

Brazil Flash

Activity continued to recover, albeit slowly, at the end of the last year. GDP grew only 0.9% in 2012.

4Q12 GDP expanded by 0.6% QoQ (1.4% YoY), in line with our forecasts (0.6% QoQ; 1.5% YoY) but slightly less than markets expected (0.8% QoQ; 1.6% YoY). The recovery of economic activity remained slow (slower-than-potential and slower-than-expected) and also fragile (excessively dependent on private consumption). We continue to expect growth to accelerate gradually over 2013 and GDP to grow 3.6% in 2013, but we also see increasing risks to the materialization of this “benign scenario”.

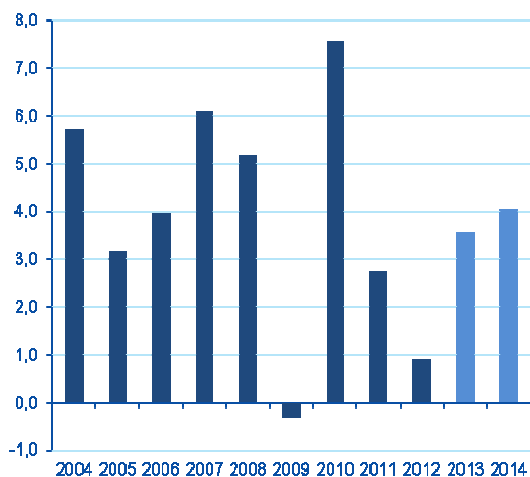
- Investment declined 4.0% in 2012 and prevented the economy from recovering more strongly**

In spite of a slight (and somewhat surprising) expansion at the fourth quarter of 2012 (+0.5% QoQ), investment declined 4.0% in 2012 (comparable to the 6.7% decline observed in 2009, when the country was hit by the Lehman Brothers crisis). The investment/GDP ratio declined to 18.1% in 2012 from 19.3% in 2011. In our view the weakness of investment is, at a large extent, explained by the uncertainty generated by domestic policies (in particular the excessive intervention of the government in the economy) and also by the increasing competitiveness problems faced by the country. In spite of the weakness of the investment segment, consumption remained relatively strong as a consequence of both the robustness of the labor market and public stimulus. Private consumption expanded by 1.2% QoQ at 4Q12, the highest pace since 2010, and public consumption grew by 0.8% QoQ. In yearly terms, the consumption components expanded 3.1% and 3.2%, respectively, in 2012. Regarding external demand, exports gained some momentum at the end of 2012 (4.5% QoQ), but were outpaced by imports (+8.1% QoQ) which recovered from a sharp contraction at 3Q12, backed by the consumption expansion. In the year, however, the contribution of external demand to GDP was slightly positive as exports expanded by 0.5% in comparison to a 0.2% growth in imports. Overall, the economic activity gained some momentum at the end of the year, but this was not enough to prevent the economy from growing only 0.9% in 2012, the lowest figure since 2009 (see Chart 1).

- Low growth and high inflation: a challenging environment**

We expect the strength of private consumption, the reduction in industrial inventories and the impact of stimulant policies to drive growth gradually up over 2013. We forecast GDP to grow by 3.6% this year. However, we see significant risks to the materialization of this “benign scenario”, which is our base case scenario for the country. A non-negligible risk is that domestic uncertainty continues to paralyze investment and then prevent a sharper recovery. Inflation, which we expect to remain very close to 6.5% during the first half of the year, could also undermine growth ahead. Overall, the domestic environment poses an increasingly challenging dilemma to the CB. If the monetary authority decides to keep the SELIC unchanged at 7.25%, inflation could run out of control. If it decides to adjust the SELIC upwards to try to anchor inflation expectations, it could end up killing on-going recovery (and then bring some risks to credit markets). We do not expect a SELIC hike to be announced at the monetary policy meeting next week, but the monetary authority should shed some light on the dilemma it is currently facing. Anyway, we think markets are currently overestimating the probability and the magnitude of a monetary tightening cycle ahead.

Chart 1
GDP (%)



Source: IBGE and BBVA Research

Chart 2
GDP: demand and supply components

	y/y %			q/q %		
	Q2 12	Q3 12	Q4 12	Q2 12	Q3 12	Q4 12
GDP	0,5	0,9	1,4	0,3	0,4	0,6
Priv.Cons.	2,4	3,4	3,9	0,7	1,0	1,2
Pub.Cons.	3,1	3,2	3,1	1,2	0,0	0,8
GFCF	-3,7	-5,6	-4,5	-0,9	-1,9	0,5
Exports	-2,5	-3,2	2,1	-3,5	0,3	4,5
Imports	1,6	-6,4	0,4	-0,3	-7,5	8,1
Agriculture	1,7	3,6	-7,5	5,8	2,1	-5,2
Industry	-2,4	-0,9	0,1	-2,2	0,8	0,4
Services	1,5	1,4	2,2	0,5	0,0	1,1

Source: IBGE

La actividad continuó recuperándose moderadamente a finales del año pasado. El PIB creció un modesto 0,9% en 2012.

El PIB creció un 0,6% t/t en el 4T12 (1,4% a/a), en línea con nuestras estimaciones (0,6% t/t; 1,5% a/a), aunque ligeramente menos de lo que los mercados esperaban (0,8% t/t; 1,6% a/a). La recuperación de la actividad económica mantuvo un ritmo lento (menor al ritmo potencial y esperado) y débil (excesivamente dependiente del consumo privado). Nuestras expectativas son que el crecimiento se acelere gradualmente a lo largo de 2013 y el PIB crezca el 3,6%, pero vemos riesgos crecientes a la concretización de este “escenario benigno”.

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