



Economic Outlook
July 2024

The image features a vibrant orange background with large, white, organic shapes that create a sense of movement and depth. The word "Global" is prominently displayed in the center in a clean, white, sans-serif font. The overall aesthetic is modern and minimalist, suggesting a global or international theme.

Global

Gradual disinflation allows cautious rate cuts cycle

- Global: gradual disinflation, mostly due to services, allows cautious rate cuts cycle.
- U.S.: gradually decelerating activity and weaker inflation allow the start of interest rate cuts in September (compared to December in the previous scenario).
- Europe: unchanged scenario, despite political uncertainties in France. We expect 0.7% growth in 2024 and two additional interest rate cuts this year.
- China: 5.0% growth in 2024, amid lingering structural challenges.
- LatAm: an earlier pause in Chile.



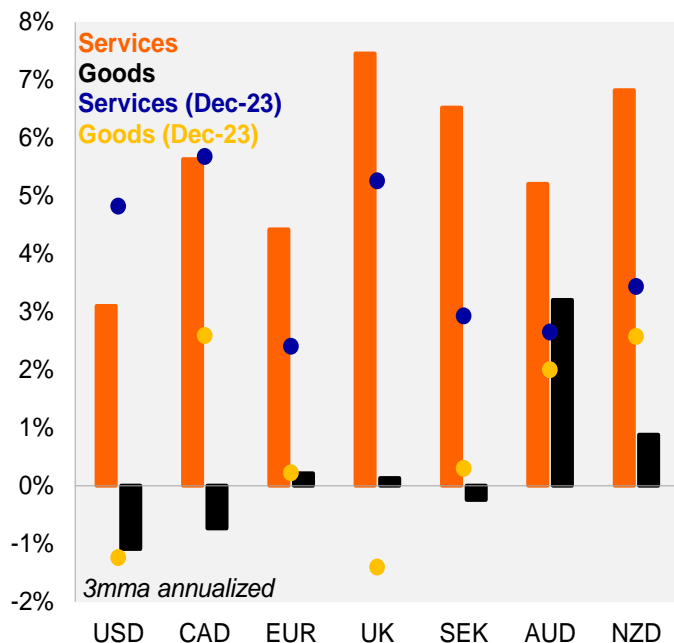
Highlights

Our forecasts:

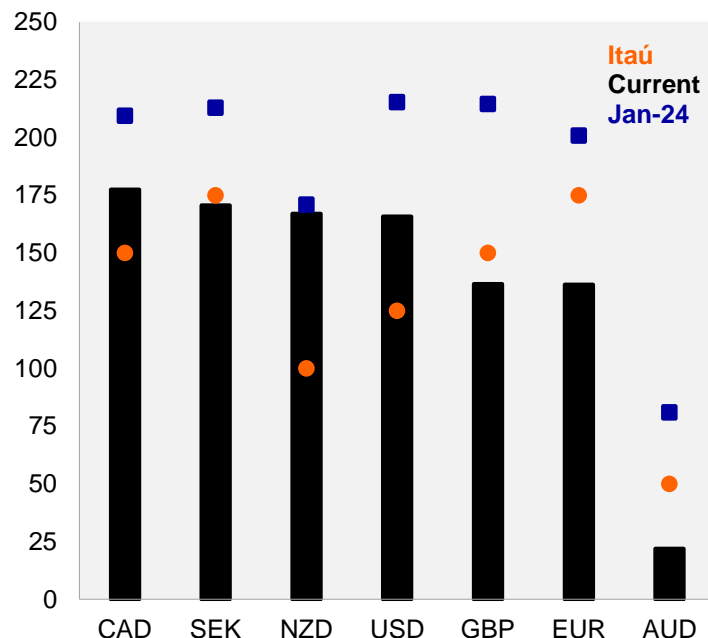
	2018	2019	2020	2021	2022	2023	2024	2025
World	3.6	2.8	-2.8	6.3	3.5	3.2	3.2	3.4
USA	3.0	2.5	-2.2	5.8	1.9	2.5	2.5	2.2
Euro Zone	1.8	1.6	-6.2	5.9	3.5	0.5	0.7	1.0
China	6.7	6.0	2.3	8.4	3.0	5.2	5.0	4.5
Fed Funds	2.25-2.50	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	4.75-5.00	4.00-4.25
10Y U.S. Treasury	2.83	2.00	0.93	1.47	3.88	3.88	4.25	4.00

Global: gradual disinflation allows cautious rate cuts cycle to begin

Higher services than goods inflation



Bps of rates cuts until 2025 in DMs



Inflation in developed countries continues to gradually decelerate, mainly in services. This environment allows for the start of easing cycles, but decisions must be made with caution.

The main concern with inflation is the services component, which remains at high levels or accelerating in comparison to the end of 2023 (except for the USA and Canada). On the goods side, inflation remains benign in all economies, with improvement at the margin, except for Australia.

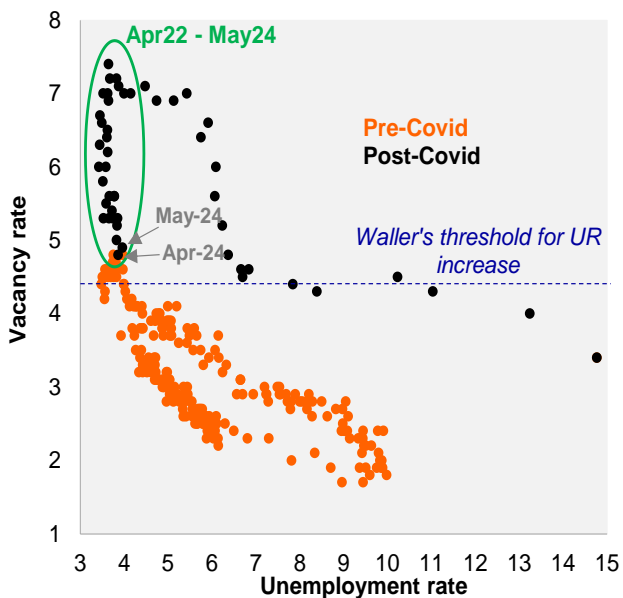
This has led the market to price a cycle of five to seven cuts of 25 basis points for these countries, lower than expected at the beginning of the year.

