

Flash

Brazil

Weak retail sales reinforce moderation mood

Retail sales declined 0.4%/m/m in August and surprised markets to the downside (consensus was for a 0.1%/m/m drop). This result shows domestic demand slowed down after three months of positive growth and right before the country started to more intensely feel the impact of the global crisis.

- **Retail sales dropped the most in more than a year in August**

Retail sales dropped 0.4%/m/m in August, in sharp contrast with the 0.7%/m/m average growth observed in the year up to then. This was the worst retail sales performance since March of 2010 when the indicator declined 0.7%/m/m. The weakness of retail sales in August is a sign of domestic demand moderation and also a natural correction after three months of strong expansion (0.8%/m/m in average).

- **Today's figures support lower Q3 GDP and extra SELIC cuts**

Taking into account retail sales results released today, we see our current 0.7%q/q forecast for Q3 GDP growth as a ceiling for the period and, therefore, downside risks to our 3.7% GDP forecast for 2011. Even though retail sales dropped by more than markets expected, we stick to the view that the CB will continue cutting the SELIC rates by 50bps in the last two meetings of this year (and not by more than that as some have been recently suggesting).

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

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