Economy speeds up, but investment outlook is worrisome

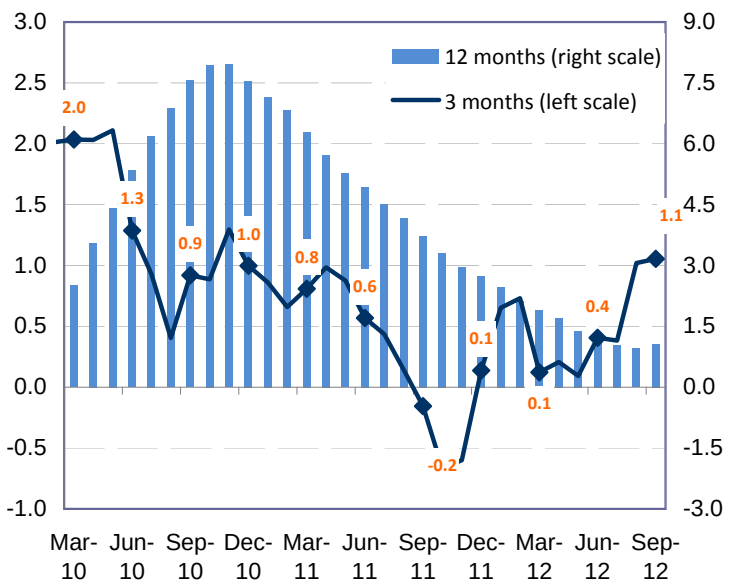
IN THE LAST FOUR WEEKS, production and sales data as well as IBRE surveys have confirmed expectations of economic recovery. Economic growth in the third quarter is very likely to be better than in the second quarter, due largely to the performance of the manufacturing sector in July and August. IBRE economic activity indicators in September confirm the acceleration of the third quarter, and the estimate is for seasonally adjusted GDP growth just above 1% compared with the previous quarter.

Despite the good news, some economic indicators remain stubbornly negative or mask uncertainties. After the progress made up to August, manufacturing production was not encouraging in September. IBRE surveys still suggest that the outlook for the production of capital goods is not very favorable. Because the external outlook is still undefined, international trade growth has been revised downward, which also negatively affects prospects for gross investment.

Also, although confidence in the durable goods manufacturing sector has improved, it may not be able to repeat third-quarter performance in the fourth quarter, partly because consumers anticipated their purchases on the expectation that the tax credit on durable goods would end in August. In September, indicators of demand for credit seem to have weakened and nonperforming loans are high because household indebtedness is high. All this is slowing sales of durable goods. The outlook suggests that investment will again be sluggish in the third quarter. The economy's recovery in the second half of 2012 was very dependent on consumption. Recovery of gross investment, which is essential for sustainable growth, is not likely to happen until the fourth quarter of 2012 at the earliest and more probably not until 2013. If investment does not recover, a third year of slow growth is not implausible.

IBRE Economic Activity Indicator, March 2010 - September 2012*

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



* Preliminary data Sources: IBGE and IBRE staff.