The concretization of this scenario and possible divergences in cycles will depend on the cooling of the services sector ahead and, in some cases, the slowdown in activity.

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U.S.: gradual slowdown in activity and weaker inflation to allow easing cycle to begin in September

Beveridge curve indicating UR increase



Fed Summary of Economic Projections					
Variable	Meeting	2024	2025	2026	Longer-run
GDP	Mar	2.1	2.0	2.0	1.8
	Jun	2.1	2.0	2.0	1.8
Unemp. Rate	Mar	4.0	4.1	4.0	4.1
	Jun	4.0	4.2	4.1	4.2
PCE deflator	Mar	2.4	2.2	2.0	2.0
	Jun	2.6	2.3	2.0	2.0
Core PCE deflator	Mar	2.6	2.2	2.0	-
	Jun	2.8	2.3	2.0	-
Fed Funds *	Mar	4.6	3.9	3.1	2.6
	Jun	5.1	4.1	3.1	2.8
Real FFR (implicit from FFR - Core PCE)	Mar	2.0	1.7	1.1	0.6
	Jun	2.3	1.8	1.1	0.8

* Median of FOMC projections
Source: Fed, Itaú

Moderate growth and rebalancing job market. The U.S. economy is now showing clearer signs of deceleration. We now expect GDP growth in 2024 at 2.5% (from 2.7% in the previous scenario).

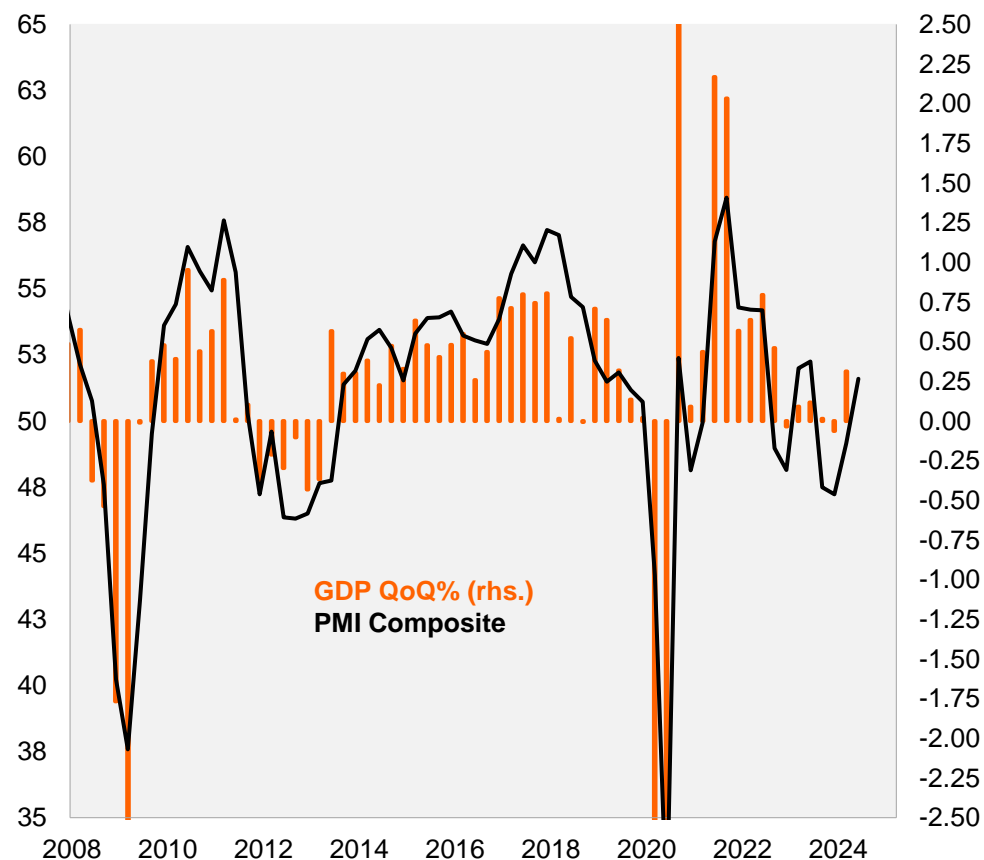
Very low inflation figures suggest sustained disinflation going forward, allowing for the start of the easing cycle.

The Fed has expressed a more cautious tone regarding the start of rate cuts, but the downward inflation surprises indicate that the cycle may start earlier than we previously projected. We now expect the rate cut cycle to begin in September (rather than December) and have revised the number of cuts this year from one to two, while maintaining the three cuts expected for next year.

