

Macro Monthly Letter

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The pillars of optimism about the US economy

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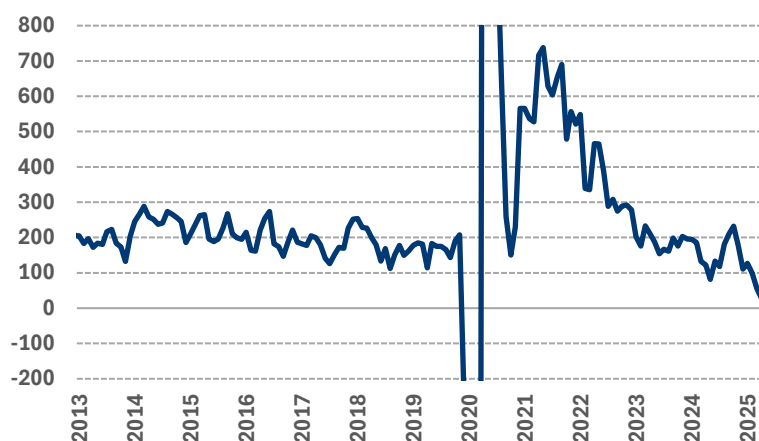
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Although the tariff war and trade disputes continue, the risk of even more protectionism leading to a sharp slowdown in global economic growth has been averted for now. Several accommodating trade deals were signed after Liberation Day. The US-China dispute took on a different character, with Beijing enhancing its bargaining power relating to rare earths of critical importance to several US industries, such as defense, transportation and electronics. With this tail risk minimized, attention focused on the performance of the US economy, with the moderate impact of tariffs on inflation and declining job creation leading to expectations of rate cuts both this year and next. This should provide sufficient support to reverse part of the ongoing slowdown.

However, there are doubts about the impact that a less restrictive monetary policy may have on the labor market. The latest nonfarm payroll employment report (for August) showed net job creation averaging 28,000 in the past three months (Figure 1), far short of the 231,000 seen in January 2025.

Figure 1: US - Nonfarm Payroll Employment Change (Thousands, 3MMA)



Source: BOCOM BBM, BLS

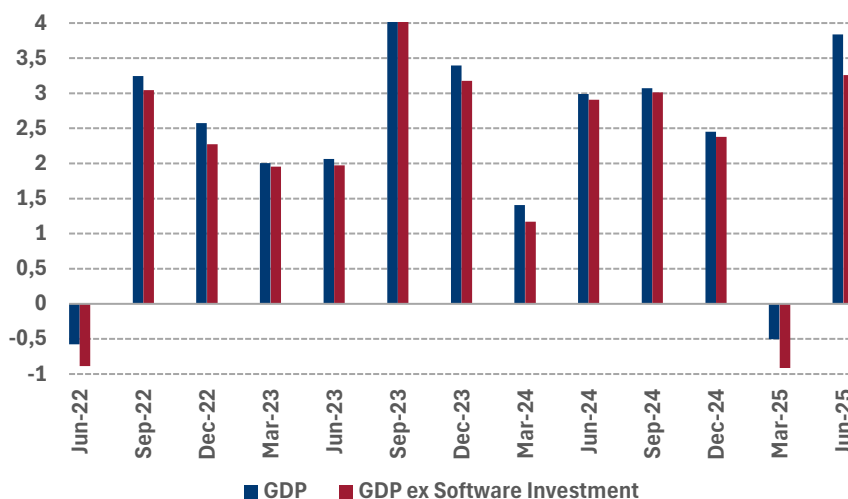
Job creation is associated with demand for labor as well as its supply. Demand for labor is weak: the pace of hiring has slowed in response both to the economic slowdown and a more structural change that is being driven by the advances of artificial intelligence. Unemployment is clearly rising among the young, especially in sectors more exposed to these advances, such as IT, customer care and administrative support, although its effects on aggregate labor market data are still

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incipient. In addition, the supply of labor is dwindling as a result of the immigration reduction policies implemented by the Trump administration.

A detailed analysis of the economy's performance by sector raises doubts about its resilience. A significant part of recent growth has been due to AI-related investment (e.g. in software) with uncertain returns (Figure 2). Moreover, growth has been heterogeneous in sectoral terms, with technology-related sectors obtaining the highest gains, which are not necessarily being passed along to workers.

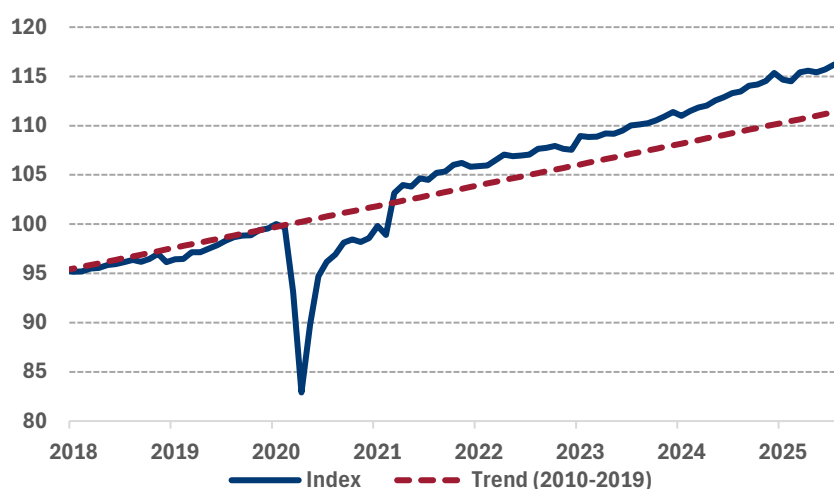
Figure 2: US - GDP Growth (% , QoQ SAAR)



Source: BOCOM BBM, BEA

Overall, there are signs of economic dynamism, such as resilient household consumption (Figure 3), but concerns about the pace of job creation have become more evident.

This risk has been emphasized by the FOMC's decisions. The last meeting saw the second consecutive rate cut, for a total reduction of 50 bps in the fed funds rate since the easing cycle resumed, and of 150 bps in roughly a year. Nevertheless, Fed Chair Jerome Powell acknowledged that the risks relating to labor market performance do not appear to be increasing at the margin. He also said further reductions, as expected by the markets, were "not a foregone conclusion," noting "strongly differing views" in the committee about how to proceed in December.

Figure 3: US - PCE: Real Personal Consumption (Index SA, Jan/20=100)


Source: BOCOM BBM, BEA

This new scenario may limit the extent of the easing cycle in Brazil. While the evidence that the Brazilian economy is decelerating becomes clearer every day, including a negative credit impulse, weakening consumption in the high-frequency data, and signs of a labor market downturn, and despite the recent fall in current inflation and inflation expectations, a reduction in the interest-rate differential as Brazil's presidential election approaches may intensify exchange-rate volatility and make a prolonged easing cycle in Brazil less likely.

ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025F	2026F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.1%	1.5%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	4.3%	4.0%
Unemployment Rate (eoy, %)	14.2%	11.1%	7.9%	7.4%	6.2%	6.0%	6.5%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.00%	12.5%
External Accounts							
Trade Balance (US\$ bn)	36	42	52	92	66	63	70
Current Account Balance (US\$ bn)	-25	-40	-42	-28	-61	-79	-62
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-2.8%	-3.6%	-2.7%
Fiscal Policy							
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.5%	-0.6%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	80.5%	85.0%

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