

Economic Watch

Brazil

Madrid, 10 June 2011
Economic Analysis

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The downward adjustment of retail sales surprised markets which expected a 0.4%*m/m* growth and added to other recent evidence that economic activity is gradually losing dynamism

Brazil: retail sales drop 0.2%*m/m* and reinforce perspectives of economic moderation

- Retail sales declined 0.2%*m/m* in April. The result fell short of markets expectations (+0.4%*m/m*) and showed the first downward correction since April of 2010 when retail sales dropped following the removal of some tax incentives.
- In yearly terms, retail sales came up at 10.0%*y/y* (consensus: 11.0%*y/y*) which shows that domestic demand remains strong in spite of this month's adjustment. Nonetheless, a low base effect and some calendar effects help to explain the magnitude of this yearly variation.
- April's retail sales data add to other recent evidence of economic activity moderation, especially in the second quarter. Industrial production, for example, slid 2.1%*m/m* in April, according to official data released last week.
- The so awaited slowdown of retail sales come as a natural consequence of series of measures being taken since the end of 2010 as the tightening of the monetary policy, the implementation of public expenditure cuts, the taxation of consumption loans, and the introduction of macro-prudential measures. Rising inflation is also behind the downward correction of retails sales in April.
- Today's data reinforce the view that economic will decelerate in the second quarter after a very dynamic first quarter. This should help inflation to trend down during the next months and, therefore, take some pressure off the Central Bank, which should soon call for an end of the monetary tightening cycle.

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