Brazil's Macroeconomic Performance: Q2 2019 GDP and Current Monthly Indicators

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Overview

During Q2 2019, Brazil's GDP increased by 1.0% YoY, an acceleration from the previous quarter (0.5% YoY). The quarter-over-quarter growth rate was 0.4%. Brazil's economic upturn was spearheaded by an improvement in consumption and investment.

Household consumption grew 1.6% YoY in Q2 2019, an acceleration from the previous quarter (1.3% YoY), offsetting weak government consumption (-0.7% YoY).

Gross fixed capital formation (GFCF) grew 5.2% YoY in Q2 2019, an acceleration from the previous quarter (0.9% YoY).

In September 2019, CPI grew by 2.9% YoY, a deceleration from the previous month (3.4% YoY) and the lowest inflation rate since May 2018. The decelerations in food and transport prices were the main drivers for the fall in inflation during September.

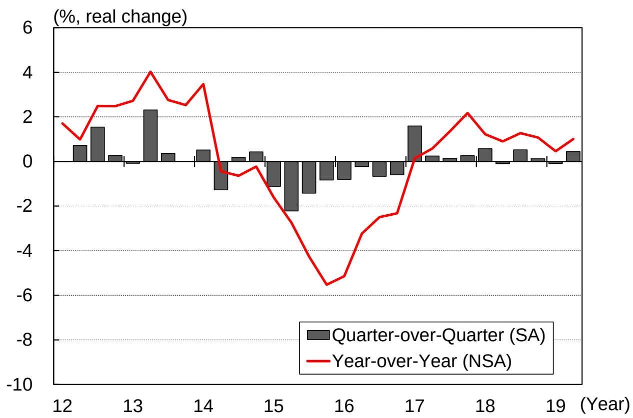
During its most recent meeting in October 2019, the Central Bank decided to decrease the policy rate to 5.00%, the third consecutive cut in the policy rate.

Brazil's GDP growth is expected to decelerate in 2019 in part due to the temporary supply shock caused by the Brumadinho Dam disaster in Q1 2019 and weak exports partially as a result of weak demand from Argentina. For 2020, GDP growth is expected to remain weak as a result of the global economic slowdown and still weak domestic demand. However, the rate cuts could shore up consumption and investment, and the quarter-over-quarter GDP growth rate could accelerate toward the end of 2020.

1. GDP

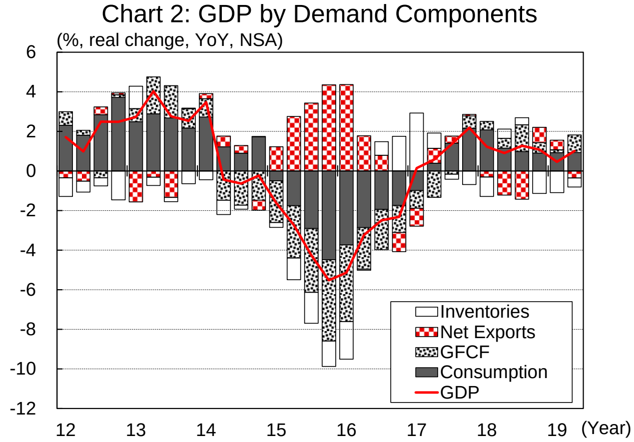
During Q2 2019, Brazil's GDP increased by 1.0% YoY, an acceleration from the previous quarter (0.5% YoY) (Chart 1). The quarter-over-quarter growth rate was 0.4%. Brazil's economic upturn was spearheaded by an improvement in consumption and investment (Chart 2).

Chart 1: GDP Growth



Source: Instituto Brasileiro de Geografia e Estatistica (IBGE), MUFG Economic Research Office

Chart 2: GDP by Demand Components



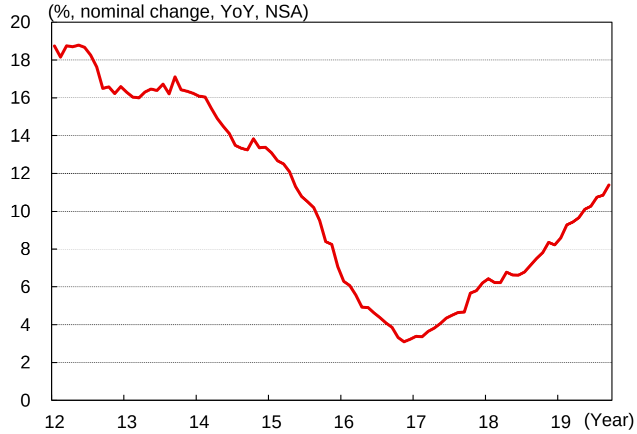
Note: GFCF stands for Gross Fixed Capital Formation
Source: IBGE, MUFG Economic Research Office

Consumption and Investment

Consumption increased 1.1% YoY in Q2 2019. Household consumption grew 1.6% YoY, an acceleration from the previous quarter (1.3% YoY), offsetting weak government consumption (-0.7% YoY). This result could be explained by an expansion in household credit (Chart 3), as growth rate of outstanding household credit decelerated until 2016 and started to accelerate since 2017. This could partially be the result of low interest rates. In addition, the labor market is starting to show some signs of recovery as net formal job[1] creation is improving (Chart 4). Meanwhile, government consumption was limited by the ongoing fiscal consolidation.

