



Economics Group

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Brazilian Industrial Production Up Again in November 2017

Brazilian industrial production increased 0.2 percent sequentially in November after an upwardly revised 0.3 percent print in October. Compared to a year earlier, industrial production increased 4.7 percent.

Manufacturing Weakened in November

The Brazilian industrial production index increased 0.2 percent in November 2017 sequentially after an upwardly revised 0.3 percent print in October. On a year-earlier basis, the industrial sector grew 4.7 percent after printing an upwardly revised 5.5 percent for the year ending in October (top graph). However, the composition of growth was different this time compared to the past several months. The manufacturing index showed a month-over-month contraction of 0.1 percent after two very strong previous months, when it increased 0.4 percent and 0.5 percent, respectively.

That is, all the contribution to sequential growth in November 2017 came from mining activities, which posted a 0.2 percent increase after printing 1.0 percent in September and 0.2 percent in October.

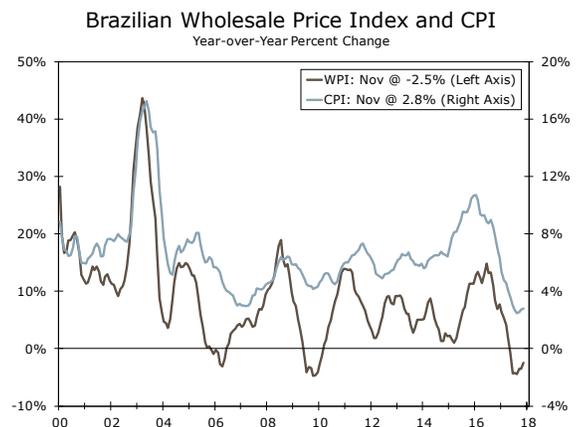
Automobile Production Weakened in November

The biggest culprit for the decline in manufacturing output was a 0.7 percent sequential decline in the production of automobiles, which has been driving industrial production growth since earlier in the year. Still, automobile output was up 18.8 percent on a year-earlier basis in November but down from a 27.6 percent year-over-year growth rate in October (middle graph).

Strangely enough, ANFAVEA, the Brazilian automobile association, reported a record number of vehicles exported in November, 73,100 units, which should put some upward pressure on automobile production going forward. Furthermore, domestic vehicle sales have been recovering strongly in the past several months, so this should also help the industry in the future. Thus, the recent weakness in automobile production should be temporary and we expect the automobile industry in the country to continue to lead the industrial sector recovery.

The recovery in the industrial sector has partially been driven by a strong commitment by the Brazilian central bank to lower interest rates. The institution lowered interest rates to 7.0 percent in December, a total decline of 725 basis points since October 2016, which has helped domestic consumption.

The current expansionary monetary policy has been possible by a large decline in the rate of inflation. CPI inflation declined from 10.7 percent in January 2016 to just 2.8 percent in November of last year, year over year. However, this 2.8 percent rate is up from a low of 2.5 percent in August 2017. This increase is being driven, once again, by the uptick in wholesale prices, so the Brazilian central bank likely will keep rates at 7.0 percent for a while before making any more interest rate decisions in case the current wholesale price trend continues to affect the CPI rate of inflation (bottom graph).



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