

## Economics Group

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### Brazilian Industrial Production Stumbles in March

**Brazilian industrial production fell 1.8 percent in March compared to the previous month, the largest monthly decline since August 2016 and after remaining flat in February. Manufacturing was down 1.7 percent.**

#### Industrial Production Ends Q1 on a Weak Note

Brazilian industrial production stumbled in the last month of the first quarter, dropping 1.8 percent versus February, with manufacturing production and extractive industries declining 1.7 percent and 1.1 percent, respectively. Still, industrial production managed to post a positive print of 1.1 percent compared to March of last year, while manufacturing inched up 0.2 percent with the largest contribution on a year-earlier basis coming from extractive industries, increasing a strong 7.1 percent.

One of the biggest culprits for the month-over-month decline in both industrial and manufacturing production was the collapse in the production of pharmaceutical products (down 23.8 percent). At the same time, furniture production and automobile production declined 11.0 percent and 7.5 percent, respectively. Pharmaceutical output dropped significantly in March versus a year earlier (-28.3 percent). However, automobile production grew 10.9 percent versus March of last year, the fifth consecutive year-over-year increase.

Although industrial production was negative in the first quarter on a seasonally adjusted basis, the year-over-year comparison was positive, perhaps affected by the celebrations of the Brazilian Carnival and the Easter holiday, which fell during the first quarter in 2016 and in the second quarter in 2017. This means that the first quarter numbers will be a bit noisy, and we will need to wait until the second quarter to see if the “green leaves” many have been observing in the Brazilian economy are here to stay.

#### Economy's Recession Almost Over

Although March's industrial production numbers disappointed, we believe the Brazilian economy is on the mend even though we still think growth in 2017 will remain low, up only 0.7 percent compared to 2016.

However, we think that the political environment is still the biggest threat and risk for the Brazilian economy during the rest of 2017. Meanwhile, the Brazilian central bank will continue to lower interest rates as inflation continues to fall. It will try to generate higher growth in domestic consumption while trying to mitigate the effect of the appreciation of the Brazilian currency, the real, on the external sector. Still, domestic consumption remains weak with retail sales still down on a year-earlier basis. Thus, the Brazilian economy will need more help from the global economy to ease recession woes.

Thus far, the external sector is doing its part with exports increasing 21.8 percent during the first four months of this year, compared to a year earlier. So, let us hope the global economy does not disappoint.

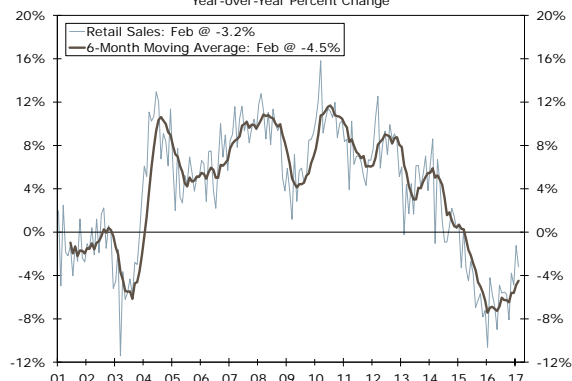
Brazilian Industrial Production Index  
 Year-over-Year Percent Change, Seasonally Adjusted



Total Brazilian Vehicle Production  
 Year-over-Year Percent Change



Brazilian Retail Sales Index  
 Year-over-Year Percent Change



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