



Economics Group

Eugenio J. Alemán, Senior Economist
eugenio.j.aleman@wellsfargo.com • (704) 410-3273

Brazilian Economy Grows 1.0 Percent in 2017

The Brazilian economy managed to grow 1.0 percent in 2017. Domestic demand remained weak, but improved over the year. External demand was strong, with real exports of goods and services increasing 5.2 percent.

Still Weak, but Improving

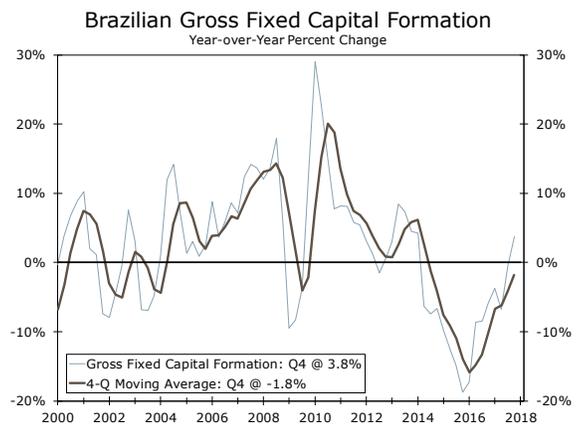
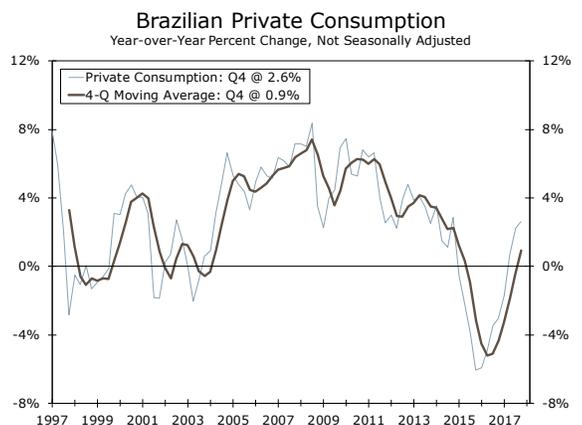
The Brazilian economy managed to post a growth rate of 1.0 percent for the whole of 2017, after a 2.1 percent growth rate in the final quarter of the year, year over year. Although the rate of growth is nothing spectacular, and follows declines of 3.5 percent in 2015 and in 2016, all the levers seem to be pointing in the same direction: that of continued economic growth. First out of the gate for 2017 was the external sector, with real exports of goods and services improving to 5.2 percent growth per year, after a 9.1 percent year-over-year rate in Q4-2017. Real imports of goods and services were also strong, but they subtract from overall economic growth. Real imports increased 5.0 percent in 2017, after an increase of 8.1 percent during the final quarter of the year, year over year.

Even personal consumption expenditures, which were hard-hit during the recession, improved 1.0 percent in 2017, as growth in the final quarter of the year improved to 2.6 percent year over year. Real government consumption and real gross fixed investment continued to decline in 2017. Real government expenditures declined 0.6 percent in 2017, while real gross fixed investment did so by 1.8 percent. However, the good news is that real gross fixed investment was up 3.8 percent on a year-over-year basis in Q4-2017, the first year-over-year increase for this important component of GDP since Q1-2014.

It is important not to overestimate the effect of the growth rates for some of these components of GDP. As many have fallen for so long, it appears it was about time for them to start recovering. However, this trend suggests that the worst is over for the Brazilian economy, and that growth will continue during the next several quarters.

Economic Growth Will Continue; Politics Remain a Serious Risk

We remain positive on the outlook for the Brazilian economy in 2018 and in 2019. As current levels are so low, growth will not be entirely difficult to achieve. However, a potential political crisis remains the most important risk for economic growth, and for the speed of growth, going forward. Increased uncertainty regarding the political presidential campaign will probably hit investment this year and could keep the economy from growing faster. Our current forecast for Brazilian economic growth is 2.6 percent for 2018 and 3.0 percent for 2019. However, this implies a smooth political campaign and transition to a new administration next year, which means that we are assuming that Lula da Silva does not run for president, and/or if he does, is defeated during the second round. If he runs but is defeated, higher uncertainty could negatively affect our forecast for 2018, but will probably keep our forecast for 2019 relatively unchanged.



Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Charles Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Harry Pershing	Economic Analyst	(704) 410-3034	harry.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

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