

BofA Brazil Activity Coincident Tracker

Activity tracker settled in the negative camp

Negative Activity Tracker in Dec

December BofA Activity Coincident Tracker declined -0.12pts (vs -0.22pts in November, revised from -0.18pts). After an overall deceleration in the latest activity prints, the 3mma reading went to -0.14pts (from -0.22 previously), suggesting a weaker 4Q23.

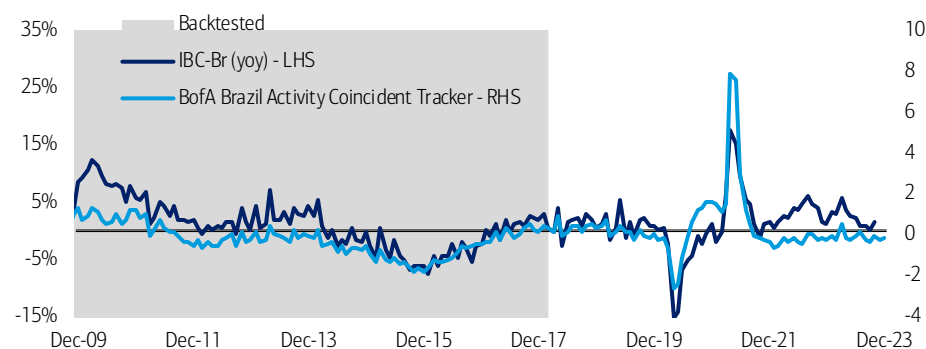
A cold final quarter for 2023

Even with the easing cycle started, ex-ante real rates remain at a contractionary level (close to 8%), well above neutral real interest rates according to the Brazilian Central Bank (BCB) calculation of 4.5%. Indeed, BCB's monthly GDP (IBC-Br) was below market expectations in the beginning of 4Q23, declining -0.1% mom in October (from -0.1% in September as well). Our tracker suggests the deceleration to continue. (See [Exhibit 1](#)). However, notice that the spillover effects of the record harvesting this year reduced the correlation between our tracker and IBC-Br.

We continue to expect GDP growth of 3.0% in 23YE

The strong 3Q23 GDP print reinforced the odds that 2023 growth matches our 3.0% forecast. The next step that we expect is a sharp deceleration in 4Q23, as credit conditions remain tight and gains from the agriculture sector are less relevant. Regarding 2024, we forecast an average growth of 2.2%, as interest rates reduction and better credit market conditions are expected to bring positive results for the year. Also, significantly lower inventories were recorded boding well for activity ahead.

Exhibit 1: BofA Activity Coincident Tracker remained negative
4Q23 in a negative stance



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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Data
Analytics



David Beker >>
Bz Econ/FI & LatAm EQ Strategy
Merrill Lynch (Brazil)
+55 11 2188 4371
david.beker@bofa.com

Natacha Perez
Brazil Economist
Merrill Lynch (Brazil)
+55 11 96057 1866
natacha.perez@bofa.com

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Consumer confidence contribution declined

Consumer confidence registered 94.8 points in December, from 89.5 points one year earlier, contributing with 6bp to the tracker, below 2023 ytd average contribution of 12bp and November's 9bp contribution. Regarding business confidence, December registered the second neutral contribution in a row, after 13 months of consecutive negative results. As it has been the case in the past couple of months, expectation index continues to bring business confidence down, while the current situation indices continue to improve.

Auto sales with the largest rise

Auto sales contribution accelerated to 0.17pts in December (from 0.08 in November), as did year-over-year growth of 9.0% yoy (vs 5.4% previously). According to the National Federation of Motor Vehicle Distribution (Fenabreve), the hike in the year came due to the fiscal stimulus to the sector granted by the government and an improvement in credit, with the beginning of the interest rate easing cycle in the last months of the year.

Money supply: another negative month M1

Money supply M1 continues to be the main negative driver of our tracker, as it has been since Jun22, with a contribution of -0.36pts (from -0.42 in November). 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: M1 continues lowering the index

Contribution per component (in pts)

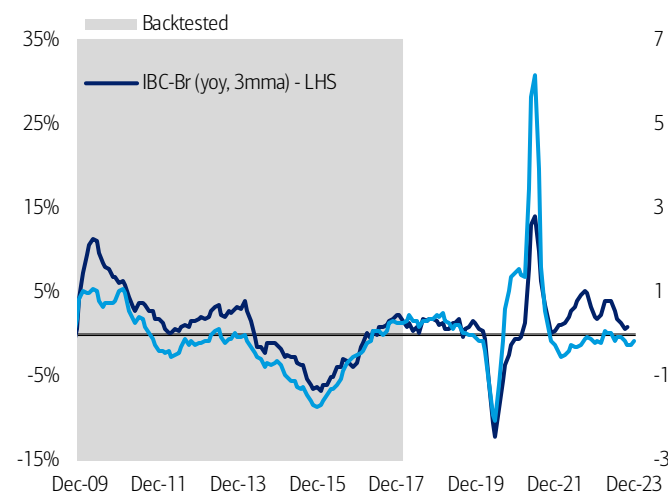
Contributions (pts)	Weight	'23 Jul	'23 Aug	'23 Sep	'23 Oct	'23 Nov	'23 Dec
Consumer conf.	11.4	0.19	0.15	0.09	0.05	0.09	0.06
Business conf.	12.8	-0.05	-0.06	-0.07	-0.05	0.00	0.00
Auto sales	46.1	0.43	0.13	0.07	0.41	0.08	0.17
Money supply	29.7	-0.45	-0.56	-0.53	-0.28	-0.42	-0.36
Activity Coincident Tracker	100	0.13	-0.34	-0.45	0.12	-0.26	-0.12

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 still on negative ground

A soft-landing is here



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BofA Activity Coincident Tracker is 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 ratio (i.e. % of correct prediction in GDP growth yoy change direction) of our monthly Tracker is also high at 81.6%.

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