

Economic Watch

Brazil

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Economic Analysis

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Brazil: IP surprises to the upside and adds to overheating concerns

- Industrial production (IP) expanded 0.5%*m/m* in March and accumulated a 2.8% growth for the quarter. The performance of the industrial sector in March was stronger than markets were anticipating (0.2%*m/m*).
- This is the second month in a row in which industrial production has surprised to the upside: in February this supply-side indicator grew 2.0%*m/m* while markets were expecting a 0.9%*m/m* growth.
- Today's industrial production figures show the supply-side of the economy is slowing down at a slower pace than expected in spite of the appreciation of the exchange rate, cost pressures (especially wages), and the recent worsening of credit conditions.
- This adds to evidence that domestic demand remains very strong, due to buoyant credit and labour markets, and, therefore, fuels overheating concerns.
- In this environment there is very limited room for inflation expectations to decline and the Central Bank could be forced to extend the monetary tightening by more than we are currently forecasting (our current call is for one last 25bps SELIC hike in June).
- Taking into account today's information, GDP should grow around 1.1%*q/q* in the first quarter of the year (in comparison to 1.9%*q/q* and 0.6%*q/q* on average in the first and second half of 2010 respectively) and around 4.0% for the year as a whole.

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