

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

MUFG UNION BANK, N.A.
ECONOMIC RESEARCH (NEW YORK)
KAREN MARTINEZ
Latin America Economist
+1(212)782-5708
KMartinez@us.mufg.jp

31 OCTOBER 2019

MUFG Bank, Ltd.
A member of MUFG, a global financial group

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).

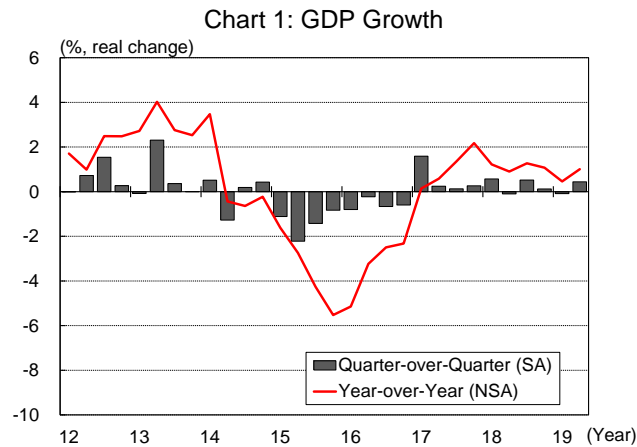
In September 2019, CPI grew by 2.9% YoY, a deceleration from the previous month (3.4% YoY) and the lowest inflation rate since May 2018. The decelerations in food and transport prices were the main drivers for the fall in inflation during September.

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.

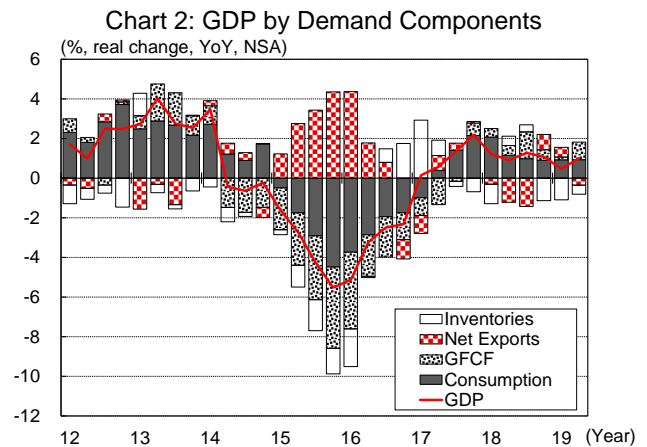
Brazil's GDP growth is expected to decelerate in 2019 in part due to the temporary supply shock caused by the Brumadinho Dam disaster in Q1 2019 and weak exports partially as a result of weak demand from Argentina. For 2020, GDP growth is expected to remain weak as a result of the global economic slowdown 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).



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

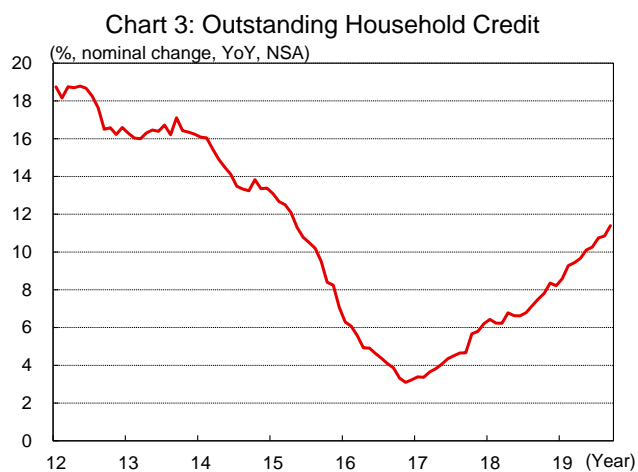


Note: GFCF stands for Gross Fixed Capital Formation
Source: IBGE, MUFG Economic Research Office

