Industry

The FGV confidence index of Brazilian industry (ICI-FGV) grew fast for the second consecutive month, showing that the industry is picking up as a result of strong recovery in durable goods, following fiscal stimulus measures adopted early this year. The recovery should gain strength in the third quarter because of expansionary monetary policy and the end of the inventory adjustment in the second quarter.

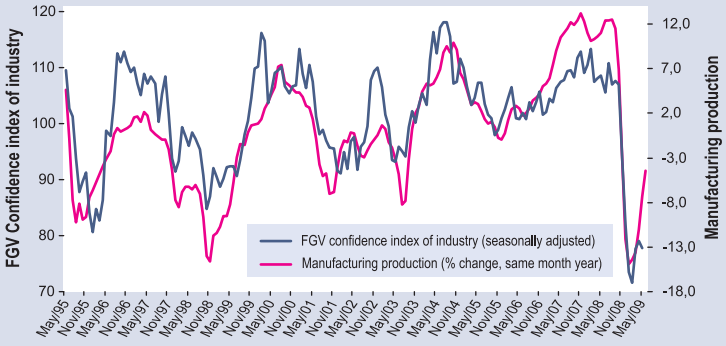
Domestic and external demand

The FGV survey of industry shows that one of the reasons for the slow recovery of industrial production is weak external market demand. In the current crisis, the indicator that measures businesses' assessment of foreign demand (strong, normal, and weak) for their products reached its lowest level since 1983 in February this year. But, the indicator that measures businesses' assessment of domestic market demand bottomed out in December of last year and rose to a level equivalent to its historical average in June 2009.

Inflation at two speeds

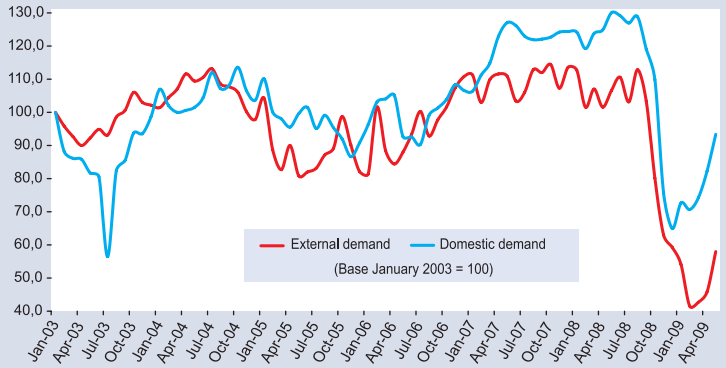
Since last October, industrial product inflation has been declining rapidly: 12-month wholesale industrial product inflation declined from 15.4% in October 2008 to negative 0.43% in June 2009. The result is even more surprising because the exchange rate devalued by 40% in the same period. In the past, a devaluation this large invariably ended in higher inflation. In this crisis, the fall of international prices of commodities has more than offset the exchange rate devaluation. At the same time, despite external conditions, prices of services have continued to rise, reaching 7.2% in the 12 months through June. The mismatch between the two inflation rates is due to the resilience of the domestic market and wages, which have continued to expand, although more slowly than before the outbreak of the crisis.

After sharp fall last October, both FGV confidence index of industry and manufacturing production have been recovering since February

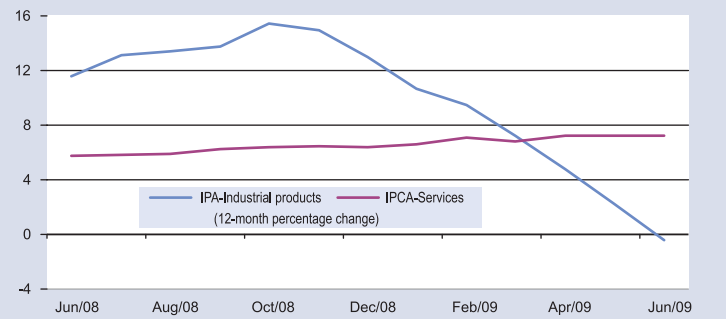


Sources: IBRE-FGV and IBGE.

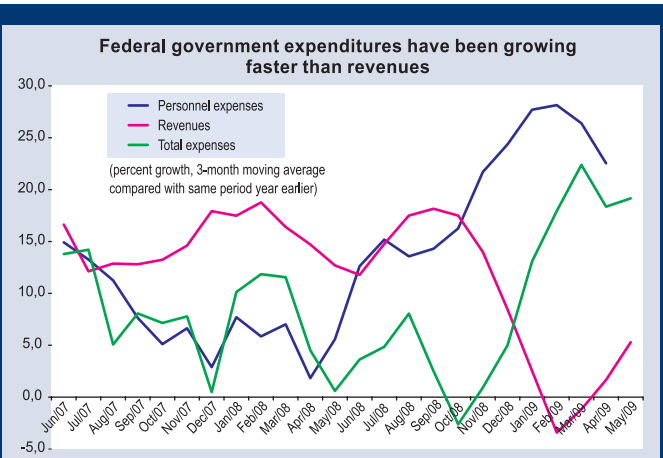
FGV confidence index of the Brazilian industry shows that domestic demand has been resilient , while external demand remains week



Industrial product inflation is falling, while service inflation continues to rise



Federal government expenditures have been growing faster than revenues



Source: Brazilian Ministry of Finance.

Is Brazil bound to have a fiscal crisis in 2010?

The emergence of a fiscal crisis next year is likely. Federal tax revenue has been growing well below total and personnel expenses since last October. The federal government has been neglecting personnel expense management. Although tax exemptions are justified to stimulate demand in a crisis situation, they have a negative effect on tax collections in a country that has not yet attained a sustainable fiscal balance. A loss of tax revenues along with increased current expenditure will jeopardize the primary surplus target, and will result in higher public debt-to-GDP ratio.

For additional series and methodology contact: Industry and consumer surveys: (55-21) 3799-6764 or sondagem@fgv.br; Price indexes and data bank services: (55-21) 3799-6729 or fgvdados@fgv.br.