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Europe: unchanged scenario, despite political uncertainties in France

EZ PMI indicates positive GDP



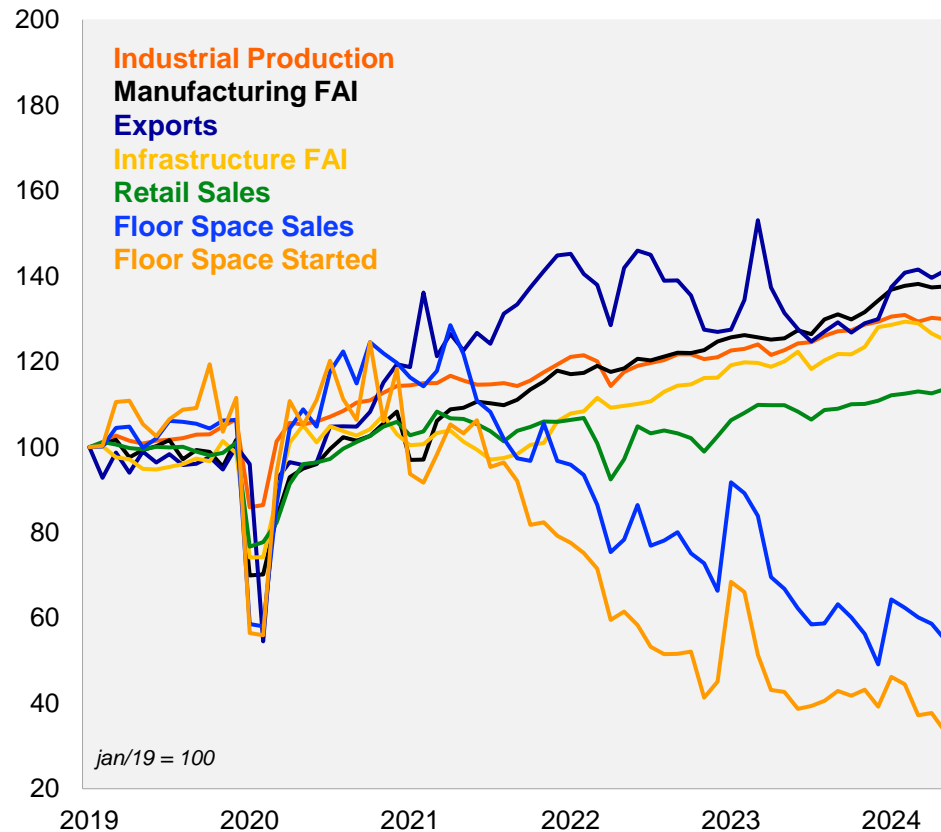
1 Stabilizing activity and gradual disinflation pave the way for a cautious easing cycle. Core inflation receded to 0.22% in June, from 0.36% in May. We see inflation gradually converging toward the target in early 2025.

2 The scenario going forward is cautious, given the still gradual disinflation. We expect two additional interest rate cuts in 2024 and four in 2025, with a terminal rate of 2.25%.

3 With a divided parliament, political uncertainties are back on the radar in France, generating a negative bias for the country's fiscal situation.

China: 5.0% growth in 2024, amid lingering structural challenges

Manufacturing and infrastructure offset weakness in real estate



Our growth forecasts for China remain at 5.0% for 2024 and 4.5% for 2025. Activity has shown a good performance this year, supported by the manufacturing/exports and infrastructure sectors. Industrial production climbed by 5.6% yoy in May.

Industrial confidence surveys remained stable in June, a good sign for the sector's performance. However, this growth strategy may be hindered by the challenging geopolitical background, with higher tariffs from both Europe and the U.S.

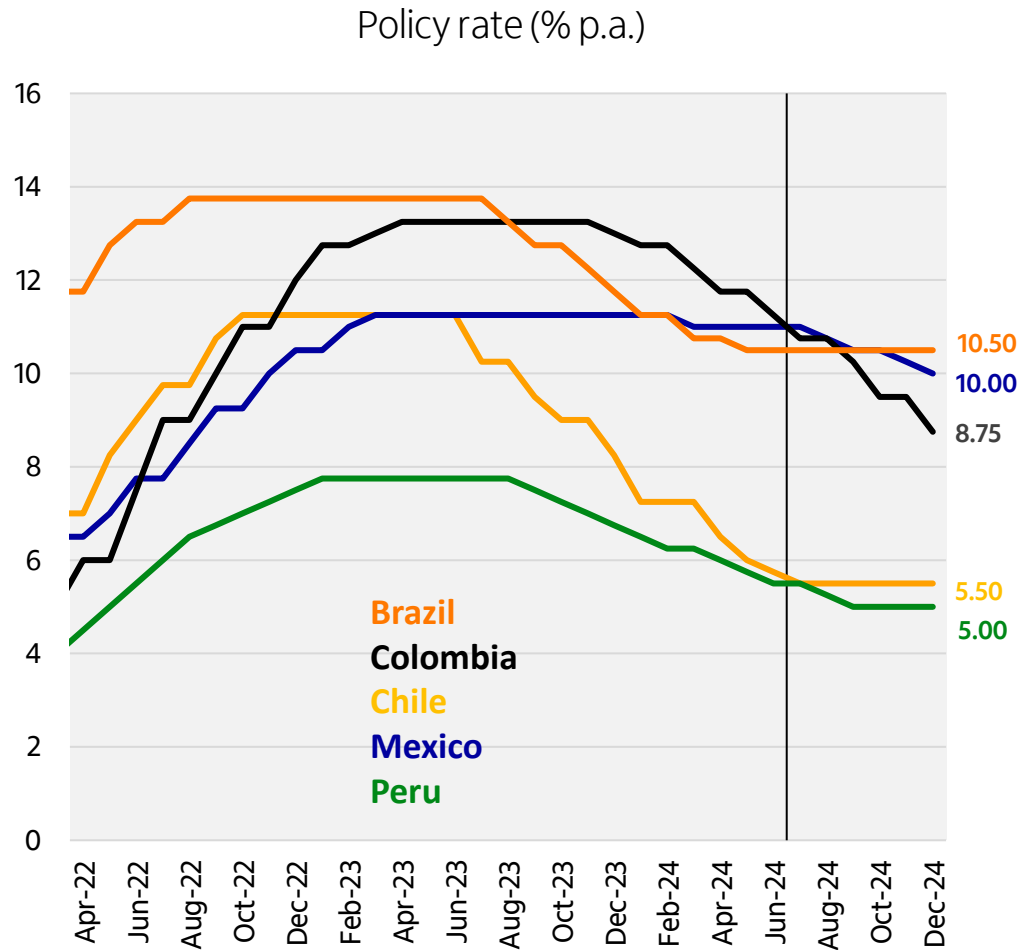
Furthermore, there are no alternatives to boost growth in domestic demand because the adjustment in the property sector is still underway. Thus, structural challenges for the Chinese economy linger, despite the improvement in growth at the margin.

