Brazil

Economic Watch

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Economic Analysis

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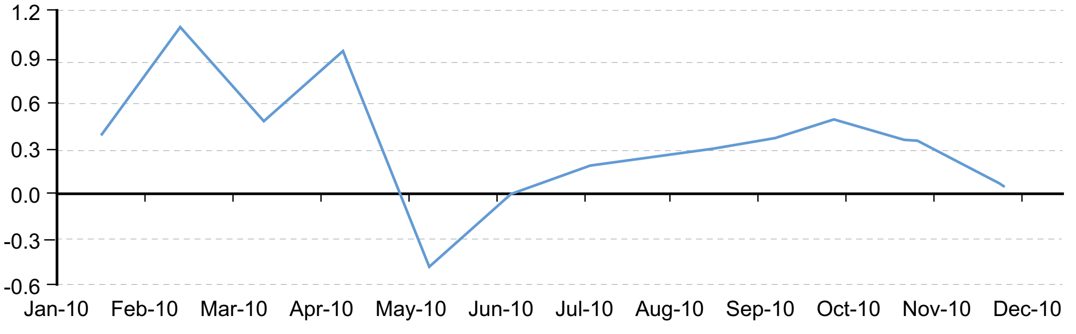
And yet more signs of activity moderation in Brazil

- Following the news that retail sales and industrial production eased in December, the Central Bank released its monthly activity indicator today, the IBC-Br, which functions as a proxy for GDP.
- The IBC-Br expanded by only 0.07%m/m in December. This was the weakest performance since June (see graph below) and reinforces the perception that the economy started to slow down in December and should continue doing so in coming months.
- The slow down of the economy, which has been caused by the implementation of macro-prudential measures in December and by the recent change in the tone of both fiscal and monetary policies, should also be supported by the approval of the new minimum wage being proposed by the government in Congress later today. The proposal would make the minimum wage R$545, instead of R$560 or more, as unions and opposition parties have been claiming. The limitation of the minimum wage's adjustment is important for fiscal accounts as it is used as a reference for a series of public expenditures.
- We expect the activity moderation to take some pressure off inflation (and inflation expectations) and, therefore, the Central Bank to increase the SELIC by no more than an extra 100bps.
- Still, according to the indicator released today, activity expanded 7.8% in 2010, which is line with our GDP forecast for the year (7.6%).

Chart 1
IBC-Br (m/m%)



Source: Central Bank

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