In, On and For Emerging Markets

A CEIC Insights Report

Brazil Economy in a Snapshot Q3 2020

Executive Summary

Brazil Economy in a Snapshot is a quarterly publication produced by the CEIC Macroeconomic Research Team. The report is designed to provide a comprehensive, albeit concise overview of the current economic and financial developments. The Brazil Economy in a Snapshot report is produced using data from CEIC's Brazil Premium Database and Global Database.

Key Highlights

Real GDP Growth: -11.4%

2.1%
Headline Inflation

USD 17.4bn
Trade Balance

BRL -466bn
Fiscal Balance

-12.5%
Industrial Production

12.9%
Unemployment Rate

85.5% of GDP
General Government Gross Debt

Summary

Due to the COVID-19 lockdown, **real GDP** declined by a seasonally adjusted 9.7% q/q in Q2 2020, and 11.4% y/y.

Private consumption and gross fixed investment shrunk by 13.5% y/y and 15.2% y/y, respectively, with business activities at a standstill due to the lockdown. Government consumption also declined by 8.6% y/y. Exports of goods and services rose by 0.5% y/y amid the rebound of the Chinese economy bolstering demand for commodities, but sluggish economic activity affected imports, which decreased by 14.9% y/y.

Retail trade fell by 7.6% y/y in volume terms in Q2 2020 but it rebounded in July,growing by 0.6% y/y.

Consumer price inflation accelerated to 2.3% y/y in Julyfrom 2.1% y/y in June,influenced by falling prices of clothing and transport. Given that inflation is far below the central bank's target of 4%, the Monetary Policy Committee
(COPOM) cut the SELIC interest rate by 25 bp to 2% on August5, a historical low, to mitigate the effects of COVID-19 on economic activity. Atthe next meeting, to be held on September 16, interest rates are expected to remain at the current level, as the committee declared there was little room for further interest rate cuts.

Asgovernment expenditure grew to tackle the pandemic, the **fiscal deficit** widened to 16.7% of GDP in Q2 2020 from 5.3% of GDP in Q2 2019. The central government's primary deficit – which is the federal budget balance minus interest expenses – rose to BRL 414bn in Q2 2020 from BRL 19.3bn in Q2 2019. The primary deficit goal of BRL 124bn for 2020 was suspended as federal authorities announced the state of national emergency in mid-March to contain the rise of infections in the country.

Againstthe backdrop of economic recovery in China, **exports** increased by 12.3% y/y during Q2 2020, in volume terms, supported by the positive performance of crude materials, mineral fuels, and food and live animals. **Imports** fell by 0.4% y/y, influenced by declines in mineral fuels, and machinery and transport equipment.

Brazil Economy: Statistics at a Glance

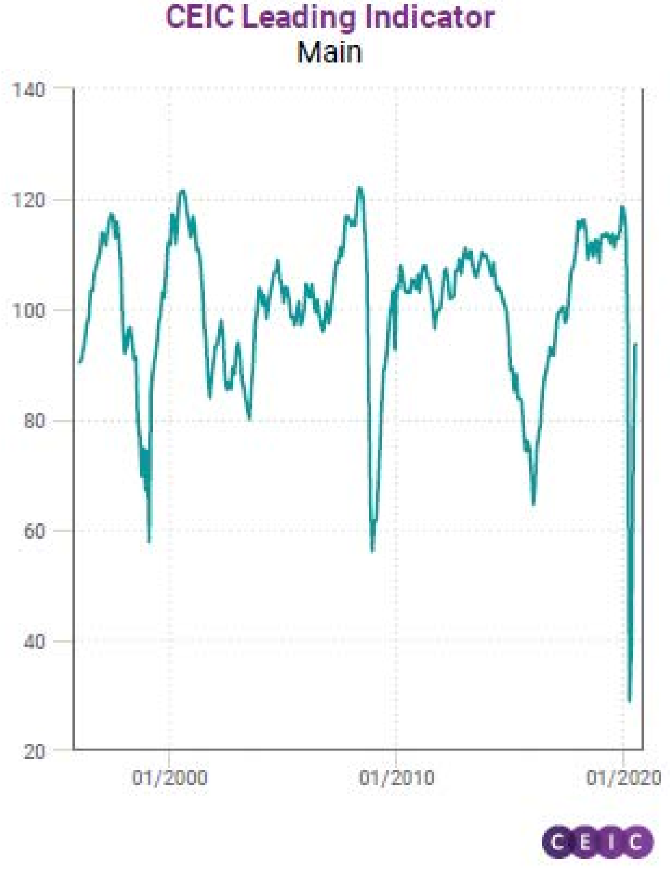
Name	03/2019	06/2019	09/2019	12/2019	03/2020	06/2020
Real GDP, % y/y change	0.77	1.44	0.69	1.62	-1.43	-11.39
Industrial Production Index, % y/y change	-2.91	-4.09	0.69	-2.04	-7.84	-11.53
Retail Trade Index, % y/y change	5.63	4.41	4.69	7.58	3.25	3.48
Consumer Price Index, % y/y change	4.58	3.37	2.89	4.31	3.30	2.13
SELIC Rate, % pa	6.50	6.50	5.50	4.50	3.75	2.25
Central Government Expenditure, % y/y change	7.76	-18.53	7.52	40.28	-13.05	107.82
Central Government Revenue, % y/y change	6.34	3.78	8.18	61.60	-2.65	-28.69
Central Government Fiscal Balance, BRL bn	-104.48	-101.28	-111.87	-101.55	-68.02	-466.16
General Government Gross Debt, % of nominal GDP	78.06	78.02	78.00	75.79	78.51	85.52
Exports, % y/y change	-13.84	-8.49	5.79	-4.35	5.35	-4.89
Imports, % y/y change	-4.89	-9.05	16.86	-2.79	10.53	-19.80
Trade Balance, USD bn	9.03	16.65	10.29	12.06	4.50	17.19
Current Account Balance, USD bn	-14.99	-6.20	-15.55	-14.18	-19.59	6.17

