

# Brazil Flash

## Industrial production grew at the fastest pace in more than a year in August

Following a significant drop in interest rates, series of tax incentives and a partial adjustment in inventories, industrial production expanded by 1.5%/m/m in August, the most since May/2011. This is the third monthly growth in a row, which bodes well with the view that economy is recovering much more strongly than in the first half of the year.

- **Widespread expansion, led by the auto sector**

In spite of the 1.5%/m/m growth, which follows an expansion of 0.2%/m/m in June and 0.5% in July, industrial production remained below 2011 levels. More precisely, industrial production was 2.0% lower in August than one year ago. The figure was somewhat below expectations (consensus was at 2.0%/m/m; -1.5%/m/m). By sectors, the main highlight was the 3.3%/m/m advance in motor vehicle production. The expansion of the segment do not surprises us as the sector has been one of the main beneficiaries of the measures announced recently by the government. In any case, the industrial output growth in August was widespread: in 20 out 27 sectors the production increased in August in comparison to July.

- **Activity recovery in H2 will prevent the economy from growing much less than 2.0% this year**

The strong recovery of industrial production is in line with an environment characterized by more significant fiscal and monetary stimulus, a weaker currency, a certain recovery in confidence and lower inventory levels. However, the important industrial production expansion recorded in August should not be seen as the beginning of a new, bright era for the manufacturing sector as series of competitiveness problems remain in place challenging both producers and the government. Anyway, there are increasing signs of the so expected activity recovery and, therefore, we reinforce our expectation that GDP growth will be above 1.0%q/q in both Q3 and Q4. That is considerably more than we saw in the first half of the year: 0.1%q/q in Q1 and 0.4% in Q2. The activity rebound in the second half of the year will not be able to make the economy grow more than 2.0% this year, but will help to put things on track for a better 2013 when we expect GDP to grow 4.2%.

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## La producción industrial creció al ritmo más rápido del último año en agosto

En línea con la fuerte reducción de los tipos de interés, el conjunto de incentivos tributarios recientemente concedidos y un ajuste parcial de los inventarios, la producción industrial se expandió 1,5%/m/m en agosto, la tasa más alta desde mayo de 2011. El crecimiento observado en agosto es el tercero consecutivo, lo que está de acuerdo con la visión que la economía se está recuperando con mucho más intensidad que en la primera mitad del año.

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