Brazil | The recession continued in 4Q15 and GDP dropped 3.8% last year

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GDP declined 1.4% QoQ in 4Q15, somewhat less than in the previous quarters. The figure was somewhat worse than we expected (-1.1% QoQ) and a tad above market consensus (-1.6% QoQ). GDP dropped 3.8% in 2015, mainly due to contractions in investment and private consumption (-14.1% and -4.0% respectively). GDP performance should not be much better in 2016 than it was in 2015.

GDP contracted for the fourth consecutive quarter in 4Q15

The recession continued in 4Q15, although the pace of the deterioration of economic activity slowed down. More precisely, GDP decreased 1.4% QoQ in the period (BBVAe: -1.1% QoQ consensus: -1.6% QoQ), somewhat less than in the previous two quarters (-2.1% in 2Q15 and -1.7% in 3Q15), although more than in 1Q15 (-0.8% QoQ). By demand components, investment -which contracted for the seventh consecutive month- and private consumption declined 4.9% QoQ and 1.3% QoQ respectively, somewhat more than we forecast. Public consumption also contracted in 4Q15, by 2.9% QoQ precisely. Even though exports also decreased in the period (-0.4%QoQ), the more significant correction in imports (-5.9% QoQ) implied that the contribution of net external demand to growth was positive again in the last quarter of 2015. Anyway, it is worth to note that the quarterly decline in imports was the fifth in a row. Looking at the supply side the primary sector expanded 2.9% QoQ while both industry and services lost 1.4% QoQ in 4Q15.

GDP declined 3.8% in 2015, mainly due to negative contributions from investment and private consumption

As a consequence of the contraction of GDP in each one of the four quarters last year, GDP declined 3.8% in 2015. As we have been pointing out (see our 1Q16 Brazil Economic Outlook, for example), behind this significant contraction of economic activity last year were both external factors (moderation of global GDP, fall in commodity prices, financial volatility, etc) and internal variables (fiscal deterioration, rising inflation, abnormally high uncertainty, political turbulence, the Petrobras crisis, etc). From a different perspective, the 3.8% contraction of GDP in 2015 was mainly due to both the 14.1% decrease in fixed capital investment and the 4.0% drop in private consumption. The other component of domestic demand, public consumption, contracted 1.0%. Regarding external components, exports of goods and services increased 6.1% while imports shrank 14.3%. The positive contribution of net external demand to growth is related to the incentives created by the sharp depreciation of the exchange rate and the severe contraction of domestic demand last year. Finally, from a supply-side perspective, the main driver of the recession last year was the 6.8% decline in the GDP of the industrial sector. The correction in the services sector was smaller (-2.7%) while the primary sector contributed positively to economic activity thanks to its 1.8% expansion.

We expect the recession to continue in the first quarters of 2016 and GDP to drop 3.0% this year

As the main external and internal drivers of the domestic recession will likely also play a negative role this year, economic activity is expected to continue to contract in the forthcoming quarters. We only expect some stability in quarterly GDP growth rates by the end of 2016. Moreover, it is worth to point out that statistical carryover effects will be very negative this year: if quarterly GDP stays unchanged (0.0% QoQ) during the four quarters in 2016, then GDP will decline 2.4% (somewhat higher than we estimated before knowing

4Q15 GDP data). Taking all that into consideration, we expect GDP to contract 3.0% in 2016. As in 2015, investment and private consumption will likely be the main drivers of the recession, while net external demand should provide some relief to activity figures this year.