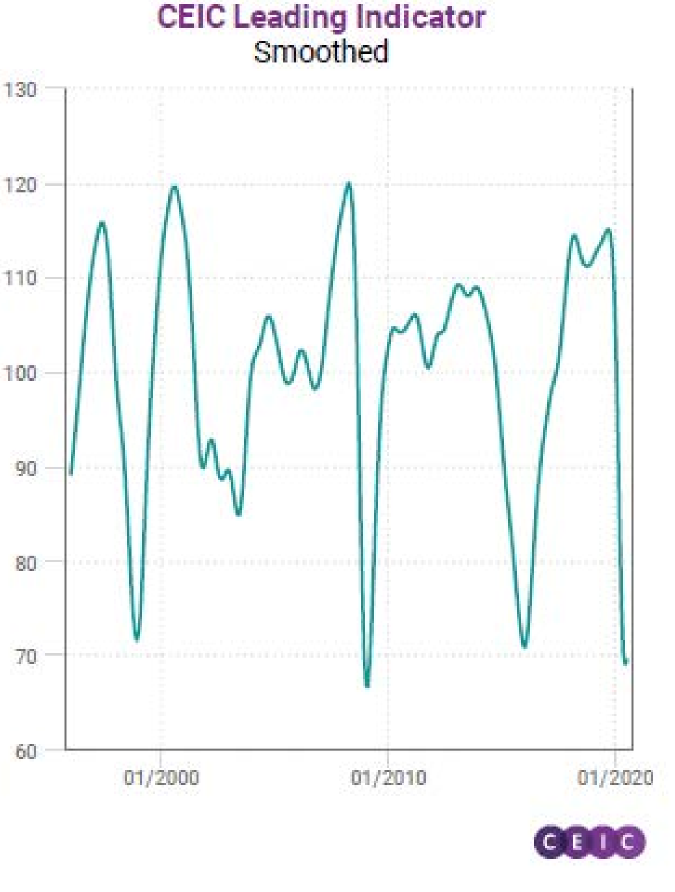
Economic Outlook

The Brazilian economy will face a deep recession in 2020 but it is expected to stabilise by Q1 2021, according to the CEIC Leading Indicator, which anticipates turning points in the economic cycle six to nine months in advance. The index approached the neutral value of 100 in July, rising to 93.7 after reaching a low of 28.7 in April. The IMF forecasts that real GDP will decline by 9.1% in 2020, but will grow by 3.6% in 2021, while the central bank's survey of economists expects it to decline by 5.5% in 2020 and increase by 3.5% in 2021.

Factory output accelerated in July, after reopening from the lockdown in mid-March to May which was imposed due to the COVID-19 pandemic. The manufacturing PMI increased further above the threshold of 50 (dividing expansion from contraction) in July, to 58.2, from 51.6 in June, indicating a significant improvement in industrial activity. However, the PMI of the services sector, which accounts for 72% of the total value added of the Brazilian economy, despite rising, remained below 50, at 42.4 in July, as the demand for services remained supressed.