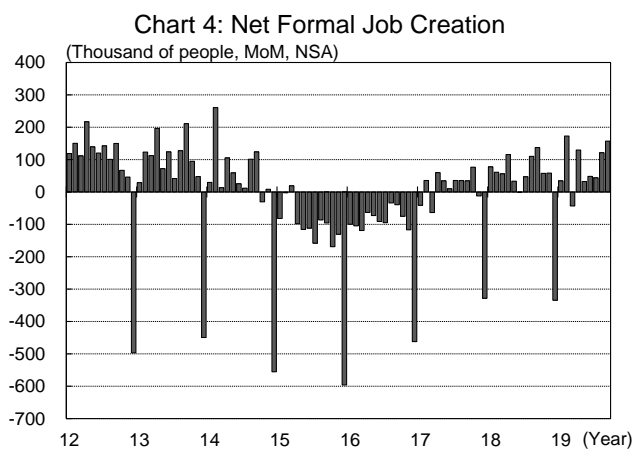
Consumption and Investment

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 job¹ 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.

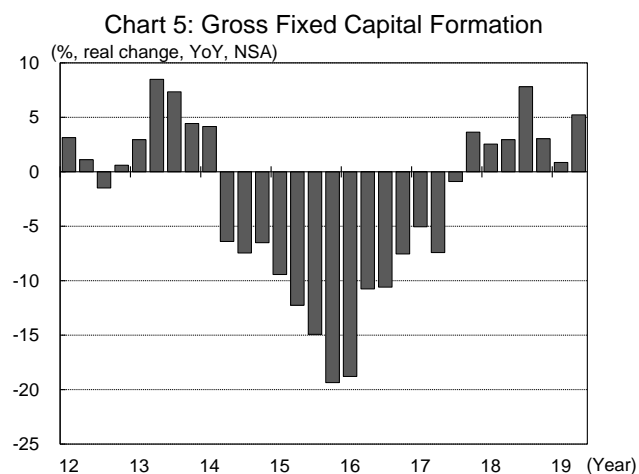


Source: Central Bank of Brazil, MUFG Economic Research Office

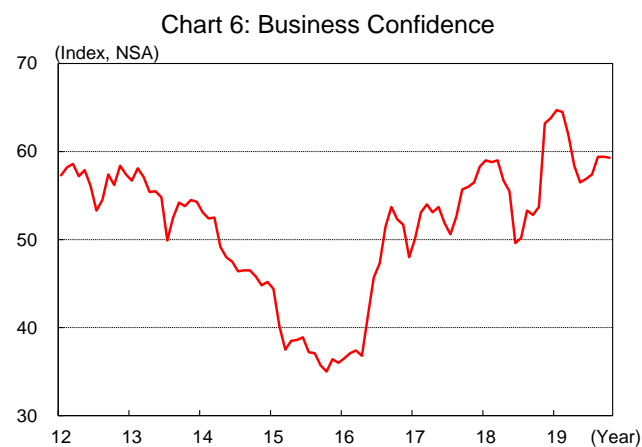


Source: Ministry of Labor and Employment, MUFG Economic Research Office

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.