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LatAm: An earlier pause in Chile



Downshifting growth in several economies. In Mexico, downshift our growth call again to 1.6% and to 1.7% for 2025 (from 1.9%). In Argentina, we downside risks to our 2024 growth call have materialized, leading us to envisage a deeper contraction, of 3.5% (from -3% previously), as the economy has yet to shake off the lingering effects of the stabilization program. We maintained our 2024 GDP growth call in Chile at 2.8%.

Higher growth in Peru and Colombia. In Brazil, we are maintaining our GDP growth forecast at 2.3% in 2024 and 1.8% in 2025. Despite the floods in Rio Grande do Sul, the economy has been resilient in the first half of the year.

More than meets the eye on inflation. This month we maintained our inflation forecasts in Mexico and Peru, while we raised our forecasts for Chile, Colombia and Brazil. In Chile's case, we increased our inflation forecast up materially for this year to 4.5% (from 4.1%) and next to 3.3% (from 3.1%), incorporating a larger effect of electricity price readjustments.

An earlier pause in the easing cycle in Chile. We now expect the BCCh to cut the policy rate once more in this month's meeting by 25bps to 5.5% and then enter a prolonged pause, as upside inflationary risks stem from the direct and second round effects of higher electricity prices. Importantly, risks to our monetary policy calls for this year in Colombia and Mexico tilt towards fewer cuts.

LatAm: forecast changes

World

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	3.2	3.2	3.2	3.4	3.4

Brazil

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	2.9	2.3	2.3	1.8	1.8
BRL / USD (eop)	4.86	5.30	5.15	5.40	5.25
Monetary Policy Rate (eop,%)	11.75	10.50	10.50	10.50	10.50
IPCA (%)	4.6	4.0	3.8	4.0	3.7

Argentina

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	-1.6	-3.5	-3.0	3.5	2.5
ARS / USD (eop)	809	1027	1150	1500	1700
Reference rate (eop,%)	100.0	30.0	30.0	30.0	30.0
CPI (%)	211.4	130.0	140.0	50.0	50.0

Colombia

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	0.6	1.4	1.2	2.7	2.6
COP / USD (eop)	3855	4100	4000	4200	4000
Monetary Policy Rate (eop,%)	13.00	8.75	8.75	6.00	6.00
CPI (%)	9.3	5.6	5.2	3.3	3.0

Latin America and Caribbean

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	2.2	1.8	2.1	2.5	2.4

Mexico

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	3.2	1.6	2.3	1.7	1.9
MXN / USD (eop)	16.97	18.6	17.9	19.3	18.9
Monetary Policy Rate (eop,%)	11.25	10.00	10.00	8.00	8.00
CPI (%)	4.7	4.3	4.3	3.9	3.9

Chile

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	0.2	2.8	2.8	2.0	2.0
CLP / USD (eop)	879	920	920	850	850
Monetary Policy Rate (eop,%)	8.25	5.50	5.25	4.5	4.50
CPI (%)	3.9	4.5	4.1	3.3	3.1

Peru

	2023	2024		2025	
		Current	Previous	Current	Previous
GDP (%)	-0.6	3.1	2.7	3.0	3.0
PEN / USD (eop)	3.70	3.80	3.80	3.80	3.80
Monetary Policy Rate (eop,%)	6.75	5.00	5.00	4.25	4.25
CPI (%)	3.2	2.8	2.8	2.5	2.5

Commodities forecasts

	2019	2020	2021	2022	2023	2024	2025
Brent Oil (USD/bbl.)	64	50	75	82	77	85	80
Iron Ore (USD/ton)	90	153	116	110	135	110	90
Corn (USd/bu)	383	437	592	656	480	400	380
Soy (USd/bu)	912	1207	1290	1474	1311	1100	950
Wheat (USd/bu)	540	604	790	757	669	720	760
Sugar (USd/lb)	13	15	19	20	22	21	20
Coffee (USd/lb)	130	123	235	166	188	180	150

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Brazil

Near the limit

- With a sharp increase in spending and the revenue growth agenda near the limit, the perception of fiscal risk has worsened. To signal the sustainability of the framework's expenditure rule, cost-saving initiatives – like the ones being reportedly considered by the country's economic team – are vital; these include a spending restriction of at least BRL 20 billion, ideally closer to BRL 30 billion. For now, our primary deficit forecasts remain at 0.6% of GDP for 2024 and 0.9% of GDP for 2025.
- Given the deterioration of domestic fundamentals, rising risk perception, we revised our exchange rate projections to BRL/USD 5.30 for 2024 (from 5.15) and 5.40 for 2025 (from 5.25).
- Our GDP growth estimates remain at 2.3% for 2024 and 1.8% for 2025. The major flooding in the South region of the country affected some sectors in May, but our activity indicator suggests a recovery in June.
- We raised our inflation projections to 4.0% for both 2024 and 2025 (from 3.8% and 3.7%, respectively), to incorporate the effect of the weaker currency on food and industrial prices and the fuel price adjustment recently announced. The balance of risks for both years continues to show upward asymmetry, with a weaker currency and still-tight labor market possibly putting even more pressure on inflation. We also see a risk of rising food inflation in 2024, if the fresh-food price shocks are not reversed during the winter.
- The Brazilian Central Bank signaled its intention to maintain contractionary interest rates until the disinflation process is consolidated and expectations are anchored. We continue to expect a stable Selic rate of 10.50% pa until the end of 2025, but with heightened risks related to the potential impact of the recent exchange rate dynamics on future inflation.
- We highlight that the forecasts presented here are based on the assumption that the bimonthly Treasury report, to be released on July 22, will announce a significant spending restriction of BRL 20 to 30 billion. Any frustration on this front could significantly undermine the credibility of the country's fiscal framework and economic policy, which could in turn affect asset prices – perhaps similar to the moves seen in recent weeks.