After four months below the neutral value of 50, the industrial entrepreneur confidence index soared to 57 in August, which means that companies are more optimistic about the sector's future performance. Capacity utilisation also improved to 71.8% in June, the second increase in a row, but remained below the level in March of 75.8%.





Real Sector

Real Sector

GDP contracted by 11.4% y/y in real terms in the second quarter, due to the effects of the COVID-19 pandemic on both supply and demand. Compared with the previous quarter, Brazil's GDP shrunk by a seasonally adjusted 9.7% q/q in Q2 after declining by 2.5% q/q in Q1. The closure of non-essential business activities had a strong impact on household expenditure, which fell by 13.5% y/y. Fixed investment dropped by 15.2% y/y in Q2, due to falling construction and capital goods output. Although government spending increased to support households, companies, and the public health system, the public sector also cut back on non-essential outlays and as a result government consumption declined by 8.6% y/y. The exports volume of goods and services increased by 0.5% y/y, amid the recovery of the Chinese economy but imports fell by 14.9% y/y as a result of sluggish economic activity.

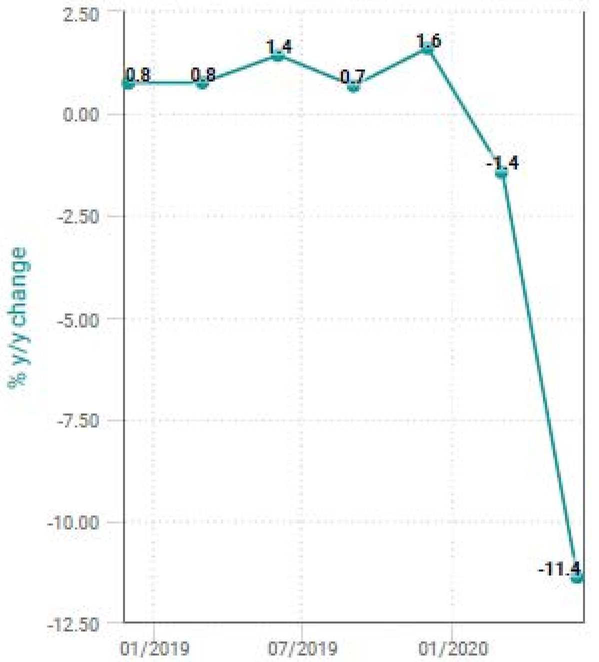
Among the sectors, services output declined by 11.2% y/y, with transport, storage and postal services down by 20.8%y/y, and other services by 23.6%. Commerce declined by 14.1% y/y, administration, defence, public health, and education and social security by 8.6% y/y, and information and communication technology by 3.2% y/y. Financial activities, insurance and related services output increased by 3.6%, and property activities by 1.4%.

Industrial production plummeted by 19.4% y/y in Q2 2020, influenced by social distancing measures to deal with the COVID-19 pandemic. Extraction industry output edged up by 0.6% y/y in Q2, as many business activities in China resumed in mid-March, which had a positive impact on Brazil's exports of commodities. Manufacturing output plummeted by 21.8% y/y in Q2, as many factories were closed at the end of March to avoid workers catching and spreading the virus. The production of motor vehicles, and clothing and accessories, which are key sub-sectors, contracted by 51.7% y/y and 46.8% y/y in June, respectively, while the production of pharmaceuticals grew by 13%y/y, followed by cleaning products, cosmetics and personal care, which rose by 12.1% y/y. The manufacturing purchasing managers' index (PMI) reflected the overall drop in economic activity in April and May, but some signs of recovery have emerged since then with the index rising to 47.3 in July, closer to the break-even point of 50 dividing expansion from contraction.

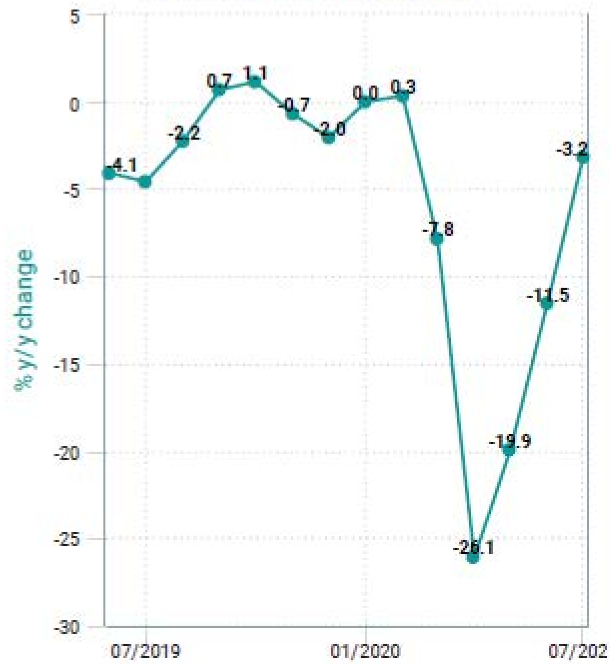
The unemployment rate rose consistently through Q2 2020, to 13.3% in June from 12.2% in March. The highest reductions in the number of employees were recorded in both personal and domestic services, by 26% y/y and 24.7%y/y respectively. The deterioration in the labour market had a negative impact on household income with total real earnings plummeting by 11.8% y/y to BRL 188bn in May, a record low since the series started in 2012.

