Macro Monthly Letter

May 2025

Global slowdown, extent uncertain

Cecilia Machado
Chief Economist

Luana Miranda
Senior Economist

Eduardo Affonso
Intern

João Alonso
Intern

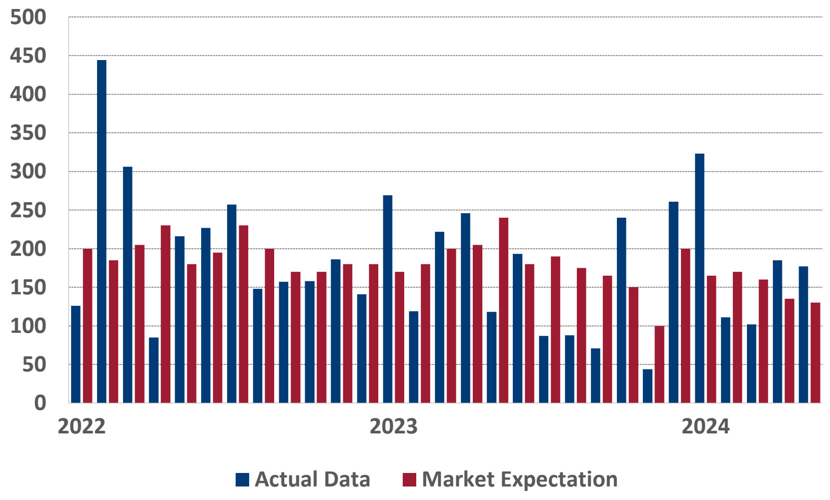
Maria Miraglia
Intern

Maria Braun
Intern

Despite the 90-day pause in the implementation of reciprocal import tariffs – a measure taken only one week after the tariffs were announced – a US economic slowdown is still expected. Indeed, a recession is a distinct possibility. Uncertainty on the tariffs persists since negotiations between countries take time, and the pause could be extended beyond the three months mentioned so far, as already signaled by the administration. Furthermore, the content of other stimulus policies such as tax breaks or deregulation has not yet been announced. The economy is moving toward deceleration, but the extent of the slowdown is uncertain. As a result, attention is now focused on each new set of data that might point to a sharp change in the dynamics of the economy.

Contrary to expectations, the US labor market data for April did not suggest a slowdown. Instead, it portrayed a healthy growth trend that continues to fuel household purchasing power (Figure 1). Net job creation reached 177,000 in the period, and the unemployment rate held steady at 4.2%, a historically low level. On the other hand, wage growth decelerated, showing that the dynamics of supply and demand in the labor market continues to rebalance, and the data provided few indications that the immigration crackdown has affected monthly gains in the supply of manpower.

Figure 1: US – Payroll Employment Monthly Pace (Thousands)



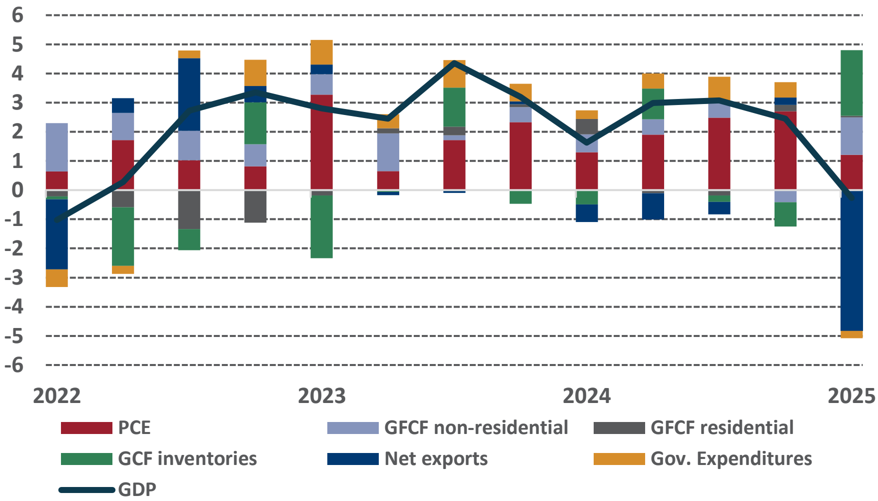
Source: BOCOM BBM, BLS

Also moving in the direction of a gradual slowdown, inflation measured by the PCE fell 0.04% in March overall, well below the reading for the same month of last year and has now slowed to 2.29% year on year in the last 12 months. The 12-month core PCE slowed to 2.65%, one of the lowest levels since 2021, when inflation began accelerating in the wake of the pandemic.

