2024.



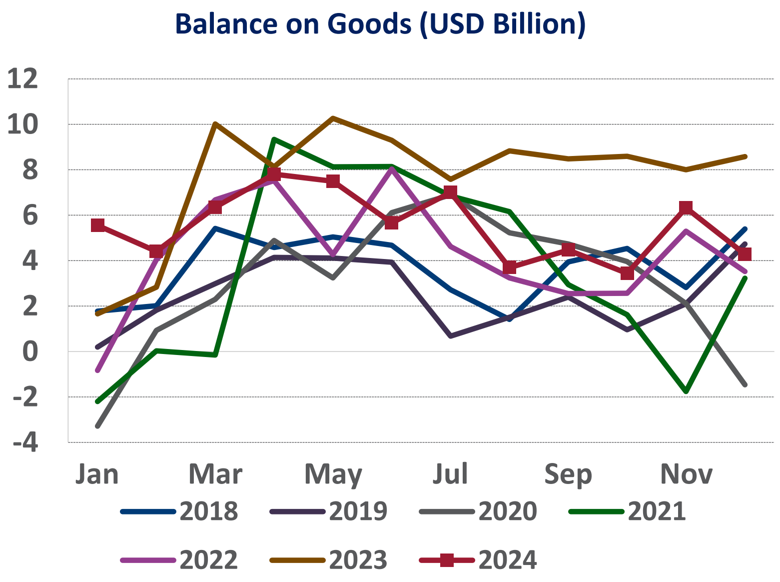


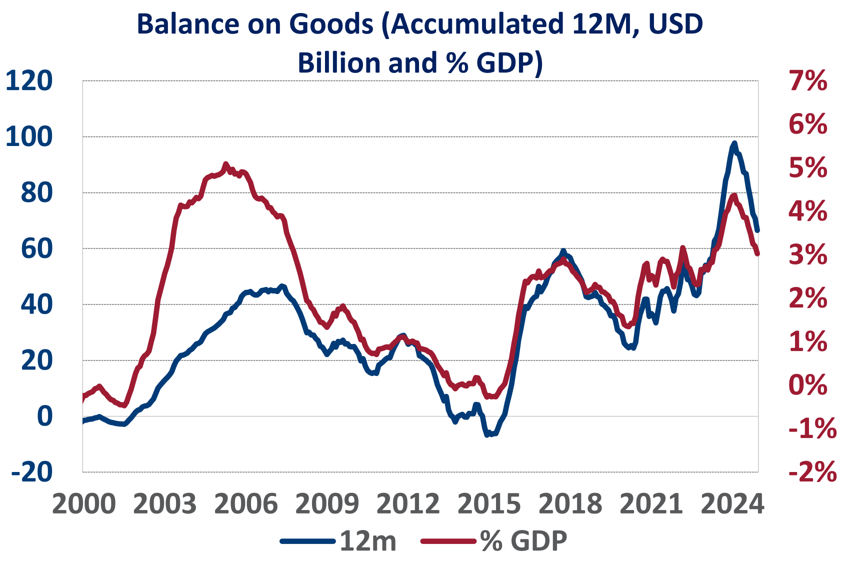


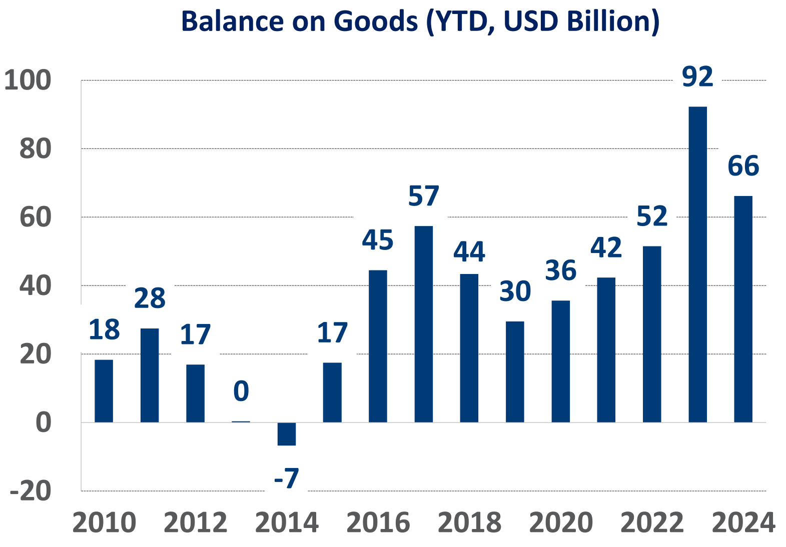
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- The trade balance recorded a surplus of USD 4.3 billion in December, below the USD 8.6 billion surplus reported one year earlier;
- The yearly decline was primarily driven by a substantial 13.2% YoY decrease in exports, which reached USD 25.1 billion, while imports grew marginally 2.3% YoY (USD 20.8 billion);
- For the full year of 2024, the trade balance totaled USD 66.2 billion, compared to USD 92.3 billion in 2023;
- Despite the fall, the annual result represents the 2nd-highest in the data series, keeping the trade balance at an elevated level, losing only to the record set in 2023.



