

Trade balance: A drag on Brazil's recovery?

IN ADDITION TO RISING INFLATION and an expansionary fiscal policy that is contradicting the central bank's recent leaning toward tighter monetary stance, last month's external balance has added a new factor to the list of risks and uncertainties that has characterized the economy this year.

Through April the 2013 trade balance accumulated a deficit of US\$6.2 billion, the highest in recent years. Setting aside some atypical external transactions that increased fuel imports in April, there seems to be a more permanent trend: Compared to the same period last year, in the first quarter the volume of exports fell by 6.6%, commodities fell by 12%, and manufactured goods fell by 5%, while imports rose by 8.1%. As prices of imported and exported goods have remained fairly stable, changes in import and export values entirely reflect changes in quantities.

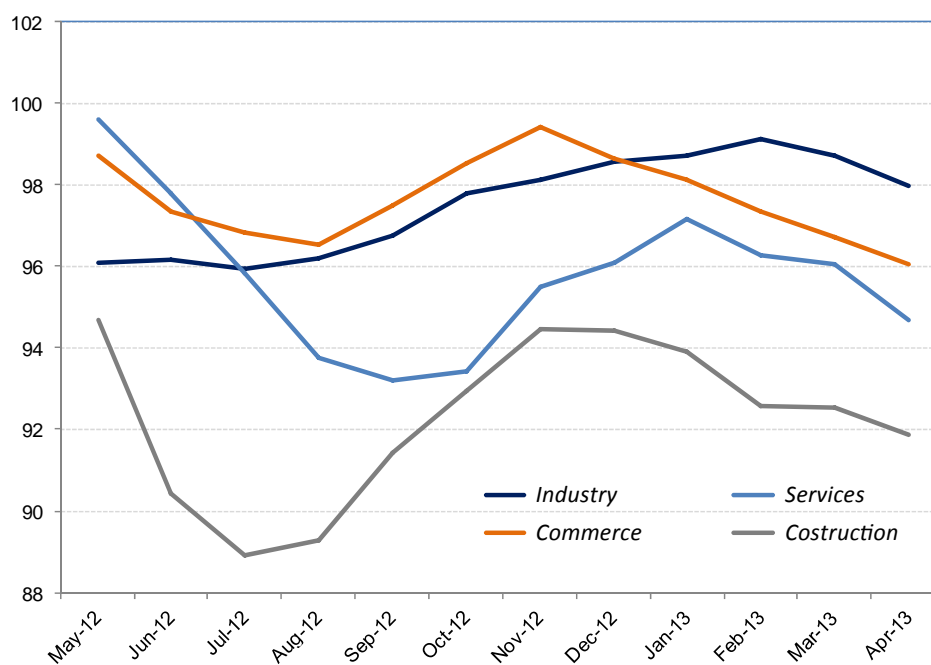
Even if the economy's recovery is lukewarm, we predict some increase in imports, especially for industry. At the same time, since depreciation

of the exchange rate seems unlikely for fear of accelerating inflation, the competitiveness of Brazil's manufacturing exports will be severely limited, especially in light of increasing labor costs, China's taking over of our Latin American markets, logistical problems because of poor infrastructure, and a smaller than expected reduction in energy costs. Whether exports of commodities recover will depend heavily on the strength of the Chinese economy and recovery of the economies of Europe, the US, and Japan—all of which are themselves surrounded by uncertainties.

Rising imports and stagnant exports will further suppress overall demand in the economy and drag down GDP growth. This will make the economic recovery even more feeble since household consumption is restrained because of the reduction in household disposable income resulting from the acceleration of inflation. And business confidence, according to IBRE surveys, has declined across all sectors.

Brazil: Confidence has declined across the board.

(Quarterly moving averages. Base: average of the last three years = 100, seasonally adjusted)



Source: IBRE/FGV.