

## ECONOMIC ANALYSIS

# Economic activity decelerates further at the beginning of the year

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GDP growth declined to +0.2% QoQ in 1Q14 from +0.4% QoQ in 4Q13 (and +0.5% QoQ on average in 2013) due to the more restrictive tone of economic policies, lower confidence / higher uncertainty and the impact of the deceleration of China and Argentina on exports. GDP figures released today, together with evidence of additional weakness of economic activity at the beginning of 2Q14, add a strong downward bias to our 2.0% GDP forecast for 2014. Moreover, they reinforce the view that [the Central Bank will leave the SELIC rate unchanged at 11.0% for a while](#).

## 1Q14 growth was dragged down by a contraction in private consumption, investment and exports

The economy expanded only 0.2% QoQ in 1Q14 in line with markets expectations (consensus was at 0.2% QoQ) and somewhat below our forecast (0.5% QoQ). Private consumption, investment and exports declined 0.1% QoQ, 2.1% QoQ and 3.3% QoQ in the period. Imports increased 1.4% QoQ. The 0.7% QoQ expansion of public consumption and the increase in inventories were the only components supporting growth; in practice, they prevented 1Q14 GDP from contracting. Looking at supply components of GDP, agriculture grew by 3.6% QoQ and services by 0.4% QoQ while the contraction was concentrated in the industry sector (-0.8% QoQ). In annual terms, growth dropped by the third consecutive month and reached 1.9% YoY (vs. 3.5% YoY in 2Q13, 2.4% in 3Q13 and 2.2% in 4Q13). 2013 growth was revised upwards to 2.5% from 2.3%, even though 4Q13 growth was cut to 0.4% QoQ from 0.7% QoQ (the revision in the GDP series from 1Q13 onward was mainly due to methodological changes in the industrial production survey).

## Growth below 2.0% in both 2014 and 2015

All in all, data released today by the IBGE reinforce the perception of increasing weakness of economic activity, in particular of investment, whose share in GDP declined to 17.7% in 1Q14 from 18.2% in 4Q13 and 19.2% 1Q13 (well below the average of other similar emerging economies). In our view, the uncertainty surrounding the economy (due to external issues as the concerns about the deceleration in China and the tapering as well as domestic factors such as the risk of an energy blackout, the mismanagement of public policies and upcoming presidential elections) and the less supportive tone of economic policies added to some structural problems faced by the country (exhaustion of the growth model based on private consumption, competitiveness problems, etc) and helped to determine the additional slowdown of the economy at the beginning of the year. Looking ahead, we see no strong reasons to expect a significant turnaround in economic activity, at least in the short-term. We maintain our view that growth will remain weak, below 2.0% in both 2014 and 2015 (see our [2Q14 Brazil Economic Outlook](#) for more on this issue).

For more on Brazil, [click here](#).

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