COMMERCE AND SERVICES
No turbulence

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THE COMMERCE AND SERVICES sector will end 2012 with a positive balance, and "We estimate that retail will grow 8%, against 6.7% last year," says Mariana Halson, economist for the National Confederation of Commerce (CNC). These favorable expectations, however, are not true of all segments. Among the beneficiaries of the extension of the exemption on industrial products tax are furniture and household appliances, which have had sales growth of 10%. Vehicle sales were affected by the credit crunch caused by rising defaults.

"Sectors that rely more on income, such as supermarkets and nondurable goods in general, also exceeded the average growth of the sector," says Halson. Sales were helped by a buoyant labor market and rising real income as the minimum wage was adjusted by 9.2%. However, according to the Budget Guidelines Law passed in July, the minimum wage is expected to increase only 7.3% in 2013. Halson explains that "Income and credit are the components that move the sale of goods and services, and without good prospects of increased income, we hope the development among consumers to renegotiate debts is reflected in a credit recovery." She finds it difficult to assess the impact of a possible end of the tax exemption, but she does point out that the impact diminishes over time because it implies the anticipation of purchasing decisions.

The services sector has benefited by continued improvement in the Brazilian standard of living, which resulted in an increase in average spending per consumer. Shielded from foreign competition, the sector could pass on increased costs to service prices, pushing service inflation above headline inflation. The rising cost of labor due to heavy demand is a major factor putting pressure on prices, which is exacerbated by low productivity. "Productivity in services is low mainly because most workers in this sector are low-skilled. Moreover, Brazilian labor legislation does not help improve workers' skills and productivity because it encourages high turnover," Halson says. "It's a non-cooperative relationship between employer and employee, where the employer does not invest in training employees because of fear they will leave the job, and employees feel encouraged to search for jobs, especially when the unemployment rate falls."

Halson estimates that growth in household consumption is expected to continue to support growth in the economy but "We noted in 2012 that we cannot sustain growth only with consumption, and for retail the central issue is economic activity as a whole. If there is no investment, commerce and services will hardly continue to grow at this pace."