

Economics Group

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Brazilian Economy Continues to Plunge

Results for Q3 show an economy that continues to drift down. The economy contracted 1.7 percent on a quarter-over-quarter basis, while output declined 4.5 percent on a year-over-year basis.

The Latest Brazilian Miracle Continues to Unravel

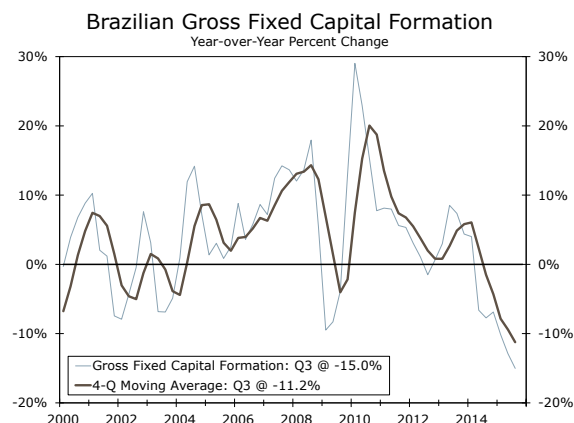
As we have seen over the past several years, the biggest culprit for Brazil's growth problems continues to reside in the industrial sector, even though there were few economic sectors that eked out positive growth rates. Industrial output dropped 3.1 percent in Q3 versus the previous quarter, while agricultural and commerce output both posted declines of 2.4 percent. Other services, on the other hand, dropped 1.8 percent while transportation fell 1.5 percent, all on a sequential basis. Utilities and public health, public administration and education were among the few sectors in which output rose, with the latter driven by government production.

This "intervention" by the government was even more clear when looking at the demand side, where the only sector with a positive contribution to growth was government consumption, increasing 0.3 percent during the quarter. Not even exports of goods and services were able to buck the trend as we have seen in other economies of the world that have taken advantage of weaker currencies. For Brazil, a weaker currency has not produced, as of today, an improvement in exports. However, due to the collapse in production and consumption, imports of goods and services dropped 6.9 percent during the quarter, which prevented the economy from collapsing even further than it did. Exports of goods and services fell 1.8 percent during the quarter while personal consumption expenditures fell 1.5 percent. Meanwhile, gross fixed investment dropped 4.0 percent in the quarter.

The Brazilian economy contracted 4.5 percent from a year earlier. On a year-over-year basis, the only positive contribution came from exports of goods and services, which posted a growth rate of 1.1 percent. Personal consumption expenditures, on the other hand, plunged 4.5 from a year earlier while imports of goods and services collapsed 20.0 percent. Meanwhile, gross fixed investment declined 15.0 percent.

Still No Signs Of Improvement

From this report there doesn't seem to be any indication that the end of this economic environment is near. Furthermore, since the only positive contribution was from Brazilian government production and expenditures the situation is unlikely to improve in the near term. Brazil needs the private sector to rescue the economy. The current fiscal position of the Brazilian government gives it very few degrees of freedom to help economic growth. This is a great opportunity to rekindle abandoned/postponed structural reforms. However, for this to happen the country needs strong leadership and today's Brazilian political environment does not appear to be fertile ground for reforms.



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