

BofA Brazil Activity Coincident Tracker

Stepped up February read

Activity Tracker further on positive ground

February BofA Activity Coincident Tracker rose to 0.48pts (vs 0.11pts in January), reaching the greatest print in one year. Momentum improved as well, with the 3mma turned to the positive ground at 0.12pts (from -0.12 previously), after 9 consecutive months in the negative realm. The result suggests a recovery in activity during 1Q24.

Favorable signs for growth this quarter

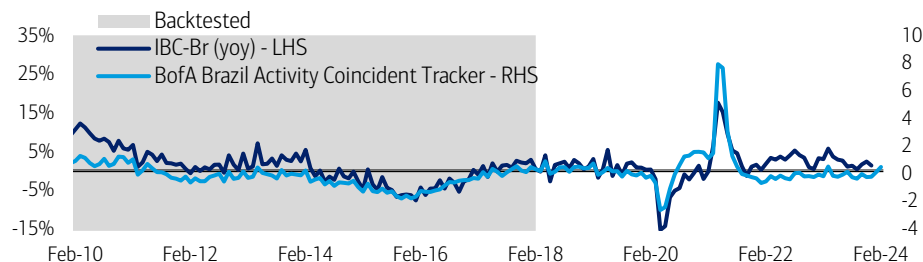
Although ex-ante real rates remain at contractionary level (close to 7%), above neutral real interest rates according to the Brazilian Central Bank (BCB) calculation of 4.5%, activity seems to be benefiting from the ongoing easing process. After GDP growth stability in 2H23, our tracker anticipates acceleration in the beginning of 2024 (See Exhibit 1). 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.

Reinforcing our forecast of 2.2% growth in 2024

As 2023 GDP growth virtually matched our end-year forecast, we maintain our growth forecast of 2.2% this year, once again above consensus. Interest rates reduction and better credit market conditions, amid a still resilient labor market should prompt private consumption this year. Municipal elections also have a role in government consumption every four years. Investments should register growth in the back of easier monetary policy. All in, we expect a different composition of GDP growth this year: driven up mostly by domestic demand, in oppose to large net exports results seen last year. (For more, see: [Brazil Watch: Brazil grew 2.9% in 2023 01 March 2024](#)).

Exhibit 1: BofA Activity Coincident Tracker on positive ground

February increased to 0.45 pts (from 0.11 pts in January) (Backtested)



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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Timestamp: 13 March 2024 09:40AM EDT

Modest contribution from confidence indicators

Consumer confidence continued to fall at the margin, continuing the trend seen since last September, despite labor market resilience and inflation being under control. Household's high indebtedness seems to be behind the consumers' sour mood. The contribution to the tracker was 4bp, below 2023's average of 12bp and January's 5bp contribution. Regarding business confidence, January registered a contribution of 2bp, above the -3bp 2023 average, though below January's 4bp. Current situation brought both confidence indexes up, while expectations contributed to the downside.

Auto sales contribution spiked again

Auto sales contribution accelerated to 70bp in February (from 45bp in January), as did year-over-year growth of 30.1% (vs 20.2% previously). According to National Federation of Motor Vehicle Distribution (Fenabrave), the increase came due to a greater credit flow in several segments, backed by better employment levels and declining interest rates.

Money supply: reducing the scale of negative contribution

Money supply M1 continues to be the main downward contributor to our tracker, as it has been since Jun22, with -0.29pts. Despite still negative, February result smoothed out, with a better contribution than in January (-0.42) and 2023 avg (-0.44pts). M1 captures transactions linked to short-term consumption, so the monetary tightening likely explained its consecutive negative prints. The easing monetary cycle should improve M1 ahead.

Exhibit 3: Strong auto sales in February

Contribution per component (in pts)

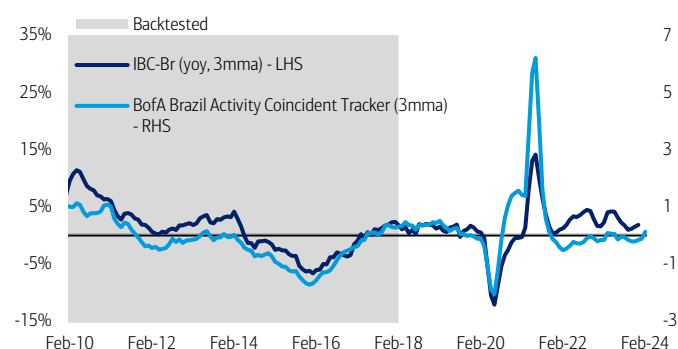
Contributions (pts)	Weight	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Consumer conf.	11.4	0,15	0,09	0,05	0,09	0,06	0,05	0,04
Business conf.	12.8	-0,06	-0,07	-0,05	0,00	0,01	0,04	0,02
Auto sales	46.1	0,13	0,07	0,41	0,08	0,17	0,45	0,70
Money supply	29.7	-0,56	-0,53	-0,28	-0,34	-0,47	-0,42	-0,29
Activity Coincident Tracker	100	-0,34	-0,45	0,12	-0,18	-0,23	0,11	0,48

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 is back to the positive camp

2024 starting on a good note (Backtested)



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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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