Retail sales volume plunged by 7.6% y/y in Q2, as many stores selling non-essential goods were closed in April and May. In June, retail sales rebounded, growing by 0.6% y/y. The growth was significantly larger in value terms, with retail sales increasing by 2.8% y/y in June, after falling by 14% y/y and 4% y/y, respectively, in April and May.

Real GDP, % y/y change

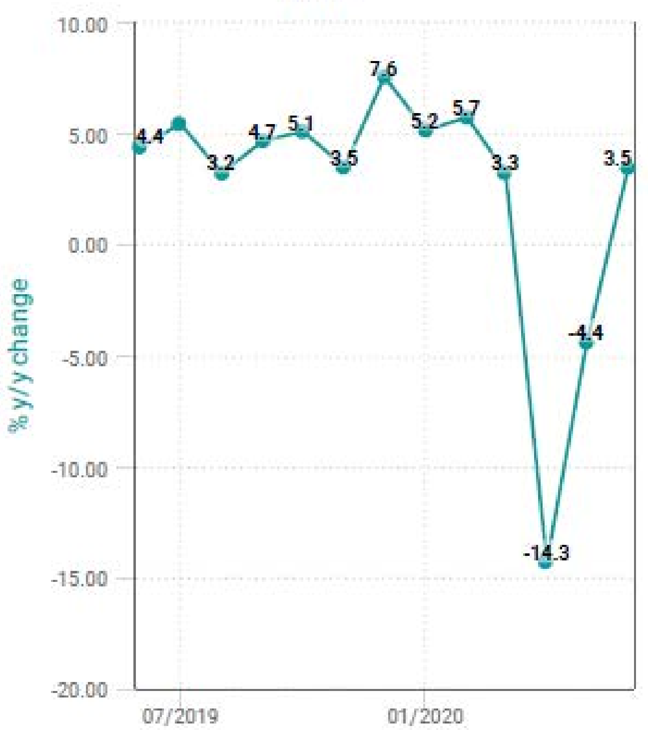


Industrial Production Index

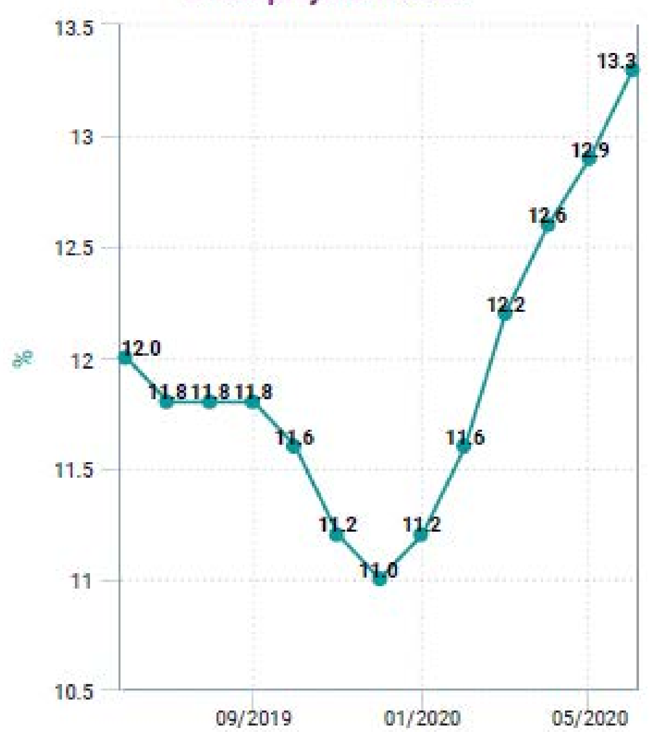


Retail Trade Index

Value



Unemployment Rate



Monetary & Financial Sector

Monetary and Financial Sector

The decline in economic activity coupled with low inflation led the central bank to intensify its monetary stimulus support during the pandemic. The central bank's monetary policy committee (COPOM) reduced the SELIC interest rate to a new record low of 2% on August 5, 2020, representing the ninth cut in thirteen months, amid uneven signs of economic recovery after many businesses resumed operations. At the next meeting, on September 16, interest rates are expected to remain at their current level, as COPOM declared there was little room for further interest rate cuts and that any future cuts would tend to be more gradual and conditioned upon prospects for inflation and the public deficit. After the decision on August 5, real interest rates turned negative as the benchmark interest rate moved lower than the rate of inflation.

