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Economics Group

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Brazil: Back to Positive Territory

After falling 0.1 percent in the third quarter of 2011 the Brazilian economy grew by 0.3 percent in the last quarter of the year and finished the year with real GDP growth of 2.7 percent on an annual average basis.

Economic Growth Rebounded in Q4 2011

As was the case during the 2008 and 2009 global recession, the Brazilian economy experienced another slowdown in economic activity driven by events overseas, specifically the weakness in Europe as well as the slowdown in the Chinese economy. While the current slowdown pales when compared to the damaging effects of the global recession, Brazil's factory sector has also had to deal with a highly overvalued currency.

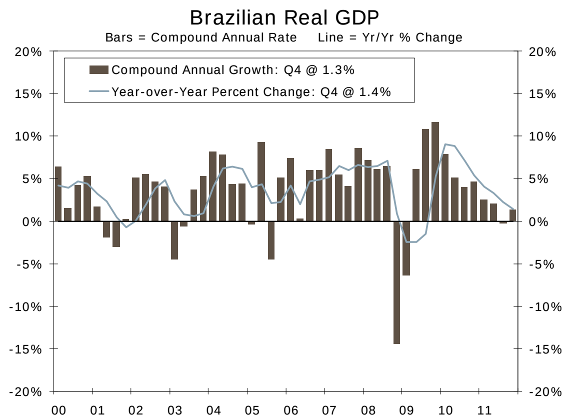
The Brazilian currency has lost value since it reached a peak in July 2011. The average exchange rate was 1.564 reais per dollar in July 2011 versus 1.718 reais per dollar in February 2012, a depreciation of almost 10 percent. The combination of a highly appreciated currency and a slowdown in economic activity in its major export markets has been enough to bring down economic growth from a break-neck pace of 7.5 percent during 2010 to just 2.7 percent in 2011. The 0.3 percent seasonally adjusted pace of the fourth quarter brings growth on a fourth quarter-to-fourth quarter basis to 1.4 percent, down from a 5.3 percent growth for the same period a year ago.

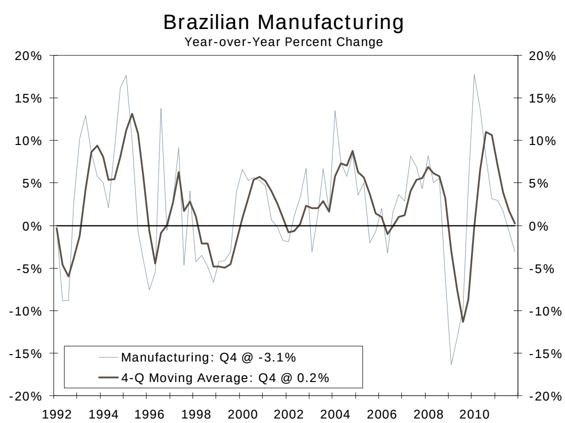
Manufacturing Continues to Suffer

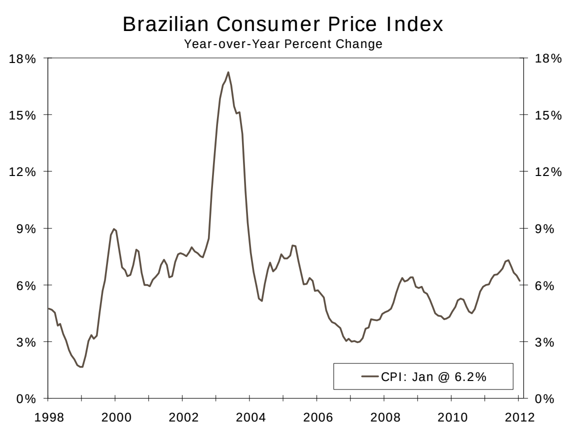
Even the 10 percent depreciation of the currency has not been enough to put the Brazilian manufacturing sector back into the growth mode it experienced before the global meltdown. Manufacturing GDP was the only negative sector during the fourth quarter of 2011, falling at a 2.5 percent seasonally adjusted rate from the third quarter of 2011. This provides some perspective of the impact this sector's performance has had on the overall economy since the third quarter of 2011.

Growth Was Reignited, But Not Without Effort

Once the Brazilian government saw what was happening to the manufacturing sector there was a joint effort by policymakers to bring back domestic support to the economy as external demand was fading. The effort seems to have paid off, as personal consumption expenditures, which dropped by 0.1 percent during the third quarter of the year, increased by 1.1 percent during the last quarter, helping the economy rebound in the fourth quarter. However, the effort, which included an increase in government expenditures as well as a sharp reversal in monetary policy, could bring back concerns of higher inflation. The Brazilian central bank decreased the benchmark, Selic, interest rate by 200 basis points since July 2011, cutting it from 12.50 percent to 10.50 percent. The government is also expected to increase the minimum salary by 14 percent later this year, which would further fan inflation concerns. The combination of lower interest rates, rising wages and a 10 percent weaker currency could lead to higher inflation over the course of this year.







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