

Still weak, limited growth

An overview of Brazil's economy in June 2012

A modest recovery persists. Consumption was positive, but industrial production has not reacted so far. Inflation is trending slightly down. More measures to help growth were announced by the government. The Central Bank signaled that it will continue to cut the interest rate. Fiscal revenues softened and expenditures accelerated. While FDI held up well, equity markets saw a large outflow in May. In June, however, financial flows recovered. M&A slowed down after an unusually strong performance.

A modest recovery persists. The most recent data show that economic activity is recovering at a moderate pace. Sectors encouraged by government stimulus, such as vehicles, showed a significant acceleration in June. Consumption, in general, remains positive. On the other hand, industrial production has not reacted so far. The prolonged inventory adjustment is part of the explanation for the weakness in the industrial activity. Private investment has not recovered yet. The high uncertainty regarding future demand has been a drag on capital spending.

And inflation is falling. The IPCA-15 for June came in at a below-consensus 0.18%, down from 0.51% in the previous month. Lower auto prices due to tax cuts were a major factor in this decline. Inflation in the services sector rose, but it reflected a slight increase in air-ticket prices, which had gone down substantially a month earlier. Year-over-year inflation dropped a bit to 5.0%, and core inflation is running at annualized 4.7%, a decline from previous months. The government authorized an increase in gasoline prices, but it has been totally offset by a simultaneous decrease in the CIDE, a tax on fuels.

Leading to further monetary and fiscal stimulus measures. In its quarterly inflation report, the Central Bank reaffirmed its recent communication, suggesting that it will continue lowering the Selic rate "parsimoniously". Also, the National Monetary Council lowered the BNDES' benchmark interest rate, the TJLP, to 5.5%, from 6.0%. Another stimulus measure was the decision to increase government purchases of capital and durable goods by the equivalent of 0.2% of GDP. Trucks, buses, cars and motorcycles are among the benefited products.

Fiscal revenues are softening and expenditures are speeding up. A slowdown in federal revenues continues as economic growth remains weak, while spending is picking up, driven by transfers. With administrative difficulties still holding back the expansion in infrastructure spending by the federal government, capital expenditure growth has been explained by expenses in the "Minha Casa Minha Vida" home subsidy program.

While FDI held up well, equity markets saw a large outflow in May. Local capital markets posted a \$2.4 billion outflow and medium- and long-term external debt was renewed at a lower rate than in previous months. On the other hand, foreign direct investment reached \$3.7 billion, adding up to a solid 2.7% of GDP over the past 12 months. A surplus in the balance of trade also stood out, as soybean exports topped 7 billion metric tons, a record high.

In June, however, flows recovered. Up to the 22nd, financial flows were positive in \$2.1 billion, reversing the large outflow seen in May. The Central Bank sold \$ 11.4 billion through currency swaps, more than twice the amount sold in May. This move helped bring the exchange rate to 2.02 reais per dollar, after having reached 2.08 during the month. The Ibovespa fell 0.25% in both and local currency terms. The 5-year CDS fell to 153 bps against the Libor, down from 171 bps a month ago.

M&A slows down after an unusually strong performance. A new antitrust framework announced by Brazil's antitrust agency (Cade) in May prompted companies to settle deals earlier than expected. As a consequence, only a few deals were announced in June. France's Casino exercised its option to become the sole owner of Pão de Açúcar, Brazil's biggest retailer. Sage Group, the UK's biggest software maker, entered Brazil for the first time after acquiring a controlling stake of Folhamatic Tecnologia em Sistemas, an American-based developer of accounting and business-management software. The deal reached \$ 196 million.

Ri Happy, one of Brazil's main toy retailers acquired PBKids. Ri Happy is controlled by the American private equity fund Carlyle. Finally, BR Malls, a shopping-center manager, increased its stake in shopping Villa Lobos by 19% to 58% in a deal that reached \$110 million.

What's next? The focus will be on economic activity, especially the pace of the recovery. The Central Bank will meet on July 11 for its decision on monetary policy. The developments in the global crisis and their impacts on the domestic economy will also capture attention.

