

## Economics Group

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### The Brazilian Economy Is Back, Sort Of

*The Brazilian economy grew a more-than-expected 0.3 percent in the second quarter on year-over-year basis. On a seasonally adjusted basis, the economy grew 0.2 percent on a sequential basis.*

#### Improvement Driven by Exports and Consumption

The Brazilian economy posted a year-over-year growth rate of 0.3 percent in Q2, the first positive year-over-year print since the first quarter of 2014. Most of the improvement from the demand side of GDP came through a 2.5 percent year-over-year increase in real exports of goods and services and a 0.7 percent increase in personal consumption expenditures (PCE). The improvement in PCE is, perhaps, the best news from the Q2 release, as this shows that the disinflation that has occurred over the past year and the ensuing decrease in interest rates is starting to have an effect on economic activity.

However, not all news in this release was good. Another reason for the positive year-over-year growth rate was because real imports of goods and services declined 3.3 percent compared to Q2 2016. Recall that imports of goods and services entered the calculation of GDP with a negative sign. This negative reading in imports plus the fact that real gross fixed investment plunged 6.5 percent compared to last year also paints a still not so positive view of the Brazilian economy. Furthermore, government expenditures declined 2.4 percent in Q2 versus a year earlier, underscoring the limited ability of the Brazilian government to drive economic growth as was the case in the past.

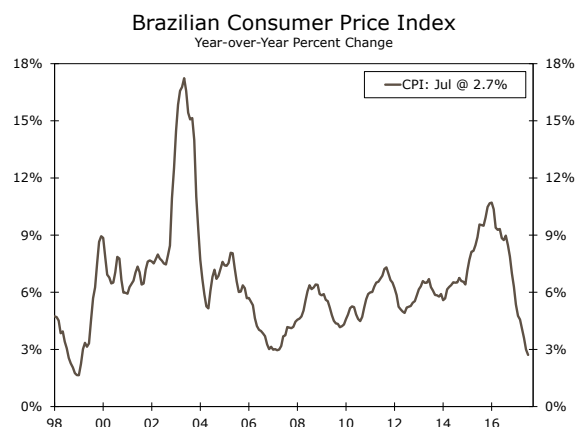
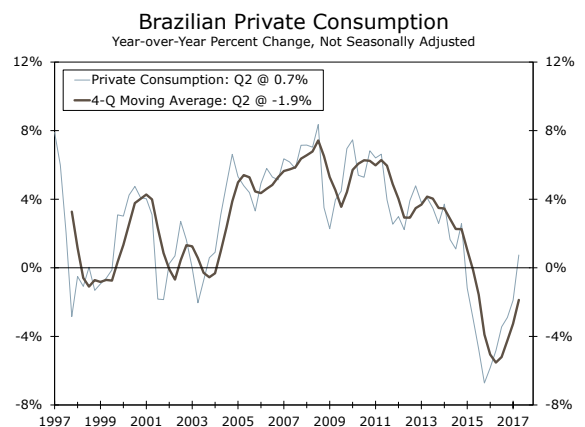
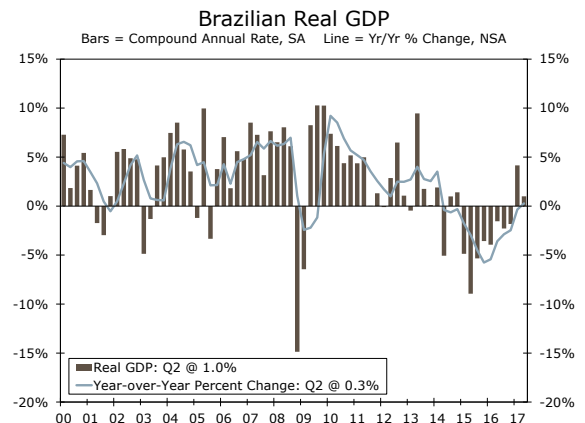
#### Agriculture and Mining, Best Sectors on the Supply Side

This weakness is clear when looking at the economy from the supply side. Industrial output dropped 2.1 percent on a year-earlier basis while services output was down 0.3 percent versus a year ago. The positive print during the quarter was basically a consequence of a strong agricultural sector. Agricultural output increased 14.9 percent in Q2 compared to the same quarter a year earlier after a 15.2 percent print in the first quarter of the year. Within the industrial sector, mining output was up 5.9 percent after a 9.7 year-over-year increase in Q1 2017. However manufacturing output was still depressed in Q2 2017, dropping 1.0 percent on a year-earlier basis. Meanwhile, public utilities output was down 0.5 percent while construction activity was down 7.0 percent, all compared to the second quarter of 2016.

On the service side of the economy commerce output increased 0.9 percent during the quarter, year over year, while real estate activities also improved 0.9 percent versus Q2 2016.

#### Recovery Will Continue to be Slow

Although the Brazilian economy has finally gotten out of this historic recession, the recovery process will continue to be slow. The still unstable political environment and the difficult fiscal situation will continue to prevent the economy from recovering at a faster pace even as the Brazilian central bank continues to expand monetary policy.



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