

Brazil

# Economic Watch

Madrid, 2 February 2011

## Economic Analysis

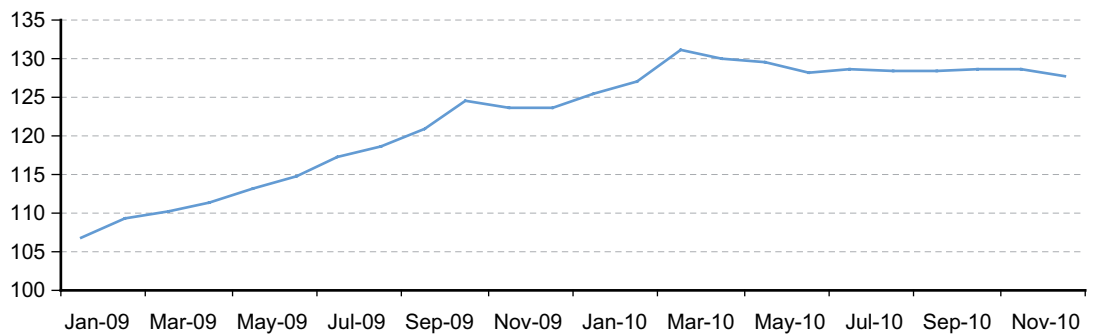
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## Brazil: Industrial production surprises to the downside in December, but grows at 10.5%y/y in 2010

- The industrial production declined 0.7%*m/m* in December, in sharp contrast with the market's consensus that pointed to a 0.9%*m/m* expansion in the last month of 2010.
- After growing significantly in the first three months of 2010 (1.9%*m/m* on average) when tax incentives were still in place, the industrial production showed monthly declines in 7 out of the last 9 months of the year.
- From April to the end of the year, industrial production declined 2.7%. This poor performance is related to a significant expansion of imports and to a slowdown in inventory accumulation. In contrast, recent supply-side indicators have been much better, with retail sales, for example, expanding around 4% in the same period.
- The negative performance of the industrial production in December could also be an early sign of the moderation of the economic activity we are expecting for 2011. The release of other economic activity indicators in the next two weeks will provide more evidence about this (December's Retail Sales will be released on Feb.18 and the Economic Activity Index of the Central Bank, in the following week).
- In spite of this poor performance in the last months, the strong expansion in the first months of the year - together with a low baseline from 2009— guaranteed a 10.5%*y/y* growth in 2010. This was the highest growth since 1986.
- The industrial production is expected to grow around 5%*y/y* in 2011.

Chart 1

**Industrial Production Index, Seasonally Adjusted (%m/m)**



Source: IBGE

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