In spite of the interest rate cuts, the country has experienced a period of subdued inflation, which accelerated moderately to 2.3% y/y in July 2020 from 2.1% y/y in June. Since April, the inflation rate has remained below the lower limit of the target range of 2.5% to 5.5% for 2020, which has allowed a more dovish stance from COPOM to combat the effects of the pandemic. Inflation has remained low partly due to falls in transport and clothing prices, by 2.4% y/y and 1.0% y/y in July, respectively, ultimately due to reduced purchasing of non-essential goods and services, and commuters being forced to stay at home.

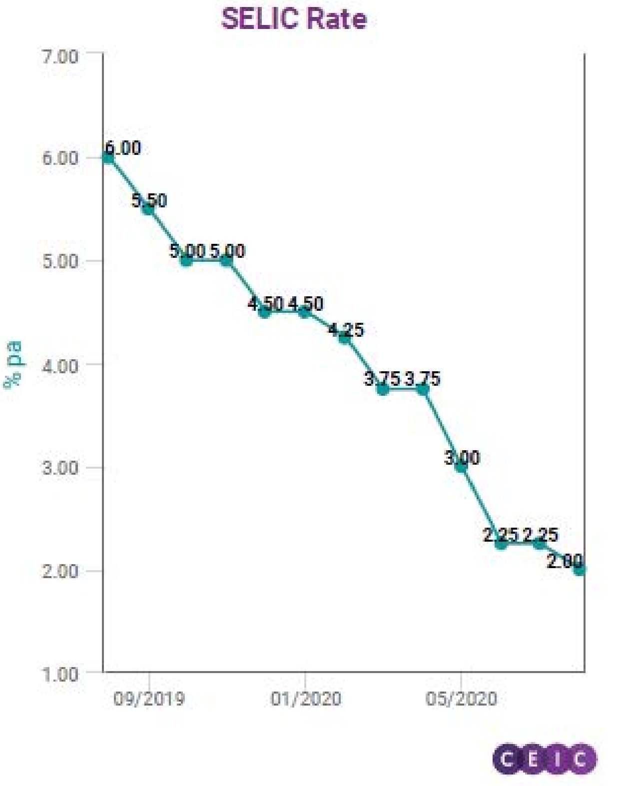
The producer price index (PPI) increased by 6.4% y/y in June 2020, accelerating from 4.6% y/y in May supported by a 6.7% y/y rise in manufacturing prices with costs rising due to exchange rate depreciation. The extraction industry registered mild inflation of 0.7% y/y in June as some commodities prices recovered in international markets.

The São Paulo stock exchange benchmark index, the IBOVESPA, continued to climb in July to 102,912 by the end of the month, from 95,055 on June 30. The index is lower than the level observed before the COVID-19 outbreak spread through China and caused volatility in global financial markets. On December 30, 2019, the index hit 115,645.

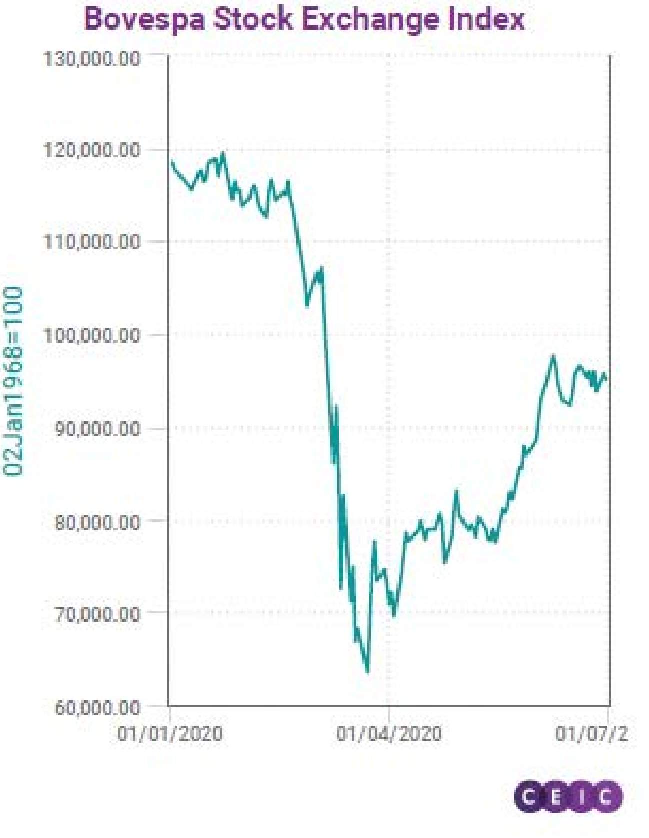
The central bank's monetary policy stimulus affected the yields on government securities. The 10-year government bond yield fell to 6.01% on July 31, 2020, from 6.51% at the end of June.

