

Brazil

Economic Watch

Madrid, 9 December 2010

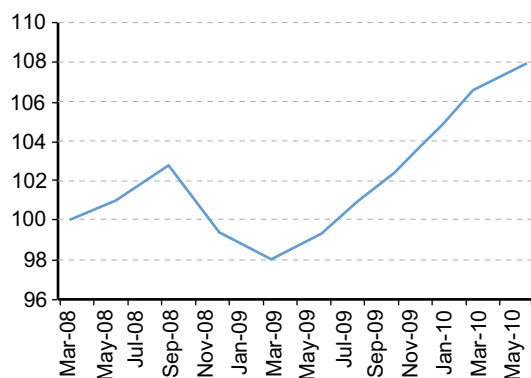
Economic Analysis

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Brazil: GDP moderates, but private domestic demand remains strong

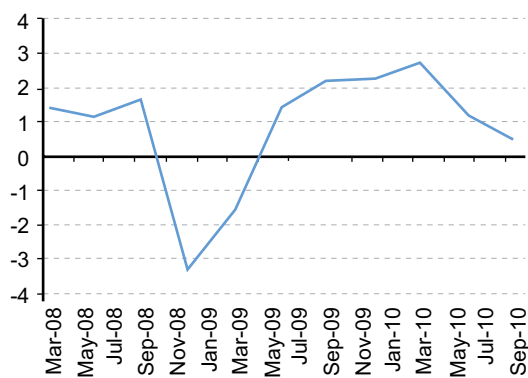
- Brazilian GDP expanded 0.5%q/q in the third quarter of the year, slightly more than forecasted by markets and by BBVA (0.4%q/q and 0.3%q/q respectively). Growth in the third quarter moderated, therefore, in comparison to previous quarters (2.3%q/q in the first and 1.8% q/q in the second quarter, according to revised statistics). The moderation follows the withdrawing of fiscal incentives and the tightening of the monetary policy implemented some months ago. The moderation of the inventories building process also contributed to the slowdown.
- In spite of this quarterly moderation, GDP grew 6.7%y/y (9.3%y/y in the first and 9.2%y/y in the second quarter) in comparison to the same period last year what shows that economy continues growing at a high pace.
- In spite of the GDP moderation, private domestic demand's performance continued very positive in the third quarter as labour and credit markets remains especially supportive. Private consumption expanded 1.6%q/q more than in the previous quarter (0.9%q/q). Total investments barely slowed down in the third quarter (3.9%q/q) in comparison to the second quarter (4.3%). Public consumption eased significantly to 0.0%q/q following an exceptionally growth in the previous quarter (1.9%q/q).
- The dynamism of the domestic demand –as well as the appreciation of the exchange rate –continued driving imports high in the third quarter (7.4%q/q). Exports also expanded in the period (2.4%q/q, but clearly by much less than imports).
- Looking at the supply figures, the services sector was the only one that expanded this quarter (1.0%). Both agricultural and industrial sectors displayed negative growth in the third quarter (-1.5%q/q and -1.0%q/q respectively).
- In the third quarter of the year, the investment rate of the economy reached 19.4% of the GDP, higher than in the same period last year (17.9%). Gross savings reached 18.5% of the GDP.
- Brazilian financial needs reached 2.6% of the GDP in the third quarter and are expected to continue trending upwards in coming periods, in line with the dynamism of domestic demand and the appreciation of the exchange rate.
- The GDP figures for the third quarter together with the perspectives of some quarterly recovery in the fourth quarter reinforce our 7.5% GDP growth forecast for this year. For 2011 we expect growth to moderate to 4.3% following some tightness of the fiscal policy and also less significant carry-over effects.

Chart 1

Brazil: GDP (SA Index; Q1 08 = 100)


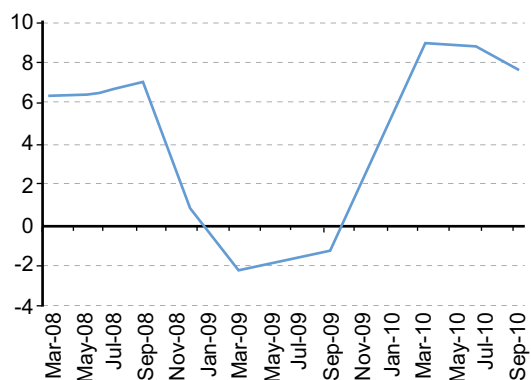
Source: IBGE

Chart 2

Brazil: GDP (q/q %)


Source: IBGE

Chart 3

Brazil: GDP (q/q %)


Source: IBGE

Table 1

GDP: demand components

	y-o-y %			q-o-q %		
	Q1 10	Q2 10	Q3 10	Q1 10	Q2 10	Q3 10
GDP	9.3	9.2	6.7	2.3	1.8	0.5
Priv.Cons.	8.4	6.4	5.9	1.6	0.9	1.6
Pub.Cons.	2.7	5.6	4.1	0.0	1.9	0.0
GFCF	28.4	28.1	21.2	4.0	4.3	3.9
Exports	14.7	7.2	11.3	6.9	0.1	2.4
Imports	39.6	38.9	40.9	8.8	5.9	7.4

Source: IBGE

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