

BofA Brazil Activity Coincident Tracker

Out with the old, in with the new

Activity Tracker back to the positive realm

January BofA Activity Coincident Tracker increased to 0.11pts (vs -0.23pts in December), after five months of negative prints. The new year began with a positive read, but not enough to change the signal on the 3mma reading, which now stands at -0.12pts (from -0.17 previously).

Modest recovery

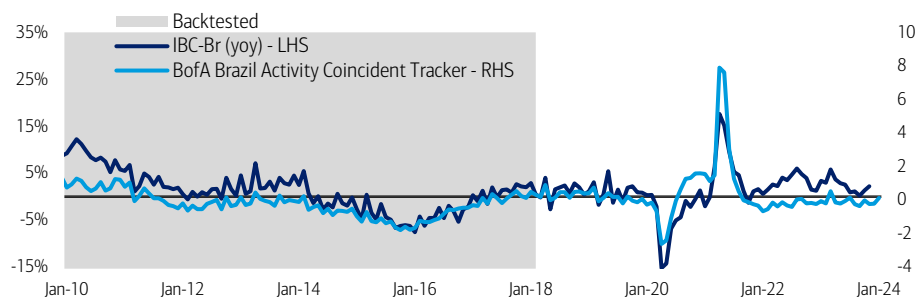
The lagged effects of monetary policy easing should start to be felt later this year. Ex-ante real rates remain at contractionary level (close to 7%), well above neutral real interest rates according to the Brazilian Central Bank (BCB) calculation of 4.5%. After weak activity prints in 4Q23, our tracker suggests a recovery in January (See Exhibit 1). However, notice that the spillover effects of the record harvesting last year reduced the correlation between our tracker and the IBC-Br – BCB's monthly GDP proxy.

GDP forecasts unchanged

In 4Q23 GDP print, we expect tight credit conditions and less relevant performance from agriculture to slow down economic activity, as the year print matches our forecast of 3.0% growth for 2023. Regarding 2024, we expect GDP growth decelerating to 2.2%, but mostly driven by domestic demand, with lower interest rates and better credit market conditions, with inventories also going down. (For more, see: [Emerging Insight: Brazil – Key Things to Watch in 2024](#))

Exhibit 1: BofA Activity Coincident Tracker back on positive ground

January increased to 0.11pts (from -0.23pts in December)



Source: BCB, BofA Global Research. Backtested period: Sep06-Feb18. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein. The BofA Activity Coincident Tracker is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

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Positive contribution from confidence indicators

Consumer confidence registered 93.3 points in January, from 89.2 points one year earlier. The contribution to the tracker was 5bp, below 2023 average of 12bp. Regarding business confidence, January registered a positive contribution, contrasting to the most part of 2023 trajectory. Expectations index brought the business confidence up, while current situation indexes contributed to the downside.

Auto sales contribution spiked

Auto sales contribution accelerated to 0.45pts in January (from 0.17pts in December), as did year-over-year growth of 20.2% (vs 9.0% previously). According to National Federation of Motor Vehicle Distribution (Fenabrave), the increase came due to a greater credit flow in several segments, as well as better employment levels and declining interest rates.

Money supply: another negative month M

Money supply M1 continues to be the main negative driver of our tracker, as it has been since Jun22, with a contribution of -0.42pts (from -0.47 in December). M1 captures transactions linked to short-term consumption, so the monetary tightening likely explains its consecutive negative prints. The easing monetary cycle should improve M1 ahead, but the effects may take some time to be felt.

Exhibit 2: Strong auto sales in January

Contribution per component (in pts)

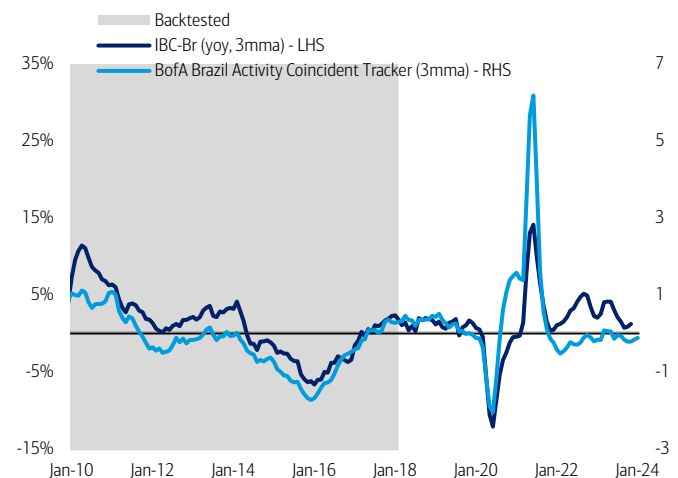
Contributions (pts)	Weight	'23 Jul	'23 Aug	'23 Sep	'23 Oct	'23 Nov	'23 Dec	'24 Jan
Consumer conf.	11.4	0.19	0.15	0.09	0.05	0.09	0.06	0.05
Business conf.	12.8	-0.05	-0.06	-0.07	-0.05	0.00	0.01	0.04
Auto sales	46.1	0.43	0.13	0.07	0.41	0.08	0.17	0.45
Money supply	29.7	-0.45	-0.56	-0.53	-0.28	-0.34	-0.47	-0.42
Activity Coincident Tracker	100	0.13	-0.34	-0.45	0.12	-0.18	-0.23	0.11

Source: BofA Global Research. Note: contributions are based on normalized yoy data; weights are extracted from regression model and are adjusted in this table to show a 100-sum. The BofA Activity Coincident Tracker is intended to be an indicative metric only and may not be used to reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

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Exhibit 3: 3mma tracker bearing neutral ground

2024 starting on a good note



Source: BCB, BofA Global Research. Backtested period: Sep06-Feb18. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein. The BofA Activity Coincident Tracker is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

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BofA Activity Coincident Tracker can be a useful tool

Our proprietary BofA Activity Coincident Tracker was constructed together with our Data Analytics team and should help better gauge the underlying growth rate of the economy and anticipate inflection points in the data. The Tracker correlates well with the targeted economic activity IBC-Br index, showing a correlation of 0.90 between September 2006 and February 2018 and of 0.85 between March 2018 and Nov 2021. The directionality it ratio (i.e. % of correct prediction in GDP growth yoy change direction between 2006 and 2021) of our monthly Tracker also would have been high at 81.6%.

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