Brazil

Economic Watch

Madrid, 3 March 2011

Economic Analysis

Enestor Dos Santos
enestor.dossantos@grupobbva.com
+34 91 537 68 87

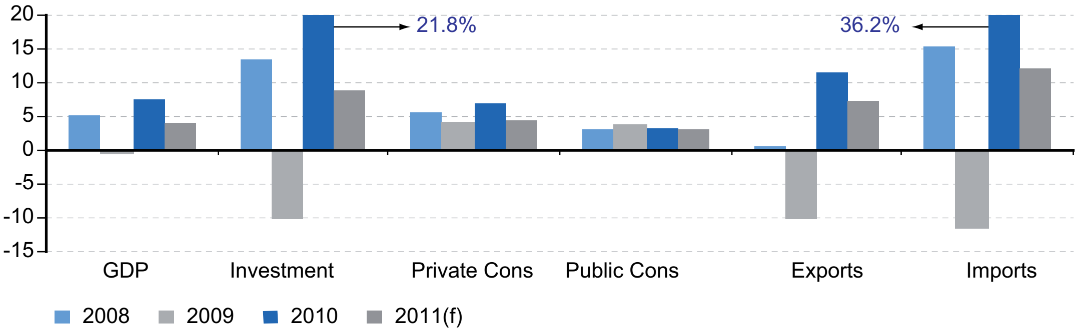
Brazil: GDP grew 7.5% in 2010, but activity moderated in the end of the year

- GDP growth in 2010 – the strongest in more than 20 years - was driven by the robustness of domestic demand, but it also benefited from a significant low base effect. In the last quarter of the year, activity expanded 0.7%q/q refraining from moderating even more due to the strength of private consumption. The Q4 GDP expansion, which surprised markets slightly to the downside, is significantly lower than the average 2.0% q/q growth observed in the first half of the year.
- The Brazilian economy expanded 7.5% last year, according to GDP data released moments ago. The figure was in line with both BBVA and market expectations (7.6% and 7.5% respectively).
- The main driver of this expansion was domestic demand: private consumption expanded 7.0%, public consumption 3.3%, and total investments 21.8%. Regarding external components, exports grew 11.5% and imports 36.2%.
- The expansion of both investments and imports expansion was record, but it is important to note that they benefited from a low-base effect as they had dropped 10.3% and 11.5% respectively in 2009. The same holds for the GDP: 2010's growth was the strongest since 1985, but this sharp expansion was also facilitated by a low base effect.
- The 0.6% GDP drop in 2009 followed by the 7.5% growth in 2010 would have been equivalent to a 3.4% expansion in each one of the two years.
- The industrial sector expanded 10.1% in 2010, particularly helped by the low base effect. Agricultural and services sectors grew 6.5% and 5.4% respectively.
- Both investment and saving rates expanded in 2010. More precisely, the investment ratio reached 18.5% in 2010 (16.9% in 2009) and the savings ratio 16.5% (14.7% in 2009).

REFER TO IMPORTANT DISCLOSURES ON PAGE 3 OF THIS REPORT

Chart 1

GDP Growth by demand components (%)

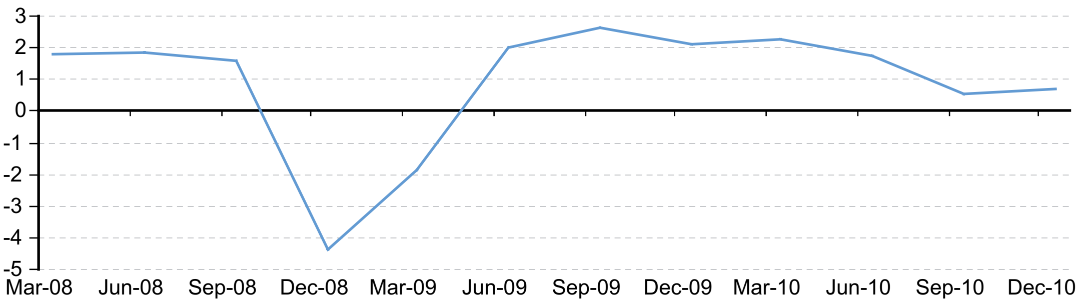


Source: IBGE

In the fourth quarter of the year, the expansion was equal to 0.7%q/q, slightly lower than what BBVA and markets expected (0.8%q/q). Although this increase was higher than the observed in the third quarter (0.5%q/q), it was significantly lower than the average quarterly growth observed in the first half of the year (2.0%q/q).

Chart 2

GDP (q/q%)



Source: IBGE

Q4 GDP growth was also much lower than many expected some months ago especially because economic activity slowed down markedly in December.

In spite of the economic slow down in the second half of the year, private consumption remained very strong: after growing 1.6%q/q in Q3, it surprised to the upside and grew 2.5%q/q in Q4. The acceleration of private consumption was counterbalanced, however, by a moderation of investments (from 3.9%q/q in Q3 to 0.7%q/q in Q4) and public consumption (from 0.0%q/q to -0.3%q/q). Exports grew 3.6%q/q in Q4, more than in Q3 (2.4%q/q), but still less than imports (3.9%q/q).

Table 1

GDP by demand components - quarterly data

	y-o-y %			q-o-q %		
	Q4 10	**Q3 10**	**Q2 10**	**Q4 10**	**Q3 10**	**Q2 10**
GDP	5.0	6.8	9.2	0.7	0.5	1.8
Priv.Cons.	7.5	5.9	6.4	2.5	1.6	0.9
Pub.Cons.	1.2	4.1	5.6	-0.3	0.0	1.9
GFCF	12.3	21.1	28.1	0.7	3.9	4.3
Exports	13.5	11.1	7.2	3.6	2.4	0.1
Imports	27.2	41.0	38.9	3.9	7.4	5.9

Source: IBGE

Looking forward, GDP will benefit from a 1.3% carry-over effect in 2011. On top of that we expect quarterly growth to average 1.0%q/q. All in all, we expect GDP to grow 4.1% in 2011 (see Graph 1 for our forecasts for each one of the demand components).

DISCLAIMER