

# Brazil Flash

## Q3 GDP surprises heavily on the downside and casts doubt on economic recovery

GDP expanded by 0.6%QoQ in Q3, more than in the previous five quarters, but well below expectations (BBVA Research: 1.4%; consensus: 1.2%). Following the release of disappointing GDP data, we expect the government to soon announce more measures to support activity. We continue expecting the SELIC to remain stable at 7.25% in the months ahead, but the chance of a new downward adjustment has now increased.

- Investment dropped for the fifth quarter in a row, undermining domestic demand**

After growing no more than 0.2%QoQ in each of the previous four quarters, GDP expanded by 0.6%QoQ in Q3. In yearly terms, GDP growth increased to 0.9%YoY from 0.5%YoY in Q2. By demand components, GDP benefited in the third quarter from a non-negligible expansion of private consumption (0.9%QoQ), an improvement in net external demand (due a drop of 6.5%QoQ in imports and a 0.2%QoQ increase in exports) and, to a smaller extent, from a 0.1%QoQ expansion in public consumption. However, investment in fixed capital (i.e. gross fixed capital formation) declined 2.0%QoQ and -once more- undermined growth. The weakness of this demand component is, in our view, related to a turbulent external environment and, especially, to domestic issues such as the excessive intervention of the government in the economy, which has been a source of uncertainty and regulatory risk.

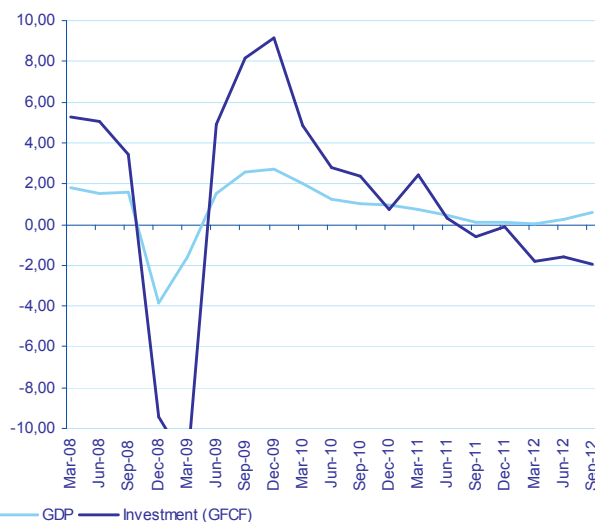
- GDP figures add a negative bias to our current growth forecasts**

We should soon revise downwards our GDP forecasts for the country, not only due to incoming data but also because growth ahead will likely not be as strong as we expected. In 2012, growth will not be significantly higher than 1.0% and will certainly be lower than 1.6%, our current official forecast. The data released today also suggests that our 4.2% GDP forecast for the next year is somewhat optimist. Even though we continue expecting growth to gradually gain momentum in the quarters ahead, the weakness of the investment segment together with an unusually high degree of domestic and external uncertainty imply that the recovery process will develop at a slower-than-expected pace.

- Government to take new measures to support growth**

Following the announcement of lower-than-expected growth in Q3, we expect the government to soon take a new set of measures to push domestic activity. We see especially likely the announcement of more tax incentives, the acceleration of public expenditures and an additional expansion of credit from public banks. The “competitiveness agenda” to address some of the Brazil’s structural problems could also gain force from now on. It is not clear whether the government will try to change its current “macro-managerial/interventionist” image to create a more benign environment for investment, but we would see with no surprise a change in that direction. Finally, we think that the data released today reinforce the perspective of stability of the SELIC rate for a long period. In our view, the monetary authority would only decide to cut the SELIC in the case of an “accident” in developed economies or if growth figures continue frustrating recovery perspectives in the quarters ahead.

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



Source: IBGE

Chart 2  
**GDP: demand and supply components**

	y/y %			q/q %		
	Q3 12	Q2 12	Q1 12	Q3 12	Q2 12	Q1 12
GDP	0.9	0.5	0.8	0.6	0.2	0.1
Priv.Cons.	3.4	2.4	2.5	0.9	0.7	0.9
Pub.Cons.	3.2	3.1	3.4	0.1	1.0	1.5
GFCF	-5.6	-3.7	-2.1	-2.0	-1.6	-1.8
Exports	-3.2	-2.5	6.6	0.2	-3.5	-1.0
Imports	-6.4	1.6	6.3	-6.5	-1.5	0.4
Agriculture	3.6	1.7	-8.5	2.5	6.8	-7.7
Industry	-0.9	-2.4	0.1	1.1	-1.8	0.7
Services	1.4	1.5	1.6	0.0	0.5	0.6

Source: IBGE

# El PIB sorprende muy negativamente a la baja en el T3 y pone en duda el proceso de recuperación de la economía

El PIB creció 0,6%/t en el T3, más que en los cinco trimestres previos, pero muy por debajo de lo esperado (BBVA Research: 1,4%; consenso: 1,2%). Tras el decepcionante anuncio del PIB, esperamos que el gobierno anuncie pronto más medidas de estímulo al crecimiento. Continuamos esperando que el SELIC siga estable en 7,25% en los próximos meses, aunque la probabilidad de un nuevo recorte sea ahora mayor que antes.

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