Key macroeconomic data

INFLATION (1) (2)		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Accumulated	
														12M	3M Annualized
2011	CPI (IPCA)	0,8	0,8	0,8	0,8	0,5	0,1	0,2	0,4	0,5	0,4	0,5	0,5	6,5	5,7
	WPI	0,8	1,2	0,6	0,3	0,0	(0,4)	(0,2)	0,6	0,7	0,7	0,5	(0,5)	4,3	(0,6)
	IGPM	0,8	1,0	0,6	0,4	0,4	(0,2)	(0,1)	0,4	0,6	0,5	0,5	(0,1)	5,1	2,8
2012	CPI (IPCA)	0,6	0,4	0,2	0,6	0,4	0,2							5,0	4,8
	WPI	(0,1)	(0,3)	0,4	1,0	1,2	0,7							4,9	12,1
	IGPM	0,2	(0,1)	0,4	0,9	1,0	0,7							5,1	10,6
MONEY AND CREDIT (1) (4)															
2011	M3	0,2	2,1	1,4	0,6	1,4	1,3	1,9	1,9	1,5	0,8	1,6	2,7	18,8	14,6
	Bank credit	1,5	1,5	1,5	1,4	1,4	1,4	1,4	1,3	1,3	1,4	1,4	1,4	18,2	18,8
2012	M3	1,8	1,2	2,1	0,9	1,1								20,5	17,8
	Bank credit	1,4	1,4	1,5	1,5	1,4								18,1	18,8
INTEREST RATES (5)															
2011	Overnight (Interbank rate in R\$)	11,2	11,2	11,7	11,9	11,9	12,2	12,4	12,4	11,9	11,4	11,4	10,9	11,7	12,0
	Two-year interest rate (in R\$)	12,9	12,7	12,8	12,7	12,5	12,7	12,8	11,1	10,6	10,5	9,8	10,5	11,8	12,6
	Two-year interest rate (in USD)	2,4	2,7	3,3	4,6	4,0	3,5	2,7	3,6	3,7	3,3	3,9	3,2	3,4	4,0
2012	Overnight (Interbank rate in R\$)	10,4	10,4	9,7	8,9	8,9	8,4							10,6	8,7
	Two-year interest rate (in R\$)	10,0	9,8	9,7	8,9	8,4	8,2							10,0	8,5
	Two-year interest rate (in USD)	2,7	2,4	2,3	2,7	2,8	2,8							3,0	2,7
STOCK MARKET - IBOVESPA															
São Paulo Stock Exchange Market Index (6)															
2011	Traded Volume (daily average in US\$ mm.)	3756	4369	3861	4231	3768	3709	3644	4805	3597	4003	3195	3362	3858	3903
	Index Variation (end of month in US\$)	(4,4)	2,0	3,8	(0,2)	(2,7)	(2,3)	(5,4)	(5,8)	(20,7)	22,4	(9,1)	(3,7)	(2,2)	(1,7)
2012	Traded Volume (daily average in US\$ mm.)	3541	4726	3904	3949	3715	3973							3868	3879
	Index Variation (end of month in US\$)	19,9	6,2	(8,1)	(7,7)	(17,5)	(0,2)							(2,5)	(8,5)
EXCHANGE RATE															
<i>(End of month)</i>															
2011	(a) BRL/USD (7)	1,67	1,66	1,63	1,57	1,58	1,56	1,56	1,59	1,85	1,69	1,81	1,88	---	---
	(b) % monthly change	0,4	(0,7)	(2,0)	(3,4)	0,4	(1,2)	(0,3)	2,0	16,8	(8,9)	7,3	3,6	12,6	(15,6)
	(c) BRL/EUR (7)	2,28	2,30	2,31	2,33	2,27	2,27	2,24	2,29	2,49	2,36	2,44	2,43	---	---
	(d) % monthly change	2,8	0,5	0,7	0,8	(2,5)	(0,3)	(1,2)	2,1	9,1	(5,3)	3,4	(0,3)	9,5	(7,8)
2012	(a) BRL/USD (7)	1,74	1,71	1,82	1,89	2,02	2,02							---	---
	(b) % monthly change	(7,3)	(1,7)	6,6	3,8	6,9	(0,0)							29,5	51,4
	(c) BRL/EUR (7)	2,28	2,29	2,43	2,50	2,50	2,56							---	---
	(d) % monthly change	(6,1)	0,1	6,3	3,0	(0,1)	2,5							13,0	23,3
MAIN BRAZILIAN BONDS (%)															
2011	CDS 5-yr (8)	118,9	118,0	111,0	105,3	104,3	110,0	113,6	142,6	202,4	140,3	163,1	160,8		
	BR 40 Spread over US Treasury (9)	94,9	85,4	62,0	62,5	48,8	38,8	47,9	57,3	156,6	130,0	138,7	98,0		
2012	CDS 5-yr (8)	145,4	141,0	120,6	123,0	171,0	153,4								
	BR 40 Spread over US Treasury (9)	90,5	48,8	55,1	50,9	112,6	103,6								

