

Public investment critical to Brazil's growth in 2013

THE SEPTEMBER INDUSTRIAL output figures have frustrated hopes that the Brazilian economy will recover in late 2012. Our view, like the views of other analysts, has stressed the consistency of the evidence that economic activity will resume only slowly and gradually.

However, in view of September's weak industrial production the odds now are for even more modest growth in the last quarter of the year. We estimate GDP growth of 1% in the third quarter compared to our previous projection of 1.1%. Underlying the less optimistic outlook is stagnating investment that casts doubts on GDP growth in 2013. We estimate that gross investment fell 1% in the third quarter, the fifth consecutive quarterly decline.

IBRE confidence indicators suggest some sobering of expectations in October, reflecting the concerns of businesses and consumers about the pace and strength of economic recovery at the turn of the year. In light of the latest indicators, especially stagnated investment, GDP growth of 3% in 2013 is a

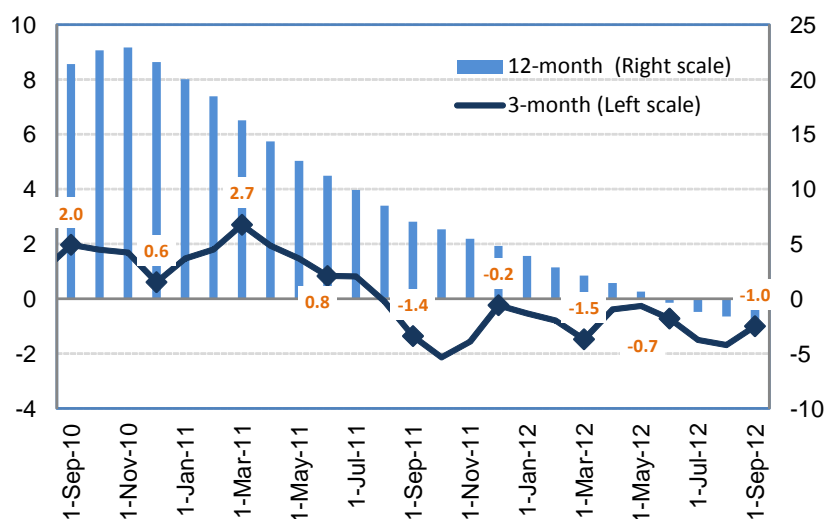
more plausible expectation than our previous projection of 3.4%.

The poor performance of the U.S., Europe, and Japan and the slowdown in China's growth will negatively affect international trade and finance. Investment and exports should be especially affected, and Brazil, as well as the other countries of South America and Mexico, will not be spared. Yet Brazil's poor performance also has domestic roots, as indicated by the fact that for 2012 most other countries in the region are expected to grow more than Brazil.

Why does investment not take off? It is clear that the federal government's investment in infrastructure has been far less than is necessary, but business is also hesitant to invest. This is certainly related to the protracted international crisis and the uncertainty generated by multiple government interventions in the economy. Under the circumstances, the strength of growth in 2013 will depend critically on whether the government will significantly increase public investment.

Brazil: Monthly Investment Indicator, Sept. 2012–Sept. 2012

(Percent change quarter-on-quarter, and 12-month moving average seasonally adjusted)



Sources: IBGE, Funcex staff projections.