

Brazil

Economic Watch

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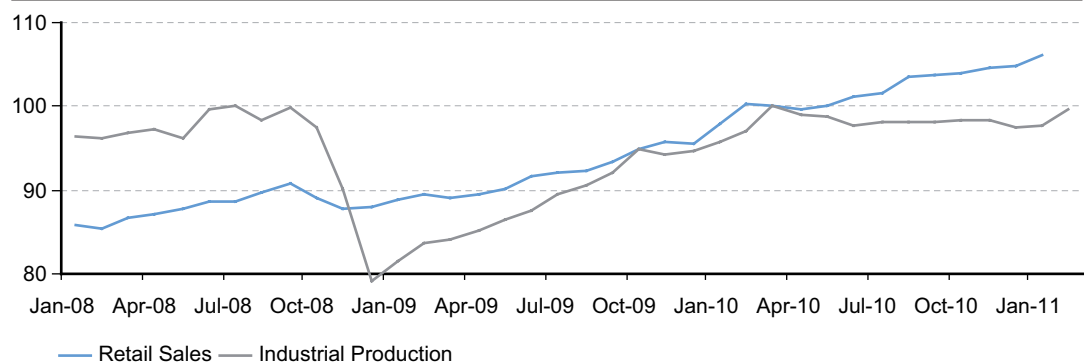
Economic Analysis

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Robust expansion of industrial production in Brazil: more a catching-up with demand than evidence of overheating

- After having accumulated a 2.1% decline since tax incentives were eliminated in March 2010, industrial production expanded 1.9%/m/m (6.9%/y/y) in February.
- Although industrial production was expected to move up in February, its magnitude surprised to the upside. Market consensus was for a 0.9%/m/m (5.0%/y/y) expansion.
- The recovery of industrial production was expected, as in previous months it has been clearly underperforming on demand-side indicators such as retail sales, which expanded 6.1% since March 2010.
- In our view, the robust expansion of industrial production is more a sign of supply catching-up with demand than evidence that the economy will refrain from moderating.
- Forthcoming data is likely to show that economic activity is growing at a pace that would imply Q1 GDP to grow around 1.1%/q/q, which is more than in the last quarter (Q4 2010 GDP grew 0.75%/q/q), but broadly in line with GDP growing around 4.0% this year.

Chart 1
Industrial Production and Retail Sales (SA index; Mar 10 = 100)



Source: IBGE

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

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