

Brazil Flash

Industrial production grew only 0.3% in 2011; there is room for improvement in 2012.

Industrial production expanded 0.9%*m/m* in December, which supports the view that economic activity rebounded mildly in the end of the year. In 2011 as a whole, industrial output grew 0.3% in spite of the solid expansion of domestic demand (around 3.8%). Competitiveness problems -such as the appreciation of the real- will continue playing a role in the industrial performance in 2012 but we see some room for improvement in comparison to 2011.

- **Industrial production was in line with expectations in December**

The industrial production expanded 0.9%*m/m* in December, broadly in line with expectations (consensus was 1.0%*m/m*). This was the second expansion in a row (in November industrial production increased 0.3%*m/m*) after three consecutive months of negative readings. The recovery of industrial production in the end of the year was driven by lower interest rates, tax benefits, and by the reduction of inventories. This recovery is in line with an overall rebound of the economy in November/December after some months of sharp deceleration. It is also in line with our 0.3%*q/q* forecast for Q4 11 GDP.

- **2010: boom. 2011: stagnation. 2012: moderate growth.**

The timid expansion of 0.3% in 2011 follows -and is partially explained by- a sharp expansion of 10.5% in 2010. The over-optimism observed in 2010 (and beginning of 2011) drove inventories levels high and inhibited production when the economy started to decelerate to sustainable levels in 2011. In addition, the performance of the industrial sector was negatively impacted by the appreciation of the exchange rate, rising wage costs, and by series of structural problems such as poor infrastructure and a very high tax burden. Perspectives for 2012 are more positive. Although competitiveness problems will continue playing a negative role, a still solid domestic demand growth (around 3.6%), lower inventory levels, and more supportive policies (including tax benefits and better credit conditions) should drive industrial production up to around 3.0% in 2012.

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