The inflation data may take a little longer to reflect the new tariffs, which are suspended for the moment, but consumer sentiment data is already indicating changes. Consumers' year-ahead inflation expectations rose significantly in April, reaching 6.5% (up from 5.0% previously), while the five- to ten-year-forward expected rate reached 4.4% (up from 4.1%), the highest since 1991. Although there are methodological concerns with the survey (such as the effects of polarization between Democrats and Republicans on their responses), this metric is a component of the Fed's inflation expectations model, and the noteworthy recent rise has attracted FOMC members' attention.

Similarly, the GDP contraction of 0.27% in the first quarter compared with Q424 as a seasonally adjusted annual rate (QoQ SAAR) (Figure 2), due mainly to the strong rise in imports (41% in annualized terms), reflects a rush to import goods ahead of the tariffs but also aligns with the labor market data inasmuch as it portrays an economy that has so far remained resilient on the domestic demand side. The Fed will probably consider this a sign that it should wait a little longer before continuing with the rate cuts begun in 2024.

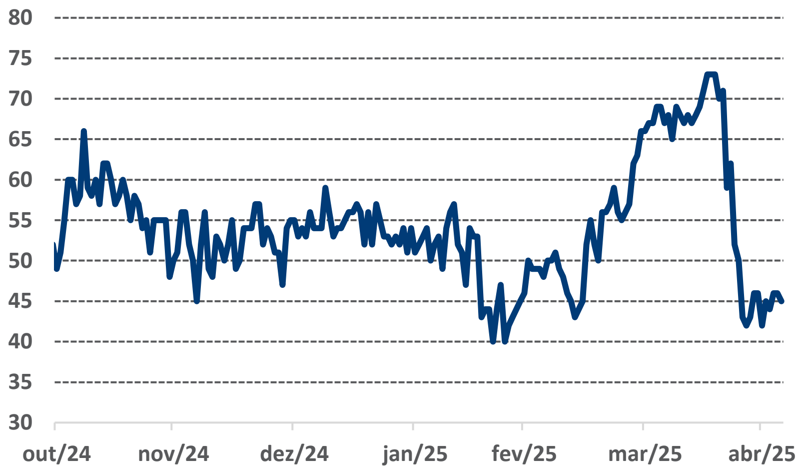
Figure 2: US – Contribution to GDP-growth (QoQ SAAR, %)



Source: BOCOM BBM, BEA

Nevertheless, the outlook is highly uncertain, and the economic conditions could change quickly. Some high-frequency indicators are already capturing the effects of the tariff war on global trade. For example, the number of containers shipped from China to the US has dropped 40% since the start of April (Figure 3). China's economic growth in recent years has of course been export-led, and there may be additional adverse effects if other countries impose tariffs on Chinese products to protect their local industries.

Figure 3: Container shipping departing China for the US



Source: BOCOM BBM, Bloomberg

The global economic slowdown and probable fall in prices of tradables and commodities will contribute to the disinflation process, making room for many countries to begin or continue monetary easing. The domestic situation in Brazil is different, however. On one hand, local currency appreciation, favored by the weakening of the dollar, is helping to lower inflation expectations, but a sharp fall in commodity prices and Brazil's terms of trade could make this movement short-lived. On the other hand, the fall in global growth, which typically reduces domestic growth, may not translate into a rise in the output gap if other stimulus policies are in effect.

ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025F	2026F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.2%	1.3%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	5.6%	4.3%
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%	14.75%	12.0%
External Accounts							
Trade Balance (US$ bn)	36	42	52	92	66	62	73
Current Account Balance (US$ bn)	-25	-40	-42	-28	-61	-70	-55
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-2.8%	-3.2%	-2.4%
Fiscal Policy							
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.7%	-0.6%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	80.5%	85.3%