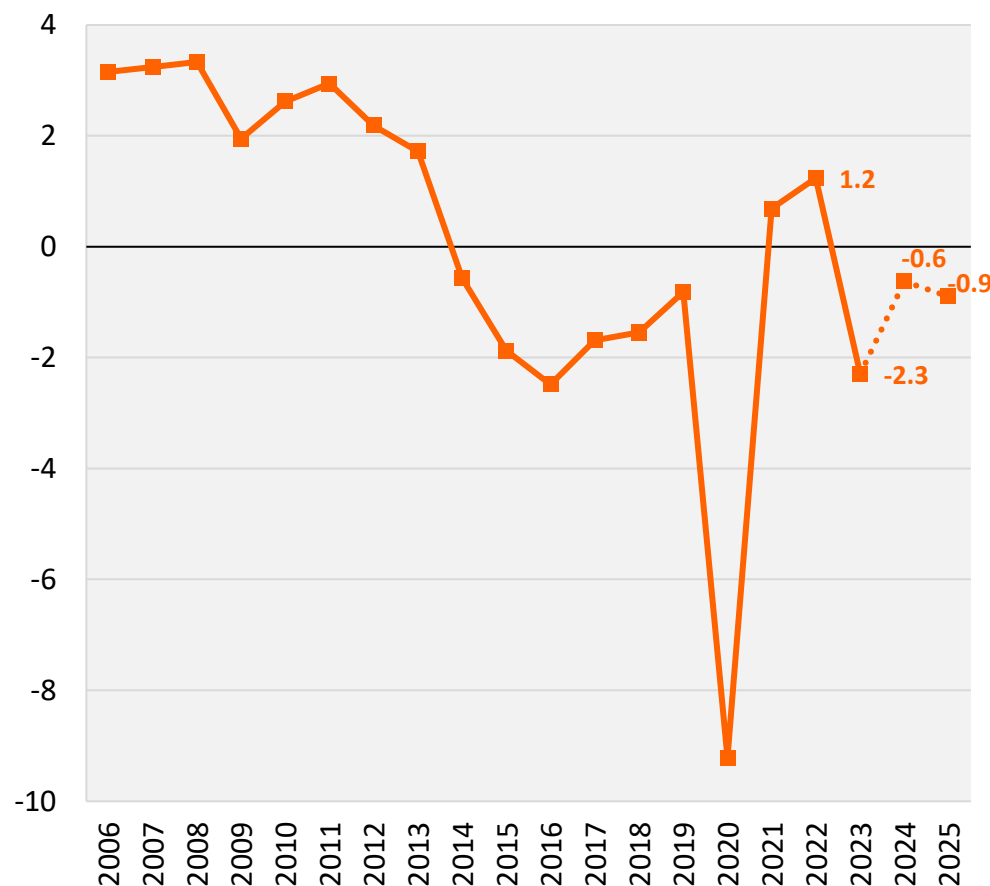
Highlights

Brazil: forecasts

	2019	2020	2021	2022	2023	2024	2025
Economic activity							
GDP (%)	1.2	-3.3	4.8	3.0	2.9	2.3	1.8
Unemployment rate (%) – Dec.	11.7	14.8	11.7	8.4	7.9	7.8	8.0
Inflation							
IPCA (%)	4.3	4.5	10.1	5.8	4.6	4.0	4.0
IGP-M (%)	7.3	23.1	17.8	5.5	-3.2	3.3	3.1
Monetary Policy							
Selic rate (% eop)	4.50	2.00	9.25	13.75	11.75	10.50	10.50
Selic rate (% avg)	5.96	2.81	4.81	12.63	13.25	10.67	10.50
Public accounts							
Primary result (% GDP)	-0.8	-9.2	0.7	1.2	-2.3	-0.6	-0.9
Gross debt (% GDP)	74.4	86.9	77.3	71.7	74.4	77.9	81.4
External sector							
BRL/USD (eop)	4.03	5.19	5.57	5.28	4.85	5.30	5.40
BRL/EUR (eop)	4.52	6.34	6.30	5.65	5.34	5.56	5.67
Current Account (% GDP)	-3.6	-1.9	-2.8	-2.5	-1.3	-1.2	-1.6
Trade balance (USD bi.)	35	50	61	62	99	85	70

Fiscal: increase in mandatory spending threatens the framework's spending limit

Primary Result
(% of GDP)



Our primary deficit forecasts remain unchanged at 0.6% of GDP for 2024 (BRL 75 billion) and 0.9% of GDP for 2025 (BRL 105 billion). On the one hand, revenue collection has increased following the measures implemented by the government last year. On the other hand, the already heavy tax burden in the country leaves little room for fiscal adjustments on the revenue side.