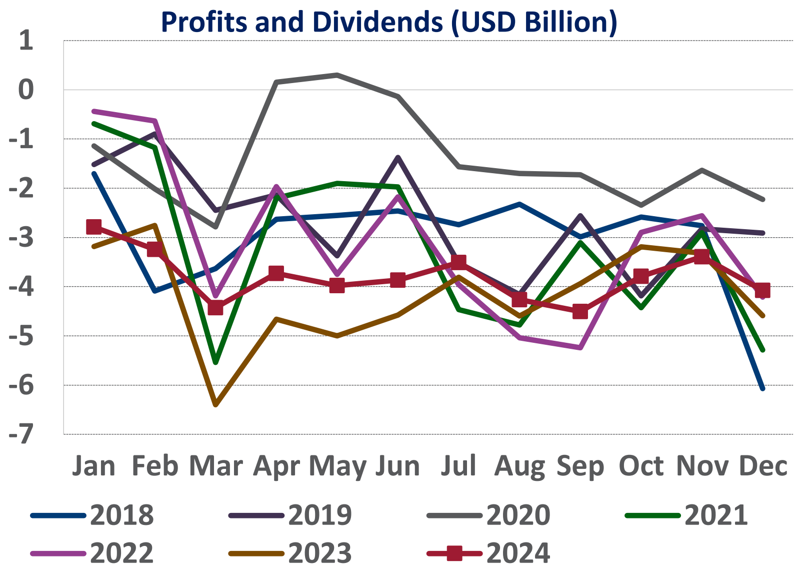


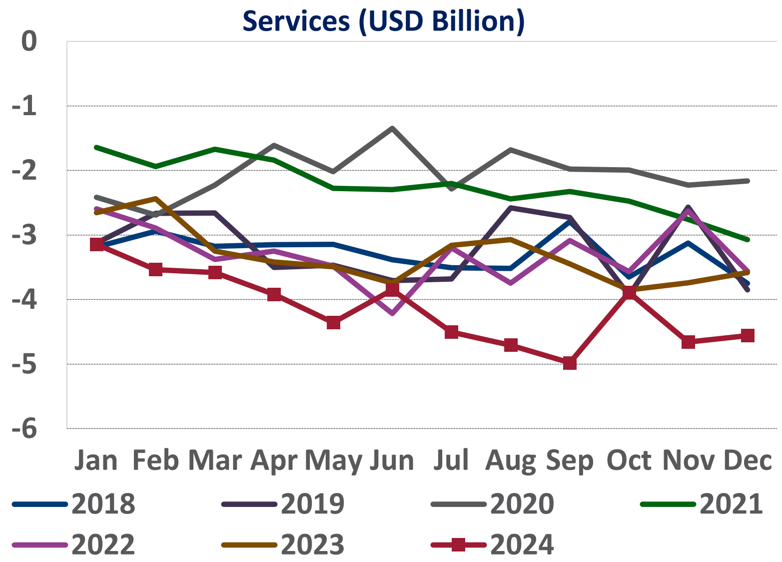


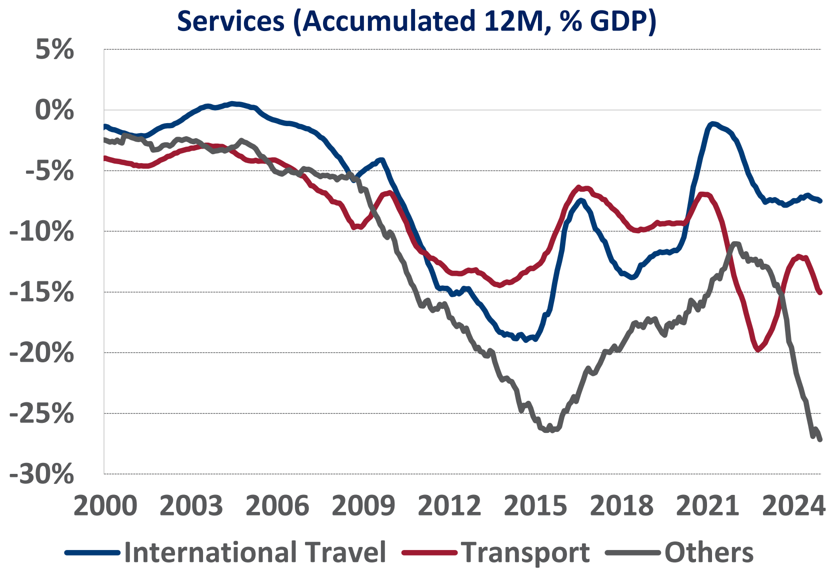
Source: BOCOM BBM, BCB

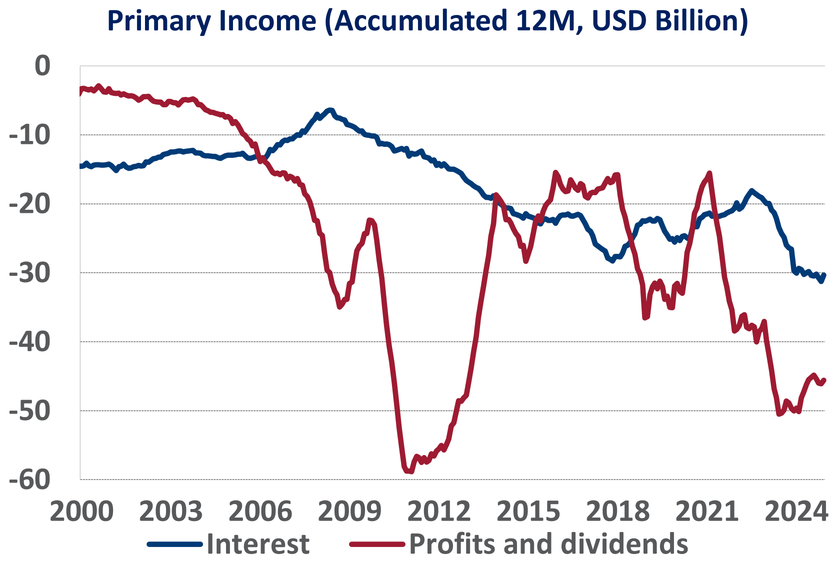
Brazil: Balance of Payments

- The services deficit widened to USD 4.6 billion in December 2024, from USD -3.6 billion recorded in the same month last year;
- Higher freight costs and strong domestic demand, boosting the import volumes, remained being the major contributors behind the print. Furthermore, the greater expenditure in sectors like ‘charges for the use of intellectual property’ and ‘telecommunication, computer & information’ explain much of the year-over-year difference;
- Throughout 2024, the services account deficit widened by USD 9.9 billion compared to the 2023 figure, rising from USD 39.9 billion (1.8% of the GDP) to USD 49.7 billion (2.27% of the GDP);
- The deficit in the primary income account totaled USD 9.1 billion in December 2024, and in the year 2024 it reached a deficit of 75.4 billion (-3.45% of GDP).





