



# Economics Group

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## Brazil Industrial Production: Good That People Still Eat, Drink

**Industrial production plunged 12.4 percent in November compared to the previous year and by 2.4 percent compared to October 2015. Thus, the economy was still deteriorating at the end of 2015.**

### Crisis is Broad Based

Although this is still not the worst crisis for industrial production in recent Brazilian memory—at its trough in January 2009, the industrial sector was down 17 percent on a year-over-year basis as the global recession was rippling across the world—the industrial sector is approaching this feat (top chart). November’s year-over-year drop in industrial production was 12.4 percent with the only industrial sectors to avoid a drop being food and beverage production. However, these sectors grew at a very timid pace, 0.7 percent and 1.3 percent, respectively, on a year-ago basis.

This suggests that the Brazilian economy, which had given signs during the third quarter of the year that, perhaps, the worst was over, has taken a new turn for the worse. However, there is another difference compared to the global recession. At that time, the Brazilian economy was doing very well and the roots of that crisis were not domestic in nature. Thus, when the global rout was over, the sector saw an impressive surge. Today, things are more convoluted. Although some part of the crisis is foreign and outside the control of Brazilian authorities, a larger part of the current crisis is domestic, including high and increasing inflation (middle chart), a large and increasing fiscal deficit, the Petrobras fraud investigation and the ensuing political crisis, which could possibly include the impeachment of the president.

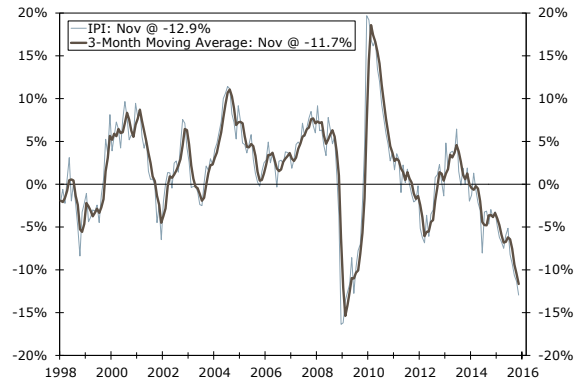
### Crisis Staying Power

Another big difference relative to late 2008 and 2009 is that the current crisis is showing staying power. That is, the global recession’s effect was fast and furious, i.e., a large drop and then an even stronger recovery. However, the current crisis started late in 2013 and has not let up. In fact, things have actually deteriorated further during the last months of 2015. Furthermore, we do not expect any recovery as we saw after the global recession any time soon.

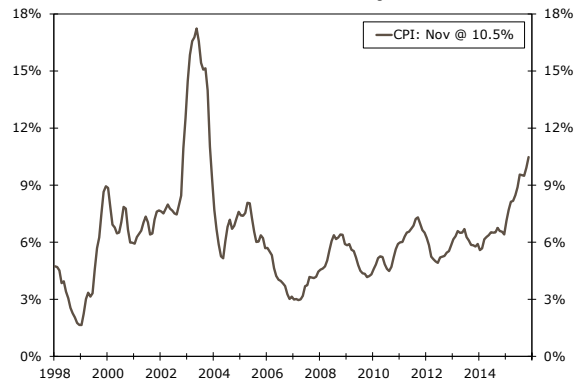
At the same time, the Brazilian petroleum sector, which was contributing positively to the industrial production number until September of last year, started to post negative growth rates in October (down 1.0 percent year over year). Output in this sector plunged 10.5 percent on a year-over-year basis in November.

Thus, we expect industrial production will continue to worsen and see no likely improvement for several months, especially if the current political crisis deteriorates further. Furthermore, Brazil is going to hold the Summer Olympics later this year and under current conditions, the event will probably represent a further drag in economic activity. On the positive side, the Brazilian currency is cheap (bottom chart) so this may be a good time for tourism, which would help the eating and drinking sectors further.

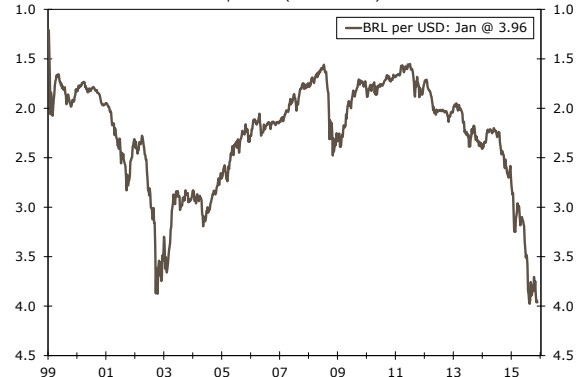
Brazilian Industrial Production Index  
 Year-over-Year Percent Change



Brazilian Consumer Price Index  
 Year-over-Year Percent Change



Brazilian Exchange Rate  
 BRL per USD (Inverted Axis)



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