The Brazilian economy is recovering, but more slowly than expected. Low inflation, high unemployment and income growth are promoting recovery, but lack of dynamism in industry and an expected slowing down of purchases of durable goods will act as a brake.

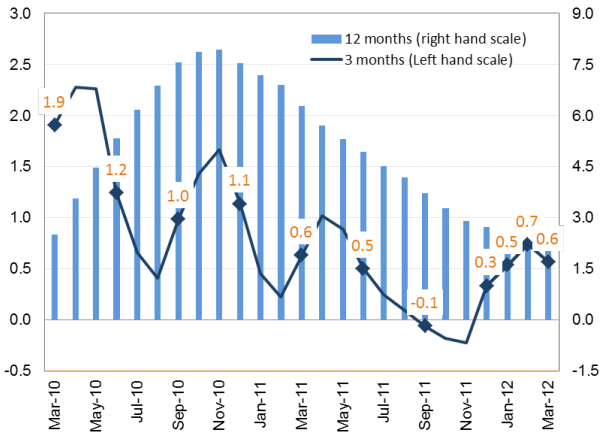
Brazil's economy has been recovering, thanks to retail, the construction industry, and financial services, which have been benefiting from credit expansion.

On the upside, low inflation in March brought 12-month inflation down to 5.24%. Unprecedentedly low unemployment and steady growth in incomes have boosted sales. The public budget posted very positive results in the first quarter and recent strength in revenues suggests that the primary budget surplus target for 2012 seems feasible. So far, Brazil's external accounts have not been much affected by slow growth in the U.S. and financial turmoil in Europe. Although growth in exports slowed, the trade balance in the first quarter was positive. Moreover, prices of major export commodities increased more than in the same quarter last year. For the remainder of the year Brazil's external outlook is moderately optimistic, and capital inflows should easily finance the current account deficit.

On the downside, the weak recovery of industrial activity in February and the results of an industry survey in March confirmed a lack of dynamism in manufacturing. Moreover, a slowing of purchases and rising defaults raise doubts that credit expansion will continue at the current pace. Finally, household consumption—which has been an important factor supporting domestic demand—should cool because household debt is increasing and a durable-goods buying cycle is ending.

IBRE Economic Activity Indicator, March 2010-March 2012

(Percent change over the previous quarter and 12-month moving average over the previous 12 months, seasonally adjusted)



Sources: IBGE, and IBRE staff estimates.

Summing up, recovery in the second half is expected to be larger because manufacturing is anticipated to expand faster — there is (subdued) optimism about industrial activity based on the renewed government activism represented by the industrial policy measures announced recently.

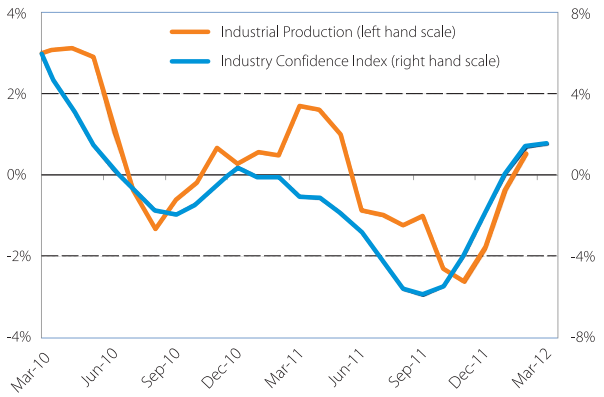
This optimism contrasts with concerns that the current benign outlook for inflation will reverse itself later in the year under pressure from increases in incomes and the minimum wage and their effects on demand for services, which is already overheated; this would force the central bank to raise interest rates, which would in turn curb economic recovery.

Short-term indicators

The recovery progresses, but slowly. The quarterly moving average of the IBRE Economic Activity Indicator, which anticipates GDP, reached 0.7% in February, and GDP is estimated to have increased by 0.6% in the first quarter. The IBRE industrial survey projects a modest recovery. But the indicator of planned production is virtually stagnant, despite a slight improvement in the Industry Confidence Index. Industry is estimated to have grown just 0.8% in March compared to 1.3% in February.

Industry's production and confidence index, March 2010-March 2012

(% change quarter-on-quarter)



Sources: IBGE, and IBRE industry surveys.