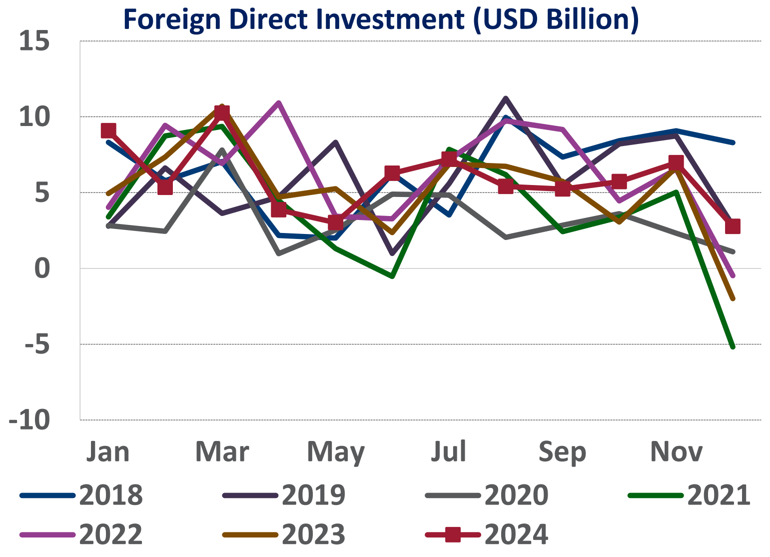


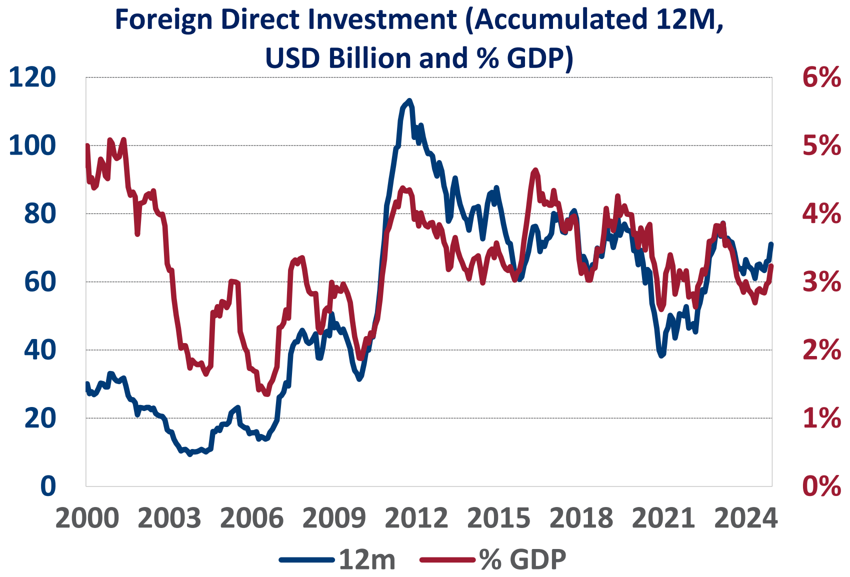


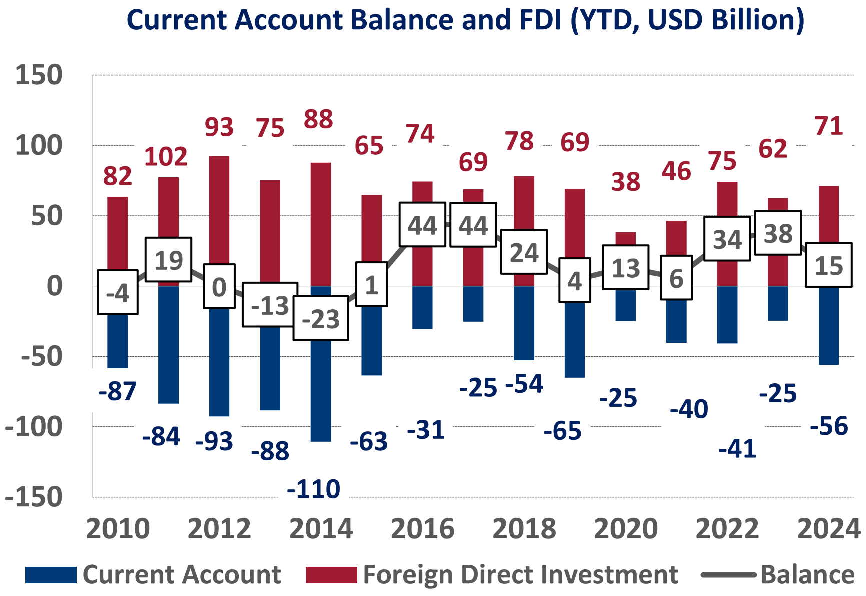
Source: BOCOM BBM, BCB

Brazil: Balance of Payments

- Net inflows in Foreign Direct Investment (FDI) totaled USD 2.8 billion in December 2024, surpassing expectations (of USD -2.0 billion);
- In 2024, net FDI inflows totaled USD 71.1 billion (3.24% of the GDP), surpassing the USD 62.4 billion (2.9 % of the GDP) recorded in 2023.



