

Brazil Flash

Economic activity recovers very mildly in April

Economic activity expanded by 0.2%*m/m* in April according to Central Bank's IBC-Br, which is a monthly proxy for GDP. This expansion follows a decline of 0.6%*m/m* in March. We expect economic activity to gain momentum in the months ahead. GDP growth, however, will hardly reach 3.0% this year. In this environment, the government is expected to continue announcing measures to support activity.

- Recovery was –not surprisingly- supported by domestic demand**

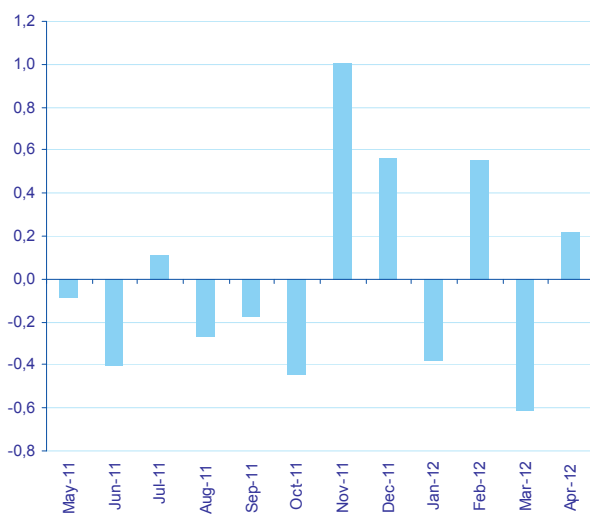
Retail sales expanded 0.8%*m/m* while industrial production dropped 0.2%*m/m* in April, according to official figures released recently. These data suggest that the 0.2%*m/m* activity growth observed in April is more related to the dynamism of domestic demand than to the strength of supply. This is not surprising as, on the one hand, domestic demand (especially private consumption) remains relatively strong, supported by a tight labor market and by declining interest rates and inflation and, on the other hand, the supply side of the economy (especially the industrial sector) faces increasing competitiveness problems. Looking ahead, we expect growth to accelerate gradually over the remainder of the year following the reduction of the SELIC rate and other supportive measures recently taken by the government. However, GDP growth will hardly reach 3.0% in 2012 as the external environment and some domestic factors (moderation in credit markets, industrial sector weakness...) will impact domestic activity negatively.

- Managing the countercyclical arsenal**

The CB has already cut the SELIC rate by 400bps since August 2011 and series of fiscal and macro-prudential measures were recently implemented to try to drive domestic growth up. Yesterday, the government announced that external loans with maturity of more than two years will be exempt from the payment of the 6.0% IOF tax (the previous threshold was 5 years). The measure aims especially at increasing the dynamism of domestic credit markets. In addition, the government is preparing some measures to foster public investments, according to local news. On top of that, monetary easing will continue in the months ahead. All in all, the government is clearly willing to use the some of the room it has to adopt countercyclical measures to encourage domestic activity.

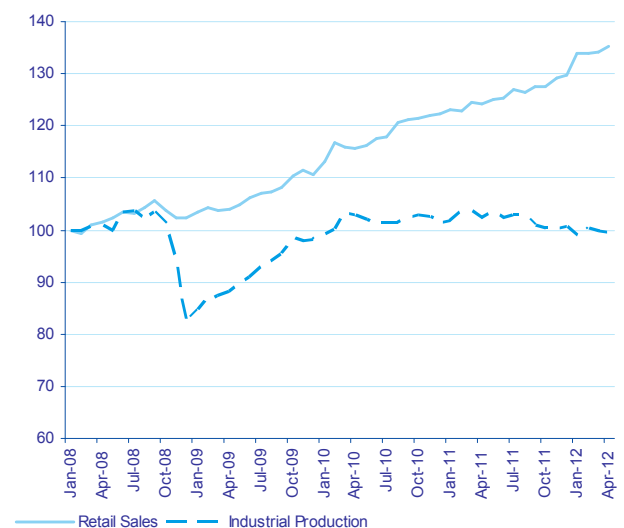
For more on Brazil, [click here](#)

Chart 1
IBC-Br
(%*m/m*; seasonally adjusted)



Source: Central Bank of Brazil

Chart 2
Retail Sales and Industrial Production
(Index Jan 08 = 100; seasonally adjusted)



Source: IBGE

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