Source: IBGE, MUFG Economic Research Office



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

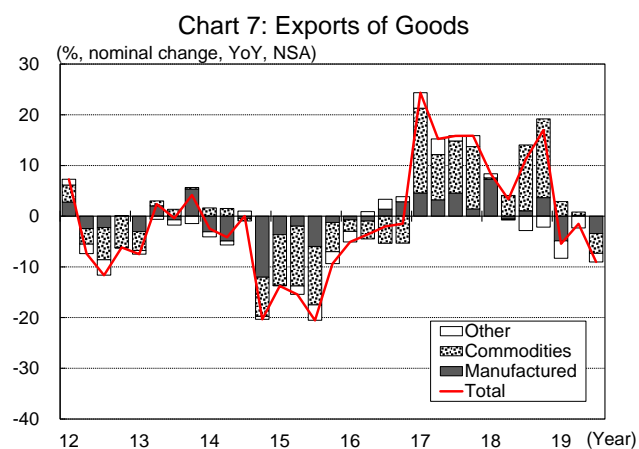
Exports and Imports²

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,

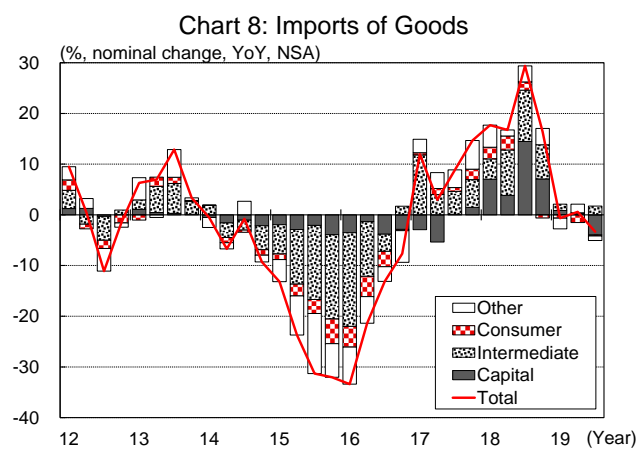
² This section is reporting nominal values.

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.



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



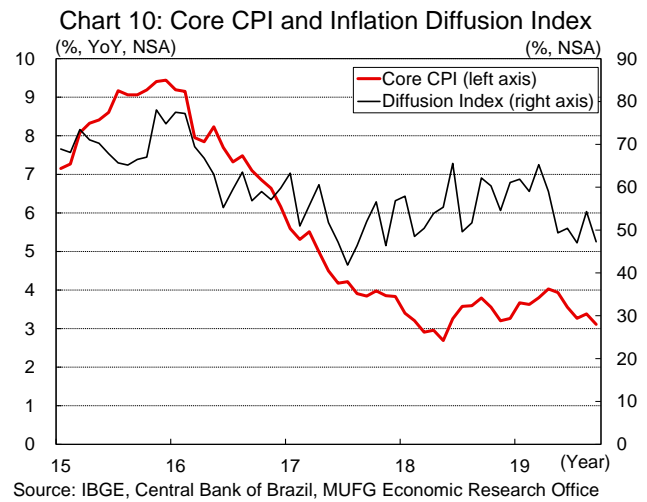
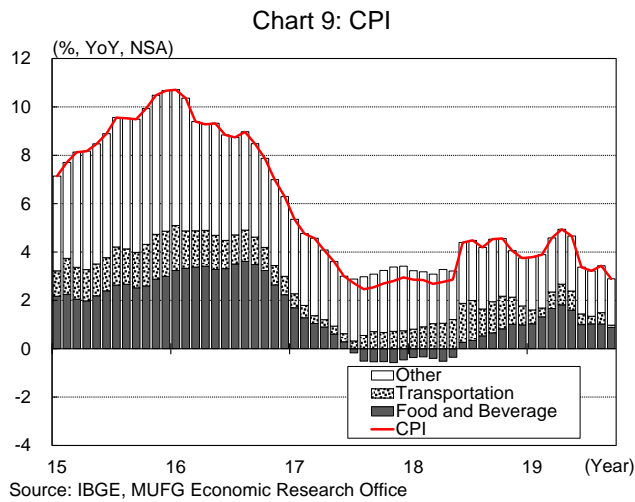
Source: Ministry of Development, Industry and Foreign Trade, MUFG Economic Research Office

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 inflation³ 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).



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.

For reference to our previous reports, see our website at: <https://mufgamericas.com/insights-and-experience/latin-america-insights>

The information herein is provided for information purposes only, and is not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Neither this nor any other communication prepared by MUFU Bank, Ltd. (collectively with its various offices and affiliates, "MUFU Bank") is or should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective in light of your business objectives or operations. Before entering into any particular transaction, you are advised to obtain such independent financial, legal, accounting and other advice as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by MUFU Bank. MUFU Bank hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting or other issues or risks that may arise in connection with any particular transaction or business strategy. While MUFU Bank believes that any relevant factual statements herein and any assumptions on which information herein are based, are in each case accurate, MUFU Bank makes no representation or warranty regarding such accuracy and shall not be responsible for any inaccuracy in such statements or assumptions. Note that MUFU Bank may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information set forth herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and MUFU Bank is under no obligation to ensure that such other reports are brought to your attention. MUFU Bank, Ltd. retains copyright to this report and no part of this report may be reproduced or re-distributed without the written permission of MUFU Bank, Ltd. MUFU Bank, Ltd. expressly prohibits the re-distribution of this report to Retail Customers, via the internet or otherwise and MUFU Bank, Ltd., its subsidiaries or affiliates accept no liability whatsoever to any third parties resulting from such re-distribution.