- End of month values. Percentage change over the previous period.
- WPI (Wholesale Price Index) and IGPM (General Price Index, Market) from the Vargas Foundation; CPI (IPCA) (Consumer Price Index) from IBGE. The last figure for the CPI refers to the 30-day period ending on the 15th of this last month; previous figures refer to the full monthly period. Figures for the IGPM [a weighted average of Vargas Foundation's consumer price index (30%), WPI (60%), and national construction price index (10%)], always refer to the 30-day period ending on the 20th of each month.
- Based on the average of the last three months, accumulated for 12 months.
- M3 = currency outside banks plus demand deposits plus savings deposits plus CDs plus money market funds plus repurchase operations with federal securities. Bank credit = financial institutions' total credit to public and private sectors seasonally adjusted by Itaú-BBA
- Annual yields, in percentage terms, gross of withholding tax on nominal income on nonbank operations. End of period values, except for the overnight rate, which is the cumulative value for the month. The USD rate is a swap rate and is deliverable in BRL.
- Daily average: total monthly volume/business days. Index variation: ratio of % monthly change of Ibovespa in reais to % monthly change of R\$/USD exchange rate.
- Average of the offer rate of the last business day of the month.
- CDS = premium in basis points, calculated over Libor, paid as a protection against Brazil's default over a 5y period.
- Spread over US Treasury bond of equivalent duration, in basis points. BR 40 is callable on or anytime after 2015/08/17.

Key macroeconomic data (continued)

GDP (1)	2009				2010				2011				2012		
	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1
Index (1995 = 100)	144,2	147,9	151,9	146,5	155,0	156,9	158,3	160,0	157,5	161,3	162,1	161,9	162,1	161,9	162,5
% quarterly change	1,5	2,6	2,7	(0,3)	2,1	1,2	0,9	1,0	7,6	0,9	0,5	(0,1)	0,2	2,7	0,2
ECONOMIC ACTIVITY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year Average		
2011 Industrial Production (2)	128,3	131,0	131,0	129,3	131,0	129,4	129,9	129,8	127,3	126,9	126,5	127,3		129,0	
Capacity Utilization (3)	84,7	84,5	84,3	84,4	84,4	84,3	84,1	83,6	83,6	83,5	83,3	83,4		84,0	
2012 Industrial Production (2)	125,1	126,7	126,0	125,8										125,9	
Capacity Utilization (3)	83,7	83,7	83,8	83,9	84,0	83,8								83,8	
2011 Retail Sales (4)	97,5	97,4	98,6	98,4	99,1	99,4	100,7	100,3	101,0	101,0	102,4	102,9		99,9	
Consumer Confidence Index (5)	121,6	122,6	120,1	118,2	115,4	118,0	124,4	118,7	114,7	115,2	119,0	119,6		119,0	
Business Confidence Index (6)	112,8	112,5	112,4	111,2	109,9	107,1	105,0	102,7	101,1	100,7	100,7	101,8		106,5	
2012 Retail Sales (4)	106,2	106,1	106,4	107,3										106,5	
Consumer Confidence Index (5)	116,0	119,4	122,7	128,7	127,1	123,5								122,9	
Business Confidence Index (6)	102,3	102,5	103,0	103,3	103,4	103,2								103,0	
EMPLOYMENT	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year Average		
(%)															
2011 Unemployment Rate (7)	6,2	6,2	6,1	6,0	6,0	6,1	5,9	5,9	6,1	6,0	5,6	5,5		6,0	
Employment/Household Survey (8)	119,8	120,6	121,0	121,2	121,7	121,3	121,4	121,7	121,5	121,8	122,4	121,7		121,3	
Employment/Business Registry(9)	148,1	149,0	149,5	150,1	150,7	151,4	151,9	152,3	152,7	153,1	153,5	154,3		151,4	
2012 Unemployment Rate (7)	5,6	5,5	5,7	5,6	5,5									5,6	
Employment/Household Survey (8)	122,3	123,0	123,0	123,4	124,3									123,2	
Employment/Business Registry(9)	154,9	155,3	155,7	156,1	156,3									155,7	
PUBLIC SECTOR BUDGET (10)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Last 12 M		
(% of GDP)															
2011 Overall Balance (11)	(0,5)	(2,0)	(2,0)	(1,6)	(2,2)	(2,1)	(2,0)	(2,4)	(2,4)	(2,3)	(2,4)	(2,6)			
Ex-interest Balance	5,5	4,0	4,1	4,4	3,9	3,9	3,6	3,4	3,4	3,5	3,4	3,1			
Gross Public Debt (12)	54,1	54,1	54,5	54,6	54,3	54,5	54,8	54,7	54,6	54,3	54,5	54,2			
Net Public Debt (13)	38,8	38,8	38,9	38,8	38,8	38,6	38,4	38,2	36,3	37,5	36,6	36,4			
2012 Overall Balance (11)	1,9	(0,4)	(1,3)	(1,1)	(1,8)									(2,4)	
Ex-interest Balance	7,7	5,3	4,4	4,3	3,5									3,0	
Gross Public Debt (12)	55,1	55,8	56,2	56,7	56,9										
Net Public Debt (13)	37,8	38,2	36,5	35,7	35,0										
BALANCE OF PAYMENTS	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Last 12 M		
(US\$ billion)															
2011 Trade Balance	0,4	1,2	1,6	1,9	3,5	4,4	3,1	3,9	3,1	2,4	0,6	3,8		29,8	
Exports	15,2	16,7	19,3	20,2	23,2	23,7	22,3	26,2	23,3	22,1	21,8	22,1		256,0	
Imports	14,8	15,5	17,7	18,3	19,7	19,3	19,1	22,3	20,2	19,8	21,2	18,3		226,2	
Current Account	(5,6)	(3,5)	(5,7)	(3,6)	(4,2)	(3,5)	(3,6)	(4,8)	(2,2)	(3,2)	(6,6)	(6,0)		(52,5)	
Foreign Direct Investment (14)	3,0	7,8	6,8	5,5	4,0	5,5	6,0	5,6	6,3	5,6	4,1	6,6		66,7	
Other Capital Inflows (15)	7,8	0,0	9,3	11,0	9,7	3,1	11,2	5,7	1,2	1,2	7,6	(1,2)		66,6	
Brazilian Capital Outflows (16)	3,9	4,4	0,5	(6,9)	(4,9)	(1,9)	(6,3)	(0,3)	(4,2)	(4,2)	(4,3)	1,2		(23,0)	
Intl Reserves / Liquidity (17)	297,7	307,5	317,1	328,1	333,0	335,8	346,1	353,4	349,7	353,0	350,7	352,0			
Total External Debt (15)	261,4	271,1	275,9	282,5	284,1	291,6	297,1	304,2	298,2	297,6	301,5	298,2			
2012 Trade Balance	(1,3)	1,7	2,0	0,9	3,0									27,5	
Exports	16,1	18,0	20,9	19,6	23,2									259,3	
Imports	17,4	16,3	18,9	18,7	20,3									231,8	
Current Account	(7,1)	(1,7)	(3,3)	(5,4)	(3,5)									(50,9)	
Foreign Direct Investment (14)	5,4	3,6	5,9	4,7	3,7									63,0	
Other Capital Inflows (15)	4,4	(1,1)	4,5	2,7	0,1									39,4	
Brazilian Capital Outflows (16)	(2,8)	(0,4)	3,0	3,5	0,1									(16,6)	
Intl Reserves / Liquidity (17)	355,1	355,9	365,4	374,3	372,4	373,0									
Total External Debt (15)	300,3	301,1	299,6	297,3	298,2										

