

Brazil

Economic Watch

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Economic Analysis

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Brazil: Retail sales remain stable in December and reinforce signs of activity moderation

- Retail sales remained stable (0.0%/m/m) in December and showed a weaker than expected performance in the last month of the 2010 (the market consensus was 0.4%/m/m). The result was also weaker than observed in November (which was revised downwards to 0.8%/m/m% from 1.1%/m/m).
- The three-month average declined to 0.3%/m/m from 0.4%/m/m in November (and 0.8% in October).
- The moderation in retail sales is line with the moderation showed by the industrial production in December and, therefore, reinforces the view that the economy started to moderate in the end of 2010 and will continue doing so in coming months following the change of the tone of economic policies.
- More signs of this moderation should be provided next week when the Central Bank releases its Monthly Activity Index (the IBC-Br).
- We expect the news of activity moderation - together with the recent announcement of expenditure cuts - to limit the expansion of inflation expectations for the end of 2011 and consolidate the view that the SELIC will be adjusted upwards to 12.25% this year (but not more than that as some are currently betting).
- Finally, it is important to highlight that although retail sales surprised negatively in December, the overall expansion in 2010 was of 10.9%, the most since 2001.

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