The Brazilian currency appreciated in July 2020, as the value of the US dollar plummeted in international markets, caused by the 'dovish' policy of the US Federal Reserve, the effects of the pandemic on the US economy, and political uncertainty in connection with the forthcoming US presidential election. The Brazilian currency traded at 5.20 per USD at the end July, appreciating from 5.48 per USD at the end of June. The Brazilian real's exchange rate against the euro was trading at 6.15 per EUR on July 31, unchanged from the end of June despite some volatility during the month.


Consumer Inflation
%
4.5
4
3.5
3
2.5
2
1.5
3.37
3.22
3.43
2.89
2.54
3.27
4.31
4.19
4.01
3.30
2.40
1.88
2.13
09/2019
01/2020
05/2020


SELIC Rate
% pa
7.00
6.00
5.00
4.00
3.00
2.00
1.00
6.00
5.50
5.00 5.00
4.50 4.50
4.25
3.75 3.75
3.00
2.25 2.25
2.00
09/2019
01/2020
05/2020


Foreign Exchange Rate
USD/BRL
USD/BRL
6.5
6.0
5.5
5.0
4.5
4.0
3.5
01/01/2020
01/03/2020
01/05/2020
01/07/2


Bovespa Stock Exchange Index
02Jan1968=100
130,000.00
120,000.00
110,000.00
100,000.00
90,000.00
80,000.00
70,000.00
60,000.00
01/01/2020
01/04/2020
01/07/2

