

# Brazil Flash

## Fixed capital investment contracts and Q1 GDP surprises to the downside

GDP grew 0.2%q/q in the first quarter, the same rate as in Q4 11 and significantly less than expected (BBVA: 0.6%q/q; Consensus: 0.5%q/q). We expect activity to accelerate in the next few quarters, but our 3.3% forecast for the year has a clear downside bias.

### • Consumption expansion prevented GDP from falling

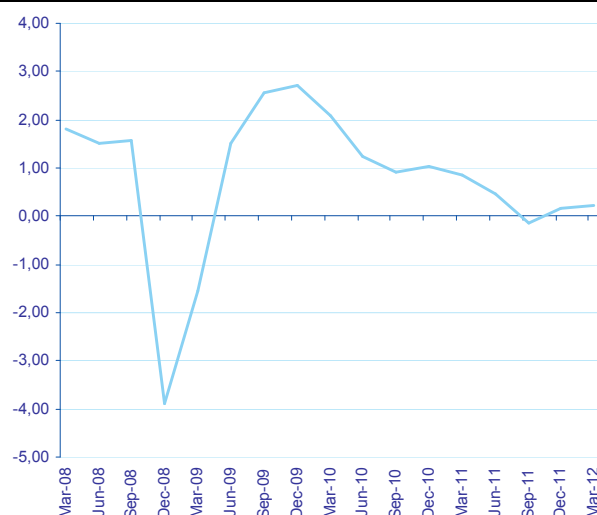
GDP growth remained in positive remain thanks to the good performance of both private and public consumption (together they account for 84% of total GDP). The latter increased 1.0%q/q by the second month in a row and the former accelerated to 1.5%q/q in Q1 12 from 0.5%q/q in Q4 11. Consumption expansion -which was supported by a still robust labor market and by declining inflation and interest rates- contrasted to the 1.8% decline in gross fixed capital formation (the third consecutive contraction). Imports expanded by 1.1%q/q, outperforming exports which increased only 0.2%q/q in the period. The investment rate of the economy reached 18.7% while the savings rate was 15.7%.

### • Weak GDP result can trigger the announcement of more growth-supportive measures

We continue expecting activity to recover in the next few quarters, especially in the second half of the year, following the significant reduction of the SELIC rate and series of tax and credit incentives being taken. However, the negative GDP surprise in Q1 12 and the signs that activity was still weak at the beginning of the second quarter (industrial production fell 0.2%m/m in April, according to official data released yesterday) suggest that our 3.3% GDP forecast for the year is too optimistic and that the country could end growing less than 3.0% in 2012. In this environment, the announcement of more measures to support growth (including additional monetary easing) should not be seen with surprise.

Chart 1

**GDP growth (q/q%; seasonally adjusted)**



Source: Central Bank of Brazil

Chart 2

**GDP: demand and supply components**

	y/y %			q/q %		
	Q1 12	Q4 11	Q3 11	Q1 12	Q4 11	Q3 11
GDP	0,8	1,4	2,1	0,2	0,2	-0,1
Priv.Cons.	2,5	2,1	2,8	1,0	1,0	-0,1
Pub.Cons.	3,4	1,3	1,2	1,5	0,5	-0,8
GFCF	-2,1	2,0	2,5	-1,8	-0,6	-0,6
Exports	6,6	3,7	4,1	1,8	1,8	0,2
Imports	6,3	6,4	5,8	1,1	2,1	-1,8
Agriculture	-8,5	8,4	6,9	-7,3	-0,1	1,2
Industry	0,1	-0,4	1,0	1,7	-0,5	-0,8
Services	1,6	1,4	2,0	0,6	0,4	-0,3

Source: IBGE

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