Initiatives to contain spending are vital to avoid breaching the expenditure limit in 2024 and to signal the sustainability of the fiscal framework, including a spending restriction of at least BRL 20 billion (ideally BRL 30 billion) by July 22. In a recent report ([Macro Vision – Expenditure Control: A fundamental support to the fiscal framework](#)), we presented an analysis of the rising expenses and proposals to control them going forward.

An alternative scenario of no announced measures and/or only a small restriction on spending would likely significantly undermine the credibility of the government's fiscal adjustment strategy.

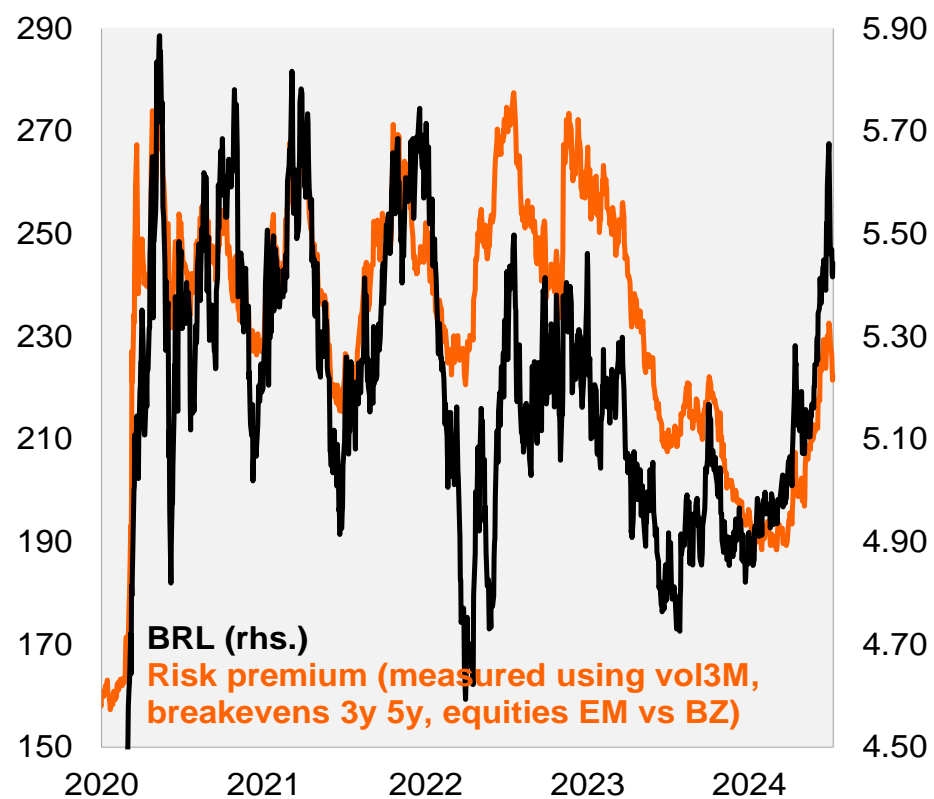
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Impact on BRL of worsening fiscal perception

Significantly higher risk premium and FX depreciation



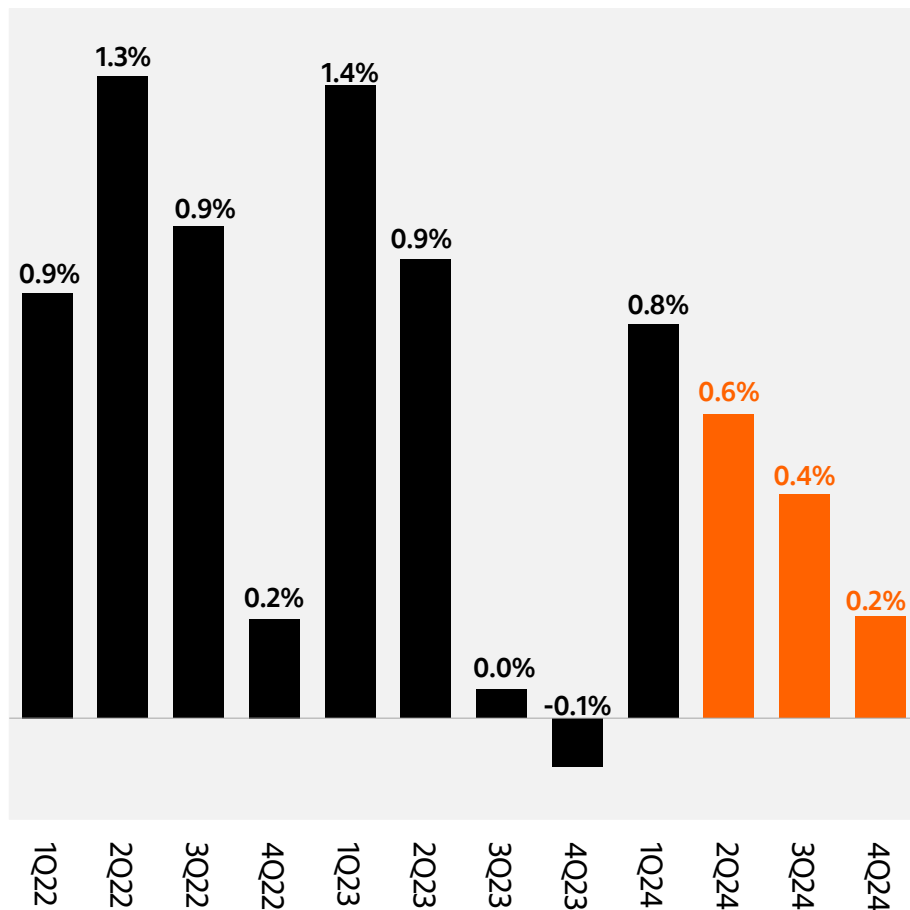
The Brazilian real (BRL) has depreciated sharply over the last month, decoupling from other currencies. The exchange rate reached 5.70 BRL/USD, not far from the periods of greatest stress at the onset of the pandemic, while the risk premium rose significantly, reflecting the fiscal challenges.