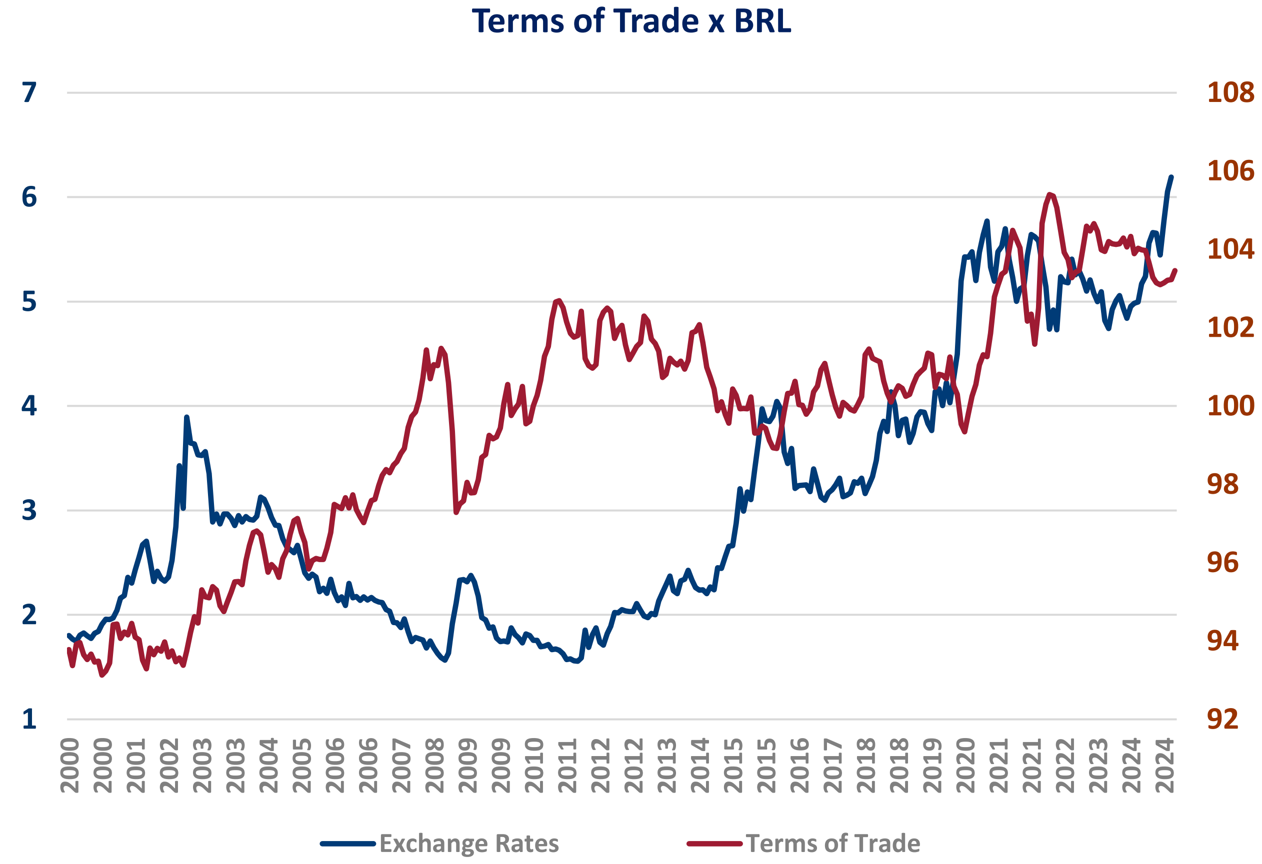


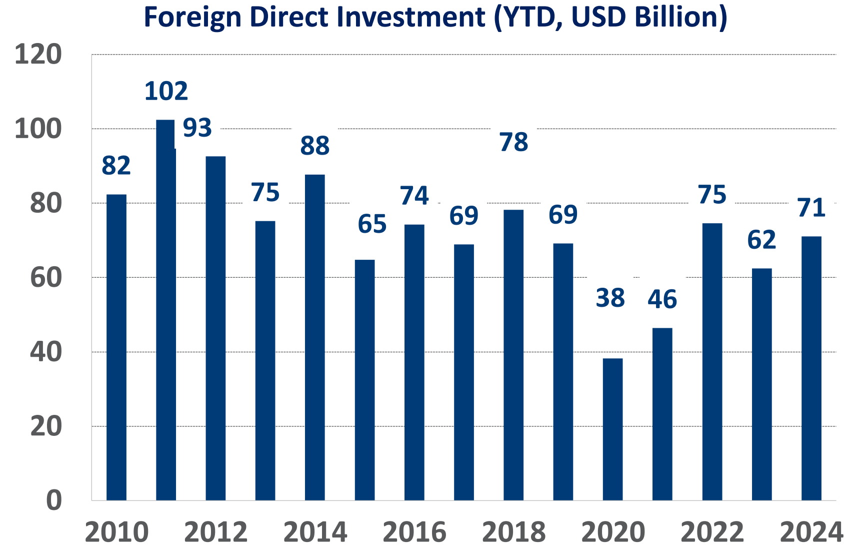


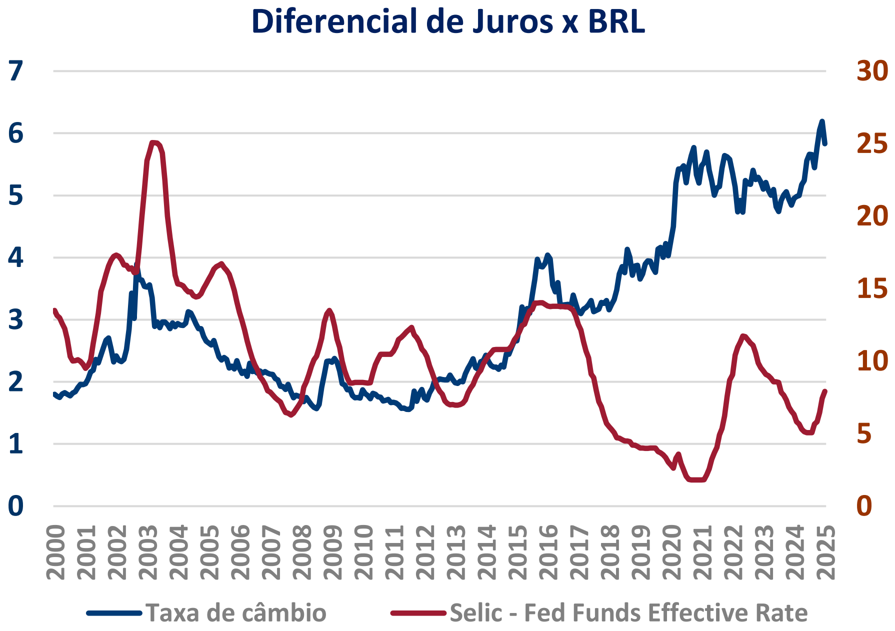
Source: BOCOM BBM, BCB

Brazil: External Sector

- In January, the Brazilian Real appreciated from 6.20 to around 5.85 against the US Dollar. In the international front, President Trump signaled lower-than-expected tariffs, distancing his effective actions from campaign promises, bringing relief to emergent currencies. In the domestic scenario, the BRL showed some accommodation after strong depreciation in December, which reflected the seasonal dollar outflow that occurs at the end of the year, but was intensified by the increase in the fiscal risk perception.



