

Economic Watch

Brazil

Madrid, 3 June 2011
Economic Analysis

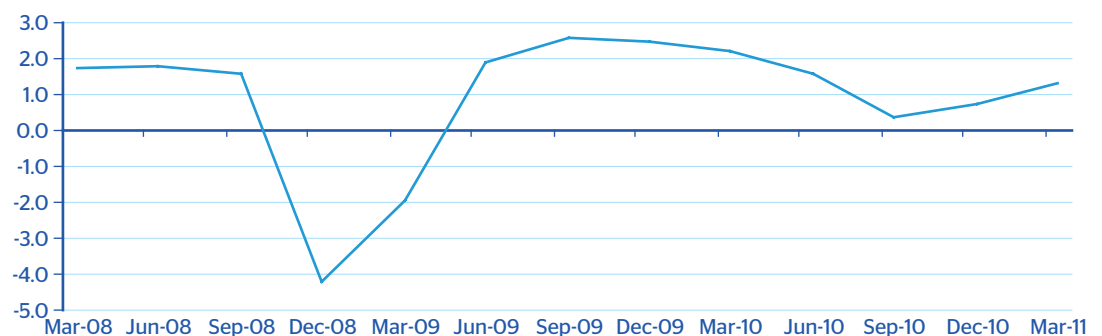
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GDP grew 1.3%q/q in 1Q11. The expansion, which was broadly in line with expectations, was higher than in 4Q10 (0.8%q/q) in spite of a significant moderation of private consumption. In yearly terms, GDP expanded 4.2%/y. Looking forward, we expect economic activity to slow down in the next few quarters and GDP to grow 4.0% this year

Brazil: private consumption weakens, but GDP accelerates supported by the expansion of both investment and public consumption

- GDP grew 1.3%q/q in the first quarter of the year, slightly more than our forecast (1.1%q/q) and in line with markets consensus (1.3%q/q). The GDP growth observed in the first quarter of the year shows economic activity accelerated in comparison to previous quarters (4Q10: 0.8%q/q; 3Q10: 0.4%q/q).

Chart 1
GDP (q/q %)



Source: IBGE

- The private consumption, which account for around 63% of total GDP, showed less dynamism in the first quarter of the year than in the previous quarters. More precisely, it expanded 0.6%q/q in 1Q11, significantly less than in 4Q10 (2.5%q/q) and also less than in the quarterly average observed in 2010 (1.8%q/q).
- The deceleration of the private consumption was, however, compensated by the positive performance of investments, which expanded 1.2%q/q in 1Q11, more than the 0.4%q/q growth of 4Q10 (although less than the 2010 average: 2.9%q/q).
- The better performance of public consumption also supported the acceleration of the GDP in 1Q11: it expanded 0.8%q/q, recovering from a 0.3%q/q drop in the previous quarter.
- After growing at very robust rates in previous quarters (see table below), both exports and imports showed some correction at the beginning of the year: exports dropped 3.2%q/q while imports declined 1.6%q/q.

- In yearly terms, the GDP growth continued trending down. It reached 4.2%/y/y in 1Q11 (BBVA: 4.1%/y/y; consensus: 4.2%/y/y), dropping from 5.0%/y/y in 4Q10 (6.7%/y/y in 3Q10; 9.2%/y/y in 2Q10; 9.3%/y/y in 1Q10). This slowdown, however, is more related to a high base effect than to the weakening of the economic activity in the first quarter of 2011.

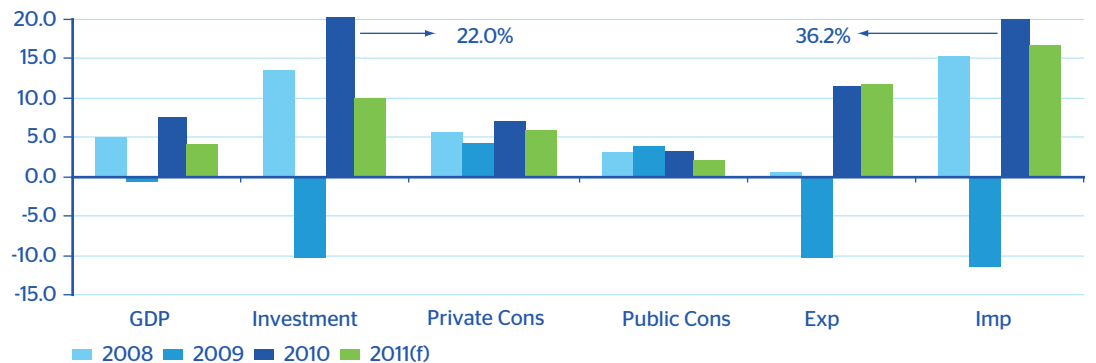
Table 1
GDP by demand components - quarterly data

	y-o-y %			q-o-q %		
	Q1 11	Q4 10	Q3 10	Q1 11	Q4 10	Q3 10
GDP	4.2	5.0	6.7	1.3	0.8	0.4
Priv.Cons.	5.9	7.5	5.9	0.6	2.3	1.7
Pub.Cons.	2.1	1.2	4.1	0.8	-0.3	-0.1
GFCF	8.8	12.3	21.2	1.2	0.4	2.9
Exports	4.3	13.5	11.3	-3.2	3.3	3.9
Imports	13.1	27.2	40.9	-1.6	1.5	6.0

Source: IBGE

- The agricultural output grew 3.3%/q/q, outpacing both industrial and services sectors which came up at 2.2%/q/q and 1.1% respectively. In yearly terms, the performance each supply component of GDP was as follows: agriculture: 3.1%/y/y; industry: 3.5%/y/y; services: 4.0%/y/y.

Chart 2
GDP growth by demand components (%)



Source: IBGE

- In the coming quarters we expect private consumption to continue relatively weak and, therefore, to drag GDP growth down. Today's data should not trigger any important adjustment of our 4.0% call for GDP growth this year.

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

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