Fiscal Sector

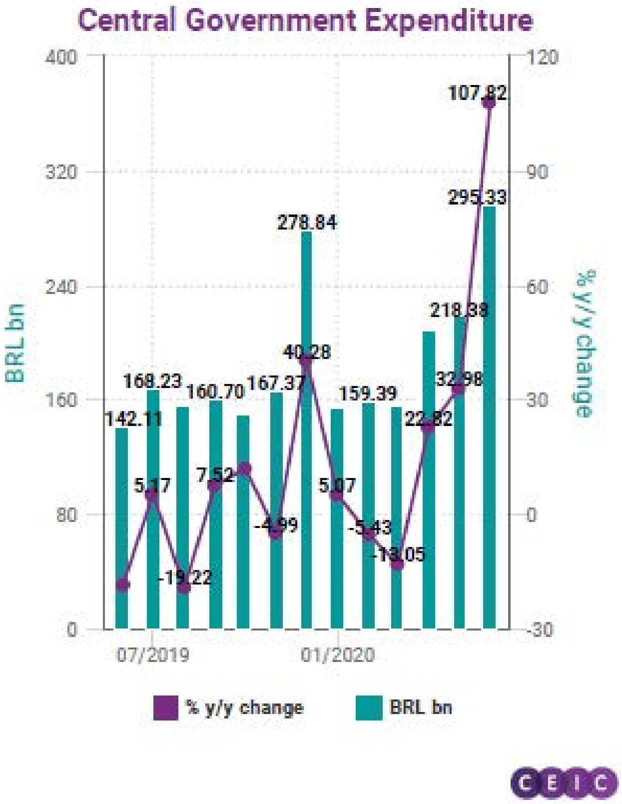
Fiscal Sector

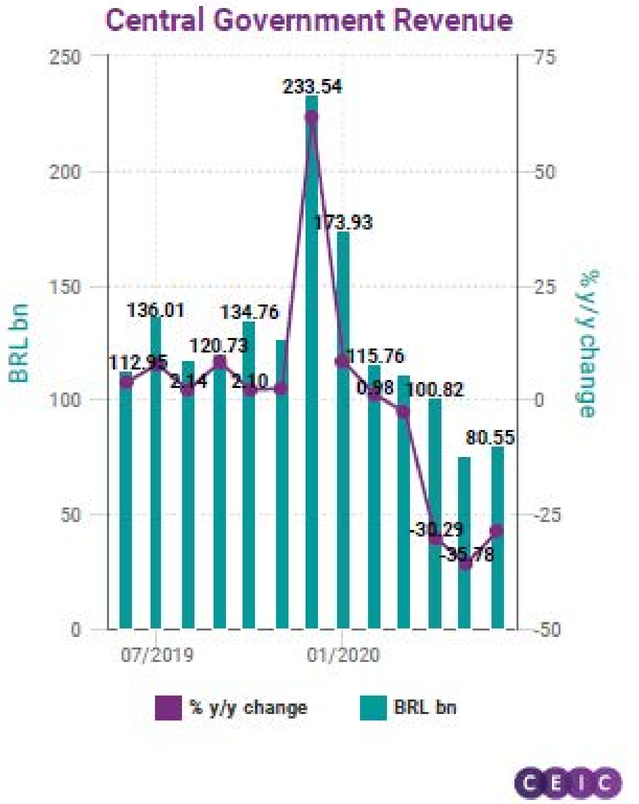
Brazil's public finances deteriorated in Q2 2020 as the social distancing measures to deal with the pandemic had a negative effect on tax revenues and the government increased public expenditure on the health system and income transfers. In June, the fiscal deficit jumped to 16.7% of GDP measured on a year-to-date basis, from 5.3% of GDP in June 2019. Tax collection fell significantly in Q2 2020, following the virtual freeze on many business activities during the period, along with certain tax exemptions and the postponement of tax payments mainly introduced by central government. As a consequence, the federal government faced a decline in revenues of 31.5% y/y in Q2.

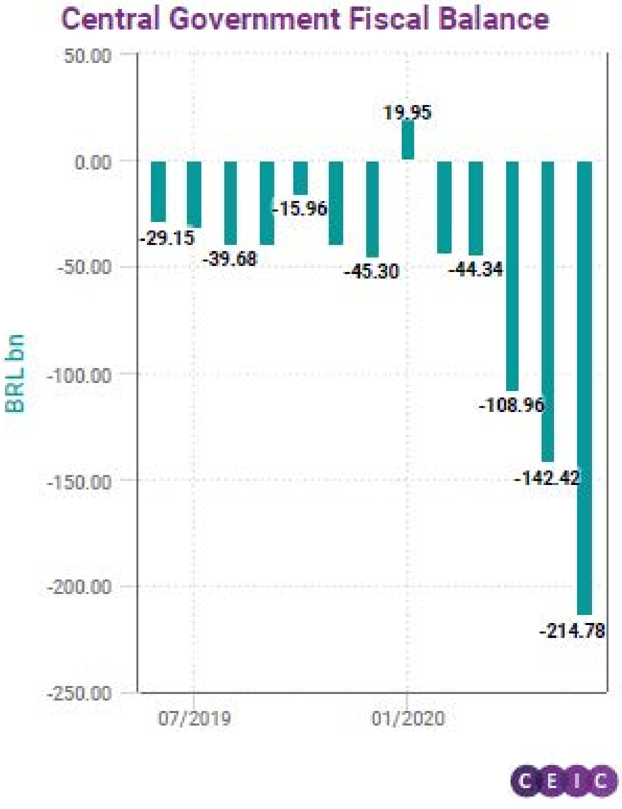
Central government expenditure soared by 51.6% y/y in Q2 2020, influenced by higher spending to support companies and households facing a significant fall in income during the pandemic. The federal government introduced a temporary income transfer programme to provide financial aid to informal workers, the unemployed and self-employed. However, central government interest expenses dropped by 36% y/y in Q2 as the central bank cut its interest rates during the period. As a consequence, the primary deficit – which is the central government balance minus interest expenses – widened to BRL 414bn in Q2 2020. This is the highest quarterly deficit recorded since the series started in 1997 and compares with a deficit of BRL 19.3bn in Q2 2019.