1. Seasonally adjusted IBGE data.
2. Seasonally adjusted IBGE index for Brazil, average 2002=100.
3. Seasonally adjusted FGV data for Brazil.
4. Seasonally adjusted IBGE nationwide index for inflation-adjusted retail sales, 2003=100.
5. FGV survey data on nationwide consumer expectations for their current and future economic conditions. Seasonally adjusted, September 2005 = 100.
6. FGV survey data on nationwide manufacturing industry expectations for their current and future conditions. Seasonally adjusted.
7. IBGE original household data for the six major Brazilian metropolitan regions, labor force with ten years of age or more, 30-day search period, seasonally adjusted by Itaú BBA.
8. IBGE household data (PME) on employed population for the six major Brazilian metropolitan regions, average 2003=100, seasonally adjusted by Itaú BBA
9. Business registry data (CAGED) from the Labor Ministry, average 2003=100, including all employees with labor cards in the country, seasonally adjusted by Itaú BBA.
10. Accumulated flows in the year to date, except for net public debt which is an end-of-period stock. Includes federal, state and municipal governments, with respective non-financial enterprises (plus the Central Bank) and excludes Petrobras.
11. Net public sector borrowing requirements.
12. General Government gross debt. Does not include Central Bank, public enterprises and Social Security administration.
13. Gross debts less credits of the general government, plus net debts of Central Bank and public enterprises.
14. Includes intercompany loans.
15. Includes stocks, bonds, loans, suppliers' credits, asset transfers, and others
16. Includes direct investment and others
17. Includes, in addition to cash, stocks of repurchase lines and loans abroad

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