We revised our exchange rate estimates to BRL/USD 5.30 for 2024 (from 5.15) and 5.40 for 2025 (from 5.25), reflecting the deterioration in the market's perception of domestic uncertainties.

We lowered our estimates for the current account deficit to USD 27 billion in 2024 (from USD 43 billion) and USD 37 billion in 2025 (from USD 53 billion). The downward revision reflects the change in the Central Bank's methodology, which will classify crypto assets in the capital account instead of the trade balance.

Resilient activity

Quarterly GDP growth



Slight moderation in growth in 2Q24. We see GDP growth of 0.6% qoq/sa (2.0% yoy) in 2Q24, after a gain of 0.8% in 1Q24. Note that some monthly indicators for May were weaker due to the impact of the floods in the state of Rio Grande do Sul, but in general, economic activity has been resilient, especially the consumption of goods.

Our GDP forecast for 2024 remains unchanged at 2.3%, with sustained consumption and recovering investments. The tragic flooding in Rio Grande do Sul, so far, doesn't seem to have affected the aggregate GDP growth for FY24.

For 2025, we continue to anticipate a slowdown in GDP growth to 1.8%. The prospect of higher interest rates at the end of the easing cycle and decelerating loans are likely to result in negative monetary momentum for economic growth next year.

Finally, the resilient labor market figures support our call of a historically low unemployment rate of 7.8% in 2024. The latest data showed no signs of deceleration, with expanding employment driven by the formal sector, pressuring real wages. For 2025, we expect a slight increase in the unemployment rate to 8.0%, due to the slowdown in GDP.

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Higher inflation projections

Weaker exchange rate has a lagged effect on prices			
Pass Through - effect of a 10% depreciation on IPCA (bps)			
Weights	Lag	IPCA	79
26	Regulated		20
5,1	Immediated	Gasoline	20
74	Market set		59
15	2 - 3 months	Food	26
23	4 - 12 months	Industrials	33
37	Through inertia	Services	0

Source: Itaú

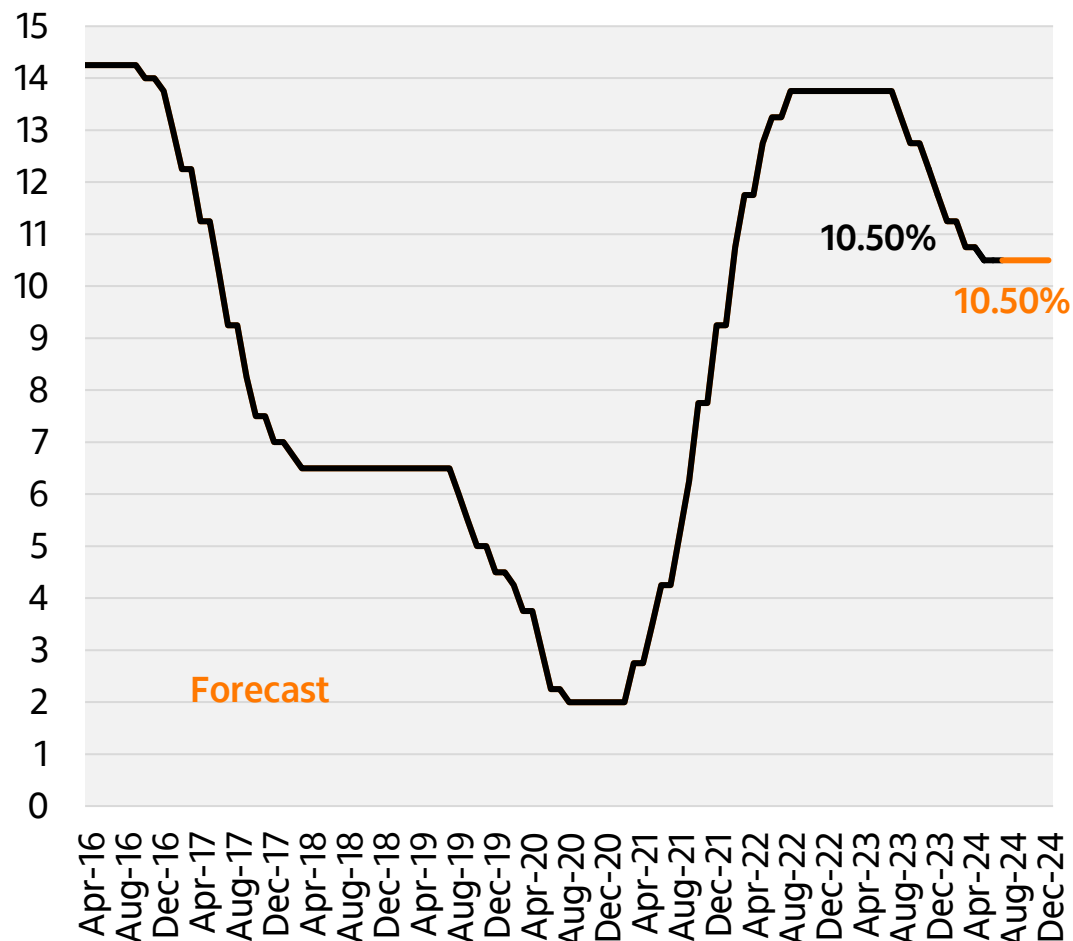
1 We revised our inflation projection for 2024 to 4.0%, from 3.8%. The impact of a weaker currency on food and goods prices has a lag of three months to one year. Some of the effects of the FX depreciation has therefore already been incorporated in 2024. We also incorporated the 7% gasoline adjustment recently announced by Petrobrás.

