The pessimism continues



Thais Thimoteo

NO MATTER WHERE BUSINESSPEOPLE AND CONSUMERS LOOK, they see no reason to feel optimistic about the direction of the Brazilian economy. The signs of a recession—GDP fell by 0.6% in June and 0.2% in March, two consecutive quarters—uncertainty about the elections, and the prospect of economic adjustments in 2015 have brought Confidence Indexes in 2014 down to the levels seen during the 2009 global crisis. Since December 2013, the Business Confidence indicator (ICE) has fallen by 12%. Manufacturing and construction have consistently had the gloomiest prospects, even though the construction indicator went up in August and manufacturing in both July and August.

Expectations

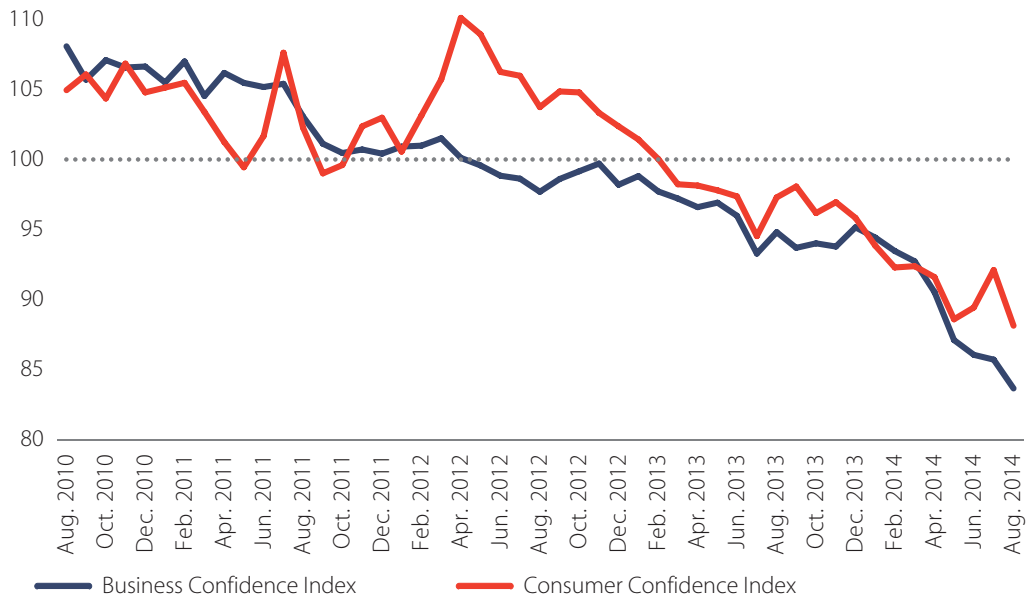
Although there are more business days until the end of the year, there are not enough to make up for eight consecutive months of decline in the Industry Confidence Index (83.4 points, August), according to Aloisio Campelo, IBRE assistant superintendent of business cycles.

"Confidence was worse than expected in August," he says. "Street protests and days off because of the World Cup reduced services and commerce activity, exacerbating the decline in demand. But even though there are low expectations for the future, we can expect some improvement in services and commerce in the coming months." He explains that "In the case of manufacturing, the outlook is worse because inventories have accumulated, and domestic demand is very weak because of competition with imported manufactures. After intense activity to complete World Cup-related projects, construction is not seeing much recovery related to infrastructure and social housing projects." Campelo also attributes the situation to increased household indebtedness."

The World Cup and the days off briefly spurred consumer confidence in the economic outlook, but after a little more good cheer in July, the Consumer Confidence Index fell again by 4.3% in August, to the lowest level since April of 2009. Viviane Seda, coordinator of IBRE consumer surveys, thinks the disappointing result reflects the dissatisfaction of Brazilians with the state of the economy as a whole.

Consumers are concerned about the labor market, which has shown signs of slackening—something that did not happen in 2009. This year In August, 58% of those interviewed thought it is now more difficult to find jobs. "Not only are there fewer job vacancies, but negotiating wages must also be more difficult," Seda said. "Consumers' perception of getting a job today and expectations about future employment have become more negative in the last four months."

Confidence going downhill
(Index base 100= average of last 5 years)



*** The Business Confidence Index is a weighted average of the confidence of industry, services, commerce, and construction sectors.**
Source: IBRE.

Campelo believes that until the end of 2014 the negative business outlook is almost a given considering the final days of a lame-duck government and uncertainty about the path of inflation. Uncertainty tends to delay investments. In 2015, once the new government defines its policies, Campelo thinks, confidence should rise, though not to the peaks seen after the 2010 presidential election. "There is concern about what commitments presidential candidates will make during the election campaign, and what coalition of parties will support the new government," he says.

Investments

The low level of Use of Installed Capacity of Industry (NUCI) in August (83.2%) also suggests that fixed investments will not materialize, since industrial inventories are still full and there is no demand for machinery and equipment or hiring.

The IBRE forecast of a decline of 6.5% in gross capital formation in 2014 underlines the worrying investment situation, at least in the short term. However, Campelo believes investment will swing up again in 2015. "It is unlikely that fixed investment will fall again next year because it is essentially cyclical, unless we run into an energy crisis or a deep slowdown in the United States and Europe," he concludes, noting, however, that fixed investment will recover only enough to make up for the losses in 2014.

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