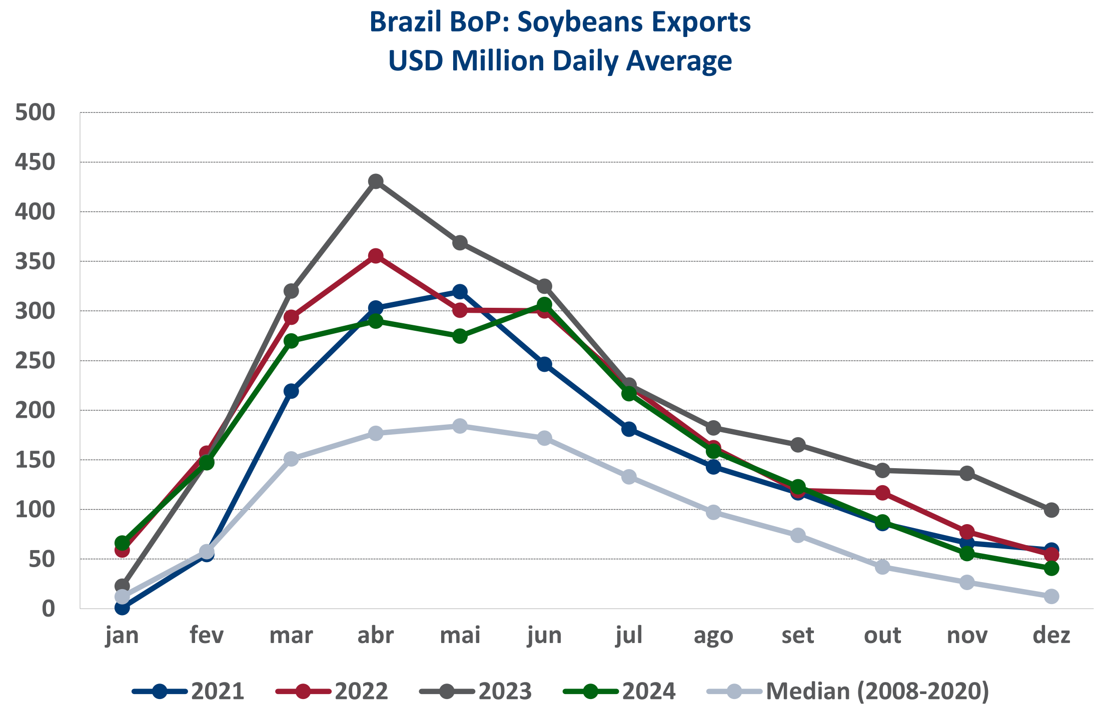


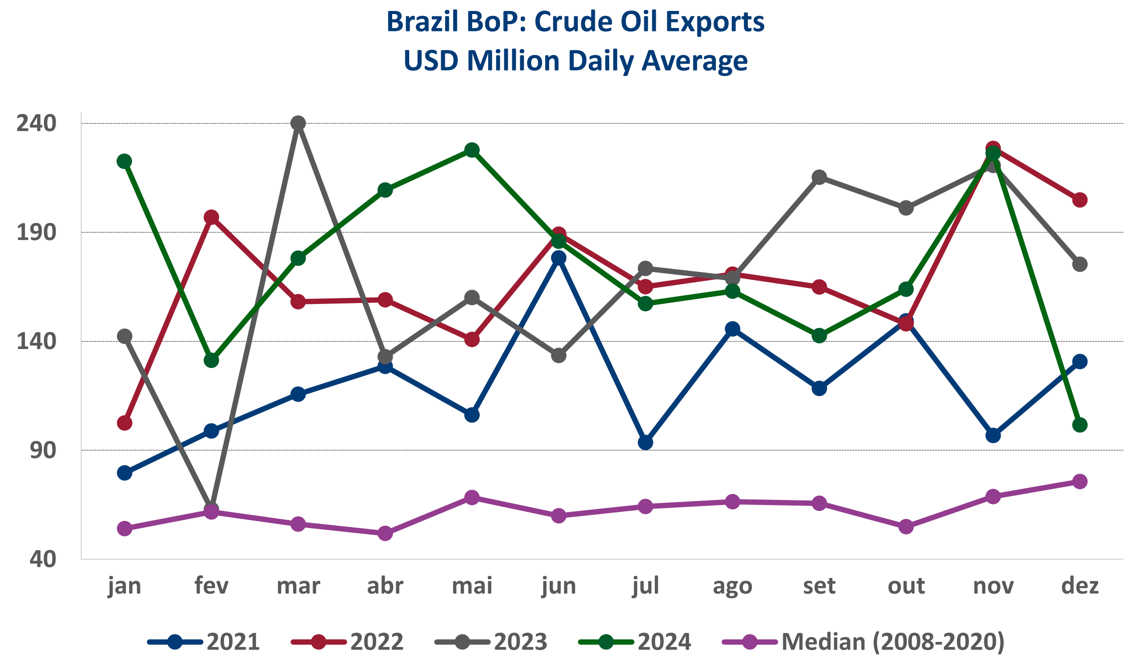


Source: BOCOM BBM, Bloomberg, Goldman Sachs, BCB

Brazil: External Sector

- In December, the trade balance presented a surplus of USD 4.80 bn (-48.5% YoY) according to Secex data;
- Year to date, the trade surplus reached USD 74.55 bn (-24.6% YoY);
- Exports decreased 13.5% YoY, driven by the decrease of Soybeans (-57.12% YoY), iron ore (-37,29% YoY) and crude oil (-39,84% YoY);
- In turn, imports increased 3.3% YoY, mainly due to Non-electric engines and machinery (+20.2% YoY).





Source: Secex, BOCOM BBM

交通銀行 BANK OF COMMUNICATIONS BBM