2 However, there is still an upward asymmetry in the balance of risks to our call, given that an even weaker exchange rate could have additional effects on food and industrial products. Furthermore, the tight labor market could drive underlying services inflation closer to 6% (vs. 5.5% in our scenario). To make matters worse, additional delays in the reversal of the fresh food price shocks could raise our food inflation estimate to 6% (from 5% in our current scenario). On the other hand, the increase in Eletrobras' contribution to eliminate the pandemic and water-scarcity accounts poses downside risk to our projection.

3 For 2025, we raised our inflation projection to 4.0% (from 3.7%) to incorporate the effect of a weaker currency and higher inertia. Note that the balance of risks is also tilted upward, given that an even weaker currency could have additional effects on inflation next year and the resilience of the labor market could put more pressure on services inflation.

Monetary policy: Stability at risk

Selic rate (%)



The Brazilian Central Bank's Monetary Policy Committee (Copom) will meet again at the end of July, in a potentially even more turbulent context than the previous meeting, when the authorities decided to halt the easing cycle.

Simulating the model used by Copom, with the recent FX lows, we estimate an above-target inflation of 3.3% for the relevant horizon. This exercise assumes a constant Selic rate of 10.50% pa, an exchange rate of BRL/USD 5.70 (vs. 5.30 at the last Copom meeting), and no further deterioration in expectations for 2025 and 2026.

This inflation estimate should no longer be described as "near the target." We therefore estimate that the interest rate level required to return the consumer price index IPCA to the target would be at least 11.50% pa. Current pricing in future interest rate contracts – which include a potential increase in the Selic rate in upcoming monetary policy decisions – reflects a real risk.

For now, we maintain our projections for the benchmark rate at 10.50% pa for 2024 and 2025, assuming some exchange rate accommodation after convincing fiscal decisions and signals.

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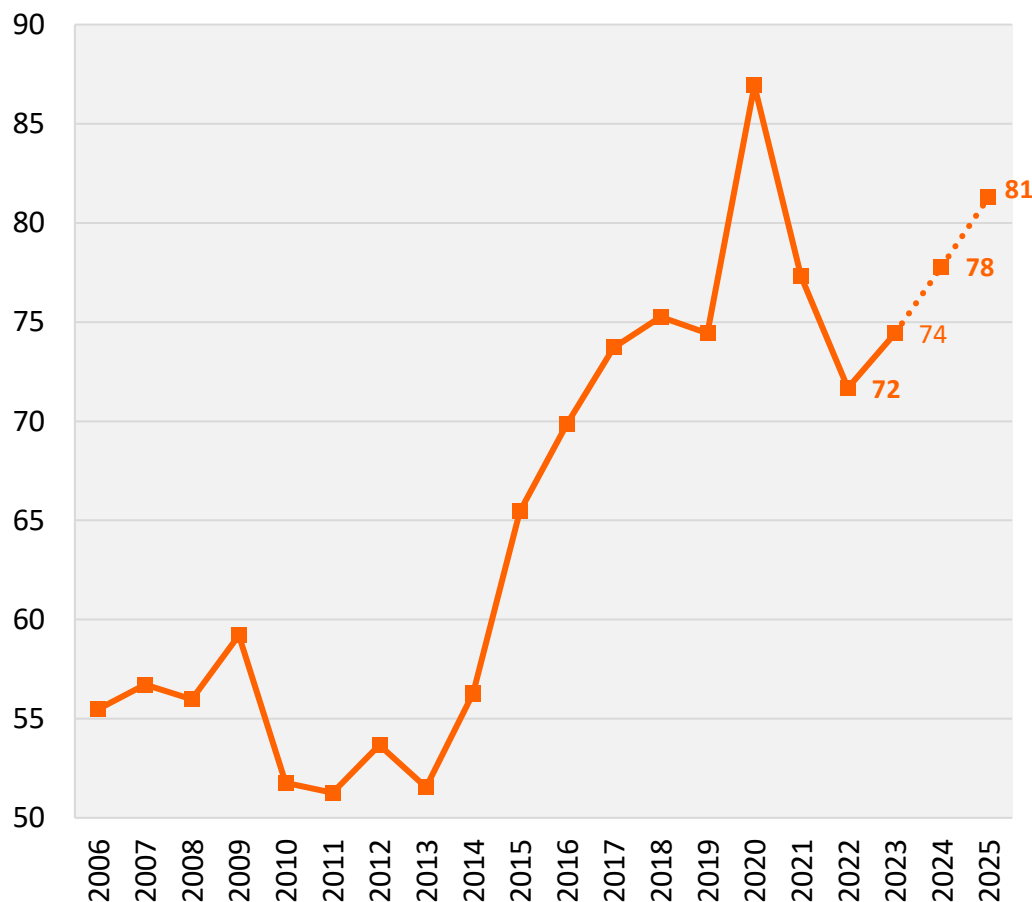
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Nearing the edge

Gross debt
(% of GDP)



We emphasize that our entire scenario assumes the announcement of measures to mitigate fiscal uncertainty in the short term. In particular, we are waiting for the National Treasury's bimonthly report on primary revenues and expenditures, when we expect the government to announce a spending restriction. As previously noted, we assume a restriction of at least BRL 20 billion, but ideally BRL 30 billion.

Any frustration on this front could significantly undermine the credibility of the government's fiscal framework and economic policy, with a potentially considerable impact on asset prices – perhaps similar to the moves seen in recent weeks. In this case, we could see the exchange rate at BRL/USD 5.70, inflation above 4% in 2024 and 2025, and a need to raise the interest rate (by at least 1 pp) before the end of the year.

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