



Economics Group

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Weak Q1 GDP Sets the Stage for the Year in Brazil

The Brazilian economy improved in Q1-2018 sequentially, up 0.4 percent, but printed only 1.2 percent on a year-over-year basis as the effect of the Easter holiday and Carnival took a toll on national account statistics.

Positive Overall Performance but Some Sectors Weaker in Q1

The performance of the Brazilian economy was positive overall but remained weak in Q1. Most of the weakness in the quarter came from government consumption, which declined 0.8 percent year-over-year, and imports of goods and services, which surged 7.7 percent (recall that imports enter the GDP calculation with a negative sign). The rest of the demand sectors were positive, with exports of goods and services increasing 6.0 percent, personal consumption expenditures (PCE) up 2.8 percent and gross fixed capital formation up 3.5 percent, all year over year.

On a sequential basis, the story was very similar with PCE up 0.5 percent, gross fixed capital formation up 0.6 percent, exports of goods and services up 1.3 percent and imports of goods and services up 2.5 percent. The only negative print in the quarter was government expenditures, down 0.4 percent, not annualized. Thus, sequential growth was stronger in Q1 than in Q4-2017, up 0.4 percent compared to 0.2 percent for Q4-2017, not annualized.

From the supply side, the story was also relatively good, with seven sectors up sequentially and four sectors down sequentially. Weakness was allocated to the IT and communications sector (down 1.2 percent), construction sector (down 0.6 percent), manufacturing sector (down 0.4 percent) and financial activities sector (down 0.1 percent), all not annualized. Meanwhile, commerce was up 0.2 percent, public administration was up 0.1 percent, real estate activities up were 0.5 percent, mining was up 0.6 percent and agriculture was up 1.4 percent, all sequentially and not annualized.

On a year-over-year basis, the strongest sector was commerce, up 4.5 percent, followed by manufacturing, up 4.0 percent, which clearly is in tune with the relative strength of PCE. Given this momentum, we expect the domestic economy to continue to expand at a relatively healthy clip for the rest of the year, while getting continued support from the external sector.

Risks Are Going to Remain High

Although we have a positive outlook for continued improvement in the Brazilian economy this year, it is clear that risks remain high for the rest of the year and as the presidential elections approach. The noise from the political environment will probably remain the biggest risk this year, especially because the current business/market-friendly president is unpopular with the electorate, and the business community's wishes of getting another market-friendly presidential candidate are quickly evaporating. We believe that the Brazilian economy will be able to minimize all the political noise and continue to improve in the coming quarters.



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