

Brazil | A milder GDP contraction in 1Q16

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GDP fell 0.3% QoQ in 1Q16, less than in the previous quarters and also than expected. Net exports contributed positively to growth more than expected and were the main driver of the milder decrease of GDP in the period. Today's figures are in line with our view that the intensity of the recession will decline over the year and that GDP will drop "only" 3.0% in 2016.

GDP contracted less in 1Q16, in spite of a sharper decrease of private consumption

The 0.3% QoQ decrease of GDP in 1Q16 was not only lower than in the previous quarters (-1.3% QoQ in 4Q15, -1.6% QoQ in 3Q15, -2.0% QoQ in 2Q15 and -1.2% QoQ in 1Q15, according to the updated figures released today) but also smaller than expected (BBVA: -0.6% QoQ; consensus: -0.7% QoQ). Behind this relative improvement was the lower contraction of investment (-1.7% QoQ, less than expected and also than observed in the last four quarters), the surprising increase in public consumption (1.1% QoQ), and mainly the performance of net exports (exports grew by 6.5% QoQ while imports fell by 5.6% QoQ). Somewhat in contrast, private consumption, which represents around two-thirds of total GDP, decreased 1.7% QoQ in 1Q16, more than in the previous two quarters and expected. Household expenditure was affected by the sharp labor market deterioration, high inflation and low confidence levels observed in the period. With respect to the supply components of GDP, agriculture and services fell slightly in 1Q16, respectively 0.3% QoQ and 0.2% QoQ (the former was not very different from its average growth in 2015 while the latter drop was significantly lower than the contractions -between 1.0% QoQ and 1.5% QoQ- observed in each one of the four previous quarters). Finally, the industrial sector contracted 1.2% QoQ in 1Q16, somewhat less than in the previous periods. All in all, 1Q16 growth was hit by abnormally high uncertainty and the restrictive tone of monetary and quasi-fiscal policies, among other factors. However, the impact of both a weaker exchange rate and of the contraction in domestic demand on net exports and the lack of a significant fiscal adjustment, which allowed public consumption to grow positively, resulted in a lower-than-expected GDP contraction in the period, which is in line with our view that the recession would progressively lose intensity over 2016.

Economic activity will remain weak over 2016: GDP to contract again in 2Q16 and to stabilize in 2H16

Even though an insufficient fiscal adjustment helped to drive up public consumption and favored overall growth in 1Q16, that will continue to fuel the concerns about the worsening of public accounts, preventing a solid recovery of economic activity moving forward. We continue to expect growth to remain in negative territory in 2Q16, stabilizing in 2H16. We maintain unchanged our -3.0% forecast for 2016 GDP, but expect the positive surprise in 1Q16 and the revisions in the growth profile over 2015, which generate a less negative carry-over effect for 2016, to prompt some upward revisions in market forecasts for GDP this year (the consensus is currently around -3.8%).

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