

# Economic Watch

## Brazil

Madrid, 12 July 2011  
Economic Analysis

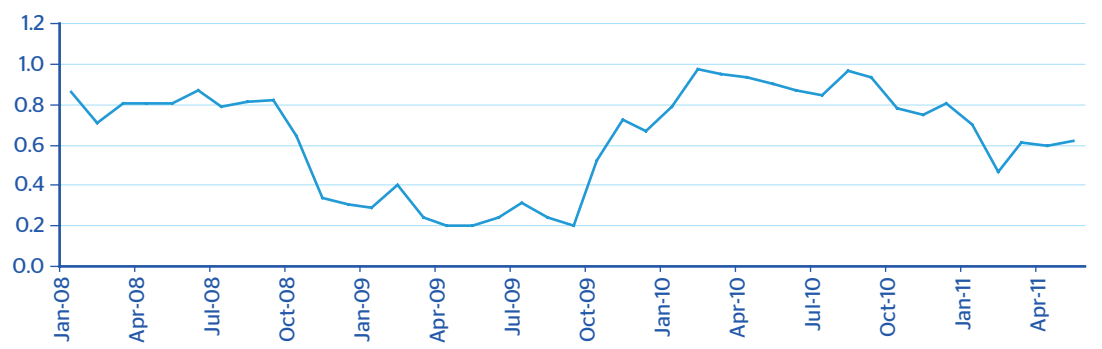
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There are signs of activity moderation, but much more is needed to rule-out overheating risks. Markets will remain focused on demand-side indicators during the next few months

## Brazil: retail sales expanded 0.6%*m/m* in May, in line with expectations

- **After dropping 0.2% in April, retail sales grew 0.6%*m/m* in May.** The figure was in line with market expectations (0.6%*m/m*). In yearly terms, the expansion of retail sales was equal to 6.2%*y/y*, which was slightly below forecasts (6.4%*y/y*).
- **The data released today shows that the demand side of the economy remains strong.** However, the average expansion in the first five months of the year (0.6%*m/m*) is lower than observed in the last years (0.8%*m/m* in 2010 and 0.7%*m/m*), which suggests some gradual moderation is taking place.

Chart 1  
Retail sales: 12-month average expansion (%)



Source: IBGE

- **In the next few months, markets will remain focused on demand-side indicators of the economy, such as retail sales,** because a permanent moderation of the economy will necessarily require domestic demand to cool down.
- **Even though we expect domestic demand to slow down in the second half of the year,** we see significant overheating risks on the excessive dynamism of the labor market.

For more on Brazil, [click here](#)

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