

ECONOMIC ANALYSIS

GDP grows 0.1% QoQ in 3Q14 after having declined in the first two quarters of the year

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GDP expanded 0.1% QoQ in 3Q14, putting an end to the recession the country faced in the first half of the year, when economic activity declined 0.2% QoQ and 0.6% QoQ, respectively, in 1Q14 and 2Q14. The slight growth in 3Q14, which was in line with expectations (BBVA: 0.1%QoQ; consensus: 0.1% QoQ), was driven by a rebound in both investment and in public consumption. We expect the very gradual recovery to continue in 4Q14 and GDP to grow 0.2% in 2014.

Private consumption and imports contributed negatively in 3Q14

3Q14 growth benefited from a rebound in investment (1.3% QoQ), following four quarters of contraction (investment declined 11% from 2Q13 until 2Q14) and the expansion in public consumption (1.3% QoQ) and exports (1.0% QoQ). On the other hand, private consumption, which represents around 2/3 of GDP, contracted somewhat in the period (-0.3% vs. -0.2% QoQ and 0.0% in 1Q14 and 2Q14, respectively). Imports also undermined growth, by growing 2.4% QoQ, to some extent spurred by the recovery of investment. From a supply side perspective, the slight growth in 3Q14 was the result of the expansion in industry (1.7% QoQ) and services (0.5% QoQ). The former erases part of the 3% contraction accumulated since 2Q13. In annual terms, GDP growth improved somewhat in comparison to the previous quarter but remains negative (-0.2% YoY vs. -0.9% YoY).

We expect GDP to grow 0.2% in 2014 and not significantly more in 2015

All in all, GDP figures released today showed that economic activity rebounded very slightly in 3Q14 thanks to a recovery in investment and in spite of the deterioration in public consumption and the negative contribution from net exports. We expect this rebound to continue in 4Q14, however, we think this expansion is more a natural correction following the contractions recorded in the first half of the year rather than the beginning of a sustainable, robust upward trend. Practically all GDP demand components remain weak, affected by the very sharp worsening in confidence levels and the unfavorable environment for Brazilian exports (decline in the terms of exchange, moderation in China and Argentina). In particular, even after the rebound in 3Q14, investment represents only 17.4% of GDP, largely due to very low domestic savings (14.0%). Even though we see the recent signs of reversal in economic policy as positive (see our just-released Latam Daily Flash and Brazil Economic Outlook for details), they should have a negative impact in economic activity in the short-term. This and an additional deterioration in Brazil's terms of exchange will limit the room for a stronger recovery next year. We expect GDP to grow 0.2% in 2014 and 1.3% in 2015.

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