

Brazil

Economic Watch

Madrid, 10 March 2011

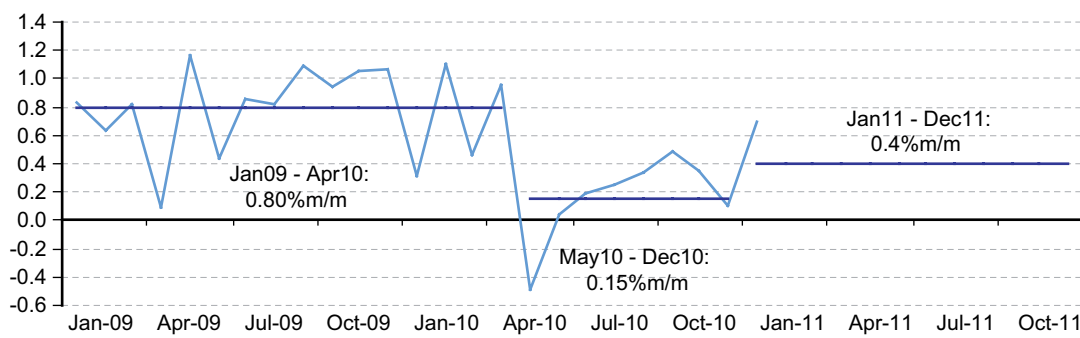
Economic Analysis

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Brazil: economic activity starts the year strongly

- Today, the Central Bank released its Monthly Activity Indicator (IBC-Br), which showed that the economy grew 0.7%*m/m* in January. This was the highest monthly growth since April 2010.
- January's expansion was much stronger than the average growth observed since the middle of last year, when economic activity started to slow down (0.15%*m/m*). It was also stronger than the average monthly expansion we expect for 2011 (0.4%*m/m*) which is in line with our 4.1% GDP forecast for this year.
- The performance of the IBC-Br, which acts as a monthly proxy for GDP, in January was actually more aligned with the growth pace observed in 2009 and the beginning of 2010, when the economy was recovering from the worst of the crisis (0.8%*m/m*) and a series of supportive macroeconomic policies were in place (see graph below).
- The figure released today reinforces the risk that the economy will refrain from moderating and grow more than expected. As [Q4 2010 GDP](#) and January's retail sales released yesterday (1.2%*m/m*; 8.3%*y/y*) showed, private consumption remains very robust. This scenario actually also reinforces the risks that economic policies could be made tighter than we are currently expecting ([one last SELIC hike in April and then the implementation of macro-prudential measures](#)).
- We, however, expect economic growth to moderate and stabilize around lower levels in the forthcoming months.

Chart 1

IBC-Br (%m/m)

Source: Central Bank of Brazil

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

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