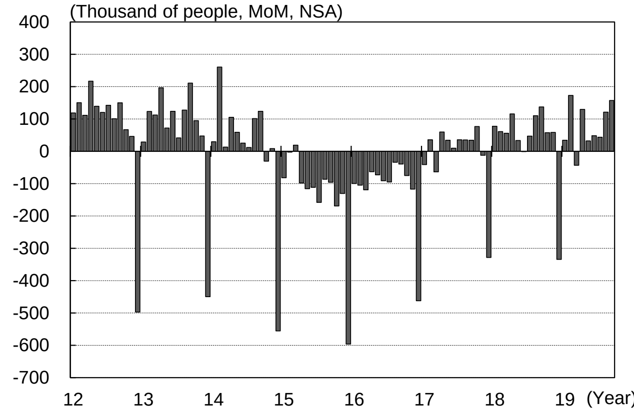
[1] Formal job refers to employees hired under employment laws.

Chart 3: Outstanding Household Credit



Source: Central Bank of Brazil, MUFG Economic Research Office

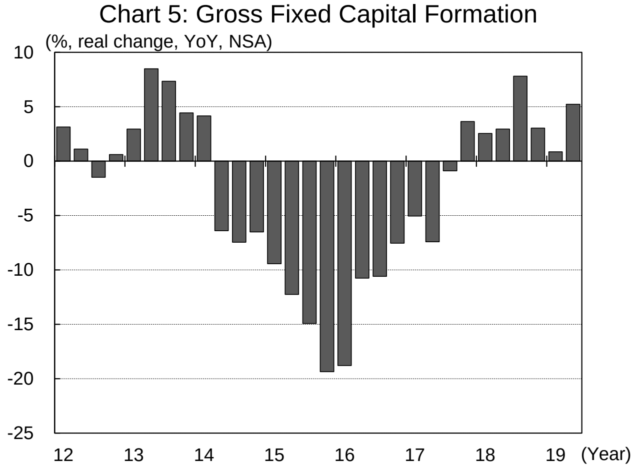
Chart 4: Net Formal Job Creation



Source: Ministry of Labor and Employment, MUFG Economic Research Office

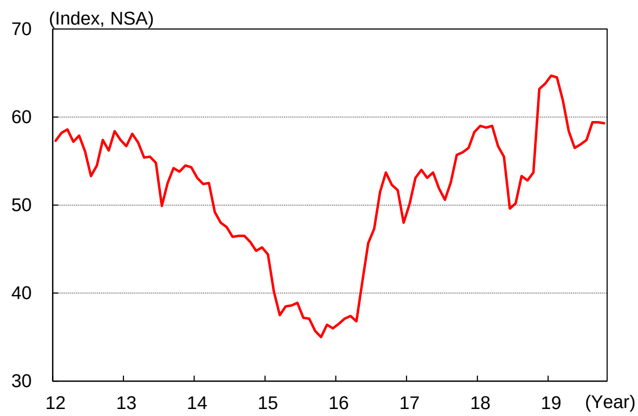
Regarding investment, gross fixed capital formation (GFCF) grew 5.2% YoY in Q2 2019, an acceleration from the previous quarter (0.9% YoY) (Chart 5). The improvement in investment during this period could have been driven by lower interest rates. Also, business confidence has been trending upward since around 2016 (Chart 6), a sign that a recovery of investment is ongoing.

Chart 5: Gross Fixed Capital Formation



Source: IBGE, MUFG Economic Research Office

Chart 6: Business Confidence



Source: Brazilian National Confederation of Industry, MUFG Economic Research Office

Exports and Imports[2]

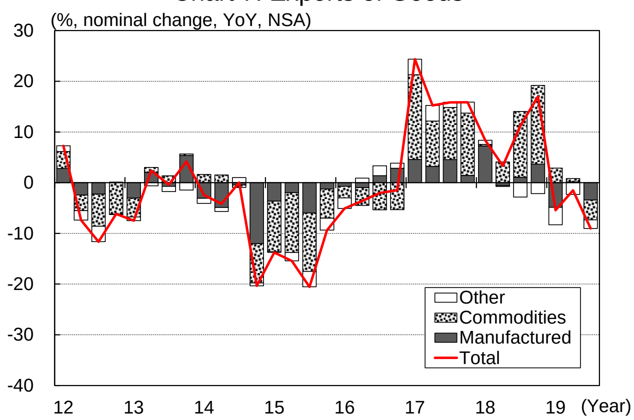
Exports of goods decreased 9.0% YoY in Q3 2019, the third consecutive quarter where exports of goods decreased (Chart 7). Exports of manufactured goods decreased 9.9% YoY, partially as a result of a decrease in vehicle exports, which could be explained by exports to Argentina (a key market for Brazil's automobiles) decreasing for the sixth consecutive quarter. In addition,

[2] This section is reporting nominal values.

exports of commodities decreased 7.4% YoY, possibly a result of the global economic slowdown.

