Brazilian economy on hold

APRIL BROUGHT LITTLE new in terms of short-term performance and prospects for the Brazilian economy. The outlook is at best lukewarm, with little change from the last month in terms of industrial production, investment, and inflation.

The release in April of the revised results for the Monthly Survey of Physical Production by government statistics agency IBGE revealed that industrial growth in 2013 was better than previously thought: as revised, industry growth almost doubled, from 1.2% to 2.3%. Most industries showed better performance after the revision, but not capital goods, which worsened. However, despite the upward revision for 2013, industrial growth in the first quarter of this year is not encouraging, considering that production fell 0.4%. The outlook for economic activity for the months ahead is also far from encouraging.

While business confidence has been falling since the year began, the April result draws attention because of the intensity of the decline and its spread to more industrial sectors. The private sector opened the second quarter at a slow pace and seems skeptical about the possibility of the outlook changing in three to six months. The loss of confidence is also affecting investment prospects: the IBRE-FGV Investment Confidence Index, which monitors producers of fixed capital, fell by 6.7% in April, the steepest drop since January 2009.

Despite the expected slowdown in food prices in the near future, inflation is being pressured by many other factors, and in the second quarter it may even breach the government target ceiling (6.5% year-on-year) for inflation. The continued rise of non-controlled services prices is behind the stubborn resistance of inflation to falling, despite recent increases in the central bank benchmark interest rate.

Brazil's investment confidence declined severely in April.*

(Seasonally adjusted, quarterly moving averages, average last 5 years=100)



Source: Brazilian Institute of Economics (IBRE).

*Weighted aggregation of construction industry, construction materials, capital goods industry, and engineering services confidence indexes.