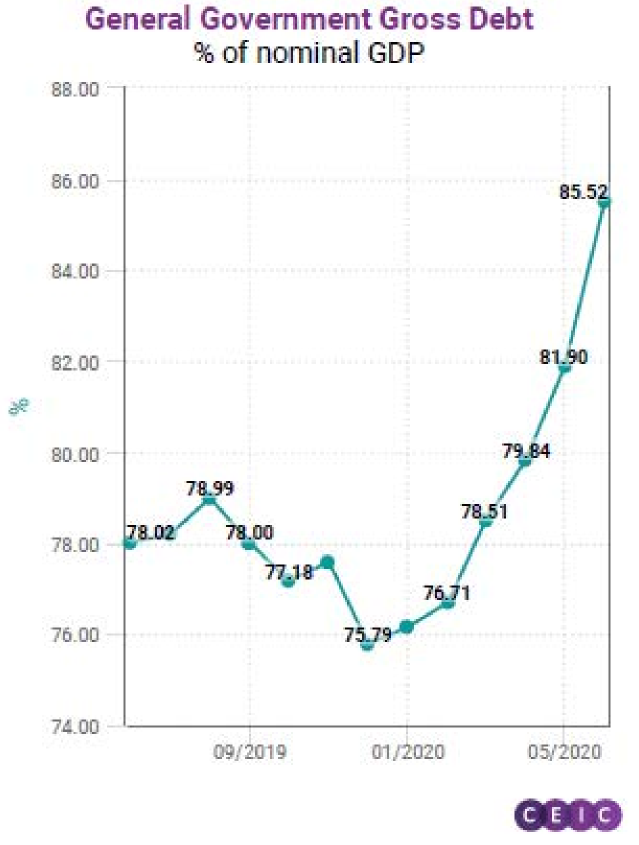
In mid-March, the authorities announced a state of national emergency exempting the federal government from meeting its primary deficit target of BRL 124bn for 2020. However, the federal government must still comply with the spending ceiling, which excludes much of the expenditure related to COVID-19.

Following the increase of public expenditures to deal with the COVID-19 pandemic, the public debt increased by 11.9%y/y to BRL 6.15tn in June 2020, which corresponds to 85.5% of GDP. In comparison, the general government gross debt was 78.5% of GDP in March 2020. In June, the debt in domestic currency grew by 12.8% y/y, reaching a share of 87.6% of the total general government public debt, while the growth rate of foreign currency debt accelerated to 6%y/y in June from 4% y/y in March.


Central Government Expenditure
BRL bn
% y/y change
400
320
240
160
80
0
120
90
60
30
0
-30
107.82
295.33
278.84
218.38
40.28
168.23
160.70
167.37
159.39
32.98
142.11
22.82
5.17
7.52
5.07
-4.99
-5.43
-19.22
-13.05
07/2019
01/2020
% y/y change
BRL bn


Central Government Revenue
BRL bn
% y/y change
250
200
150
100
50
0
75
50
25
0
-25
-50
233.54
173.93
136.01
134.76
120.73
112.95
2.14
2.10
115.76
0.98
100.82
80.55
-30.29
-35.78
07/2019
01/2020
% y/y change
BRL bn


Central Government Fiscal Balance
BRL bn
50.00
0.00
-50.00
-100.00
-150.00
-200.00
-250.00
19.95
-15.96
-29.15
-39.68
-45.30
-44.34
-108.96
-142.42
-214.78
07/2019
01/2020


General Government Gross Debt
% of nominal GDP
%
88.00
86.00
84.00
82.00
80.00
78.00
76.00
74.00
85.52
81.90
79.84
78.99
78.51
78.02
78.00
77.18
76.71
75.79
09/2019
01/2020
05/2020

External Sector

External Sector

The recovery of the Chinese economy had a positive impact on Brazilian foreign trade in Q2 2020, boosting Brazil's total exports of goods by 12.3% y/y in Q2 2020 in volume terms. The value of exports, on the other hand, fell by 9.3%y/y in Q2, influenced by the fall in commodity prices. In July alone, exports volume increased by 12.4% y/y, despite decreasing by 2.9% y/y in value terms, as a recovery in the demand for commodities increased the volume shipped abroad.

The closure of many business activities and drop in income affected imports, which fell by 0.4% y/y in volume and 14.8% y/y in value terms during Q2 2020. In July 2020, imports continued on a decreasing trend, with a 35.2% y/y decline in value terms and a drop of 28.2% y/y in volume. Hence, the trade surplus improved by 4.5% y/y to USD 17.4bn in Q2 from USD 4.5bn in Q1 2020. Then, in July, the trade surplus soared by 237% y/y to USD 8bn, the highest monthly value since the series started in 1959.

Among the top four highest grossing export sectors, in value terms, crude materials, mineral fuels, and food and live animals grew in July, by 11.2% y/y, 5.2% y/y and 2.7% y/y, respectively, while machinery and transport equipment contracted by 32% y/y.