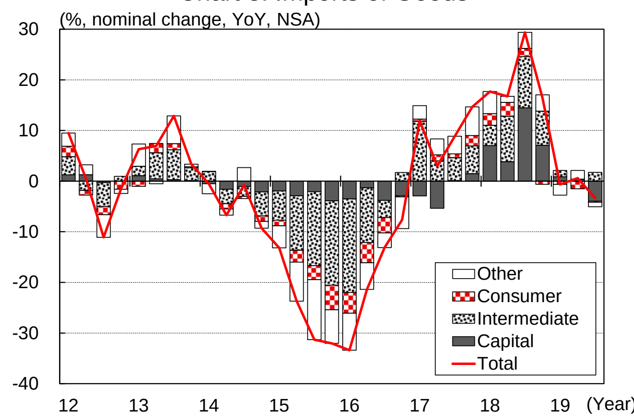
Imports of goods decreased 3.3% YoY in Q3 2019 (Chart 8). Imports of capital goods decreased as a result of a decrease in vehicles imports.

Chart 7: Exports of Goods



Source: Ministry of Development, Industry and Foreign Trade, MUFG Economic Research Office

Chart 8: Imports of Goods



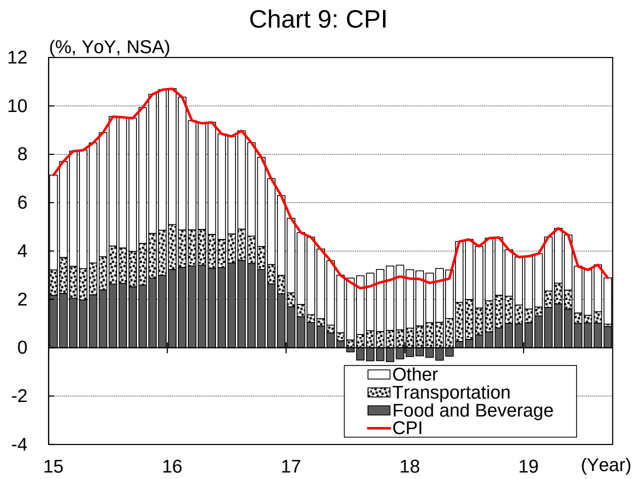
Source: Ministry of Development, Industry and Foreign Trade, MUFG Economic Research Office

2. Inflation and Monetary Policy

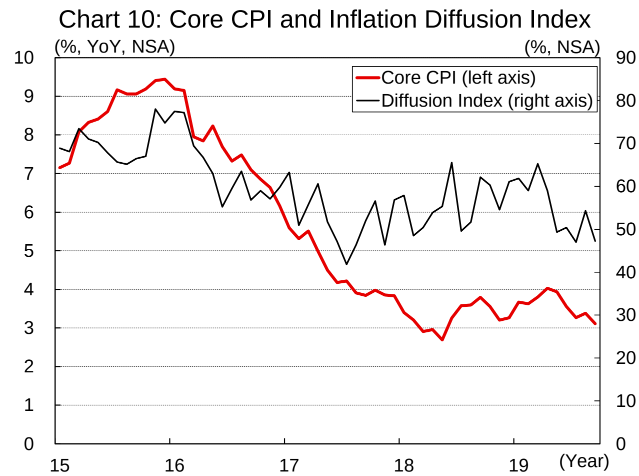
In September 2019, CPI grew by 2.9% YoY (Chart 9), a deceleration from the previous month (3.4% YoY) and the lowest inflation rate since May 2018. The decelerations in food and transport prices as a result of a favorable crop harvest and low gasoline prices were the main drivers for the fall in inflation during September. Core inflation[3] was 3.1% YoY in September, also a deceleration from the previous month. The diffusion index, which measures the proportion of inflation components with positive price variations, at 47.3% in September was lower than in the same period in 2018 (62.1%) (Chart 10). Core inflation and the diffusion index indicate an absence of upward pressure on prices.

During its most recent meeting in October 2019, the Central Bank decided to decrease the policy rate to 5.00%, the third consecutive cut in the policy rate. The Central Bank stated that its decision was based on moderating inflationary pressures, moderate domestic growth and monetary stimulus in major economies (which decreases the risk of currency depreciation) as a result of the global economic slowdown.

[3] Core inflation excludes fuel (for domestic and for automobile use) and 10 items of the food and beverages group from the main Broad Consumer Price Index (IPCA).



Source: IBGE, MUFG Economic Research Office



Source: IBGE, Central Bank of Brazil, MUFG Economic Research Office

3. Outlook

Brazil's GDP growth is expected to decelerate in 2019 in part due to the temporary supply shock caused by the Brumadinho Dam disaster in Q1 2019 and weak exports partially as a result of weak demand from Argentina. For 2020, GDP growth is expected to remain weak as a result of the global economic slowdown and still weak domestic demand. However, the rate cuts could shore up consumption and investment, and the quarter-over-quarter GDP growth rate could accelerate toward the end of 2020.