

Brazil Flash

Very gradual recovery

GDP expanded by 0.4%q/q in Q2 2012, slightly less than expected (BBVA Research: 0.6%q/q; Consensus: 0.5%q/q). The expansion recorded in the period follows a modest growth of 0.1%q/q in both Q1 2012 and Q4 2011 and a small contraction in Q3 2011. We expect growth to accelerate in the quarters ahead.

- As in the previous quarter, consumption expansion prevented GDP from contracting**

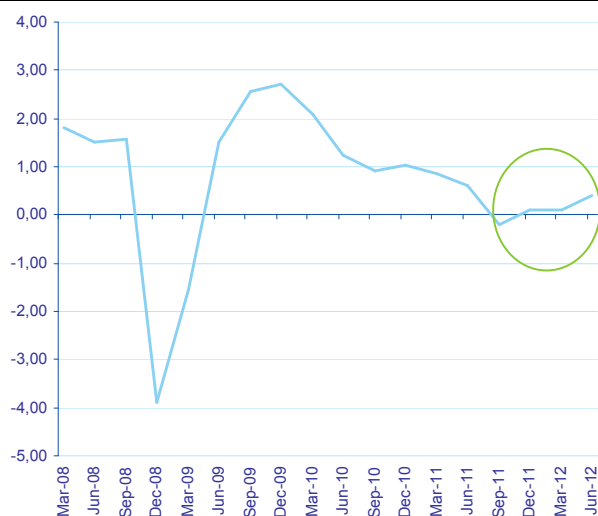
Public and private consumption grew 0.6%q/q and 1.1%q/q, respectively in Q2. Consumption expansion was weaker than in the previous quarter when its public and private components expanded respectively by 0.9%q/q and 1.6% q/q. Gross capital formation declined for the fourth month in a row in Q2. The magnitude of the contraction was, however, lower than in the previous quarter (-0.7%q/q in Q2 versus -1.5%q/q in Q1). Exports dropped 3.9% in the period in contrast with a 1.9% expansion of imports. Therefore, the contribution of external demand to GDP was negative, making consumption growth the sole responsible for a positive GDP growth in Q2 (exactly as in Q1). From a supply perspective, the primary sector expanded by 4.9%q/q, recovering from the 5.9%q/q drop recorded in Q1 which had been caused at a large extent by some supply shocks. The service sector expanded by 0.7%q/q. The industrial sector lost 2.5%q/q in the period reinforcing the concerns about the segment. All in all, the data released today shows an economy that expands with difficulties, where the relative strength of consumption is offset by the negative impact of the current environment on external demand and fixed investment/manufacturing sector.

- GDP will not grow more than 2.0% in 2012**

Although Q2 GDP figures refrained from supporting more firmly the claim that activity is in a sustained recovery process, we continue expecting recent measures (tax-incentives and historically important monetary easing) to pave the way for a more robust expansion in the second half of the year. However, even if activity performs as we expect in the quarters ahead (over 1.0%q/q), GDP growth will not be higher than 2.0% this year. There exists, in addition, a risk of the economy not responding to monetary and fiscal stimuli given the turbulences in the external environment and internal obstacles (household indebtedness and manufacturing sector's loss of competitiveness (see our [recent Brazil Economic Outlook](#) for more details about this "stagnation risk"). Taking all this into account, we see more likely a SELIC cut of 25bps than a monetary pause in the next monetary policy meeting in October.

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

Chart 1
GDP growth (q/q%; seasonally adjusted)



Source: IBGE

Chart 2
GDP: demand and supply components

| | y/y % | | | q/q % | | |
|-------------|-------|-------|-------|-------|-------|-------|
| | Q2 12 | Q1 12 | Q4 11 | Q2 12 | Q1 12 | Q4 11 |
| GDP | 0,5 | 0,8 | 1,4 | 0,4 | 0,1 | 0,1 |
| Priv.Cons. | 2,4 | 2,5 | 2,1 | 0,6 | 0,9 | 1,0 |
| Pub.Cons. | 3,1 | 3,4 | 1,3 | 1,1 | 1,6 | 0,6 |
| GFCF | -3,7 | -2,1 | 2,0 | -0,7 | -1,5 | -0,2 |
| Exports | -2,5 | 6,6 | 3,7 | -3,9 | -0,3 | 1,4 |
| Imports | 1,6 | 6,3 | 6,4 | 1,9 | -0,4 | 1,6 |
| Agriculture | 1,7 | -8,5 | 8,4 | 4,9 | -5,9 | 1,3 |
| Industry | -2,4 | 0,1 | -0,4 | -2,5 | 1,7 | -1,0 |
| Services | 1,5 | 1,6 | 1,4 | 0,7 | 0,6 | 0,4 |

Source: IBGE

Recuperación muy gradual

El PIB creció 0,4%/t en el T2 2012, ligeramente por debajo de lo esperado (BBVA Research: 0,6%/t; Consenso: 0,5%/t). La expansión observada en el período sigue un modesto crecimiento de 0,1%/q en los dos trimestres anteriores y una pequeña contracción en el T3 2011. Esperamos que el crecimiento se acelere en los próximos trimestres.

Para ver más acerca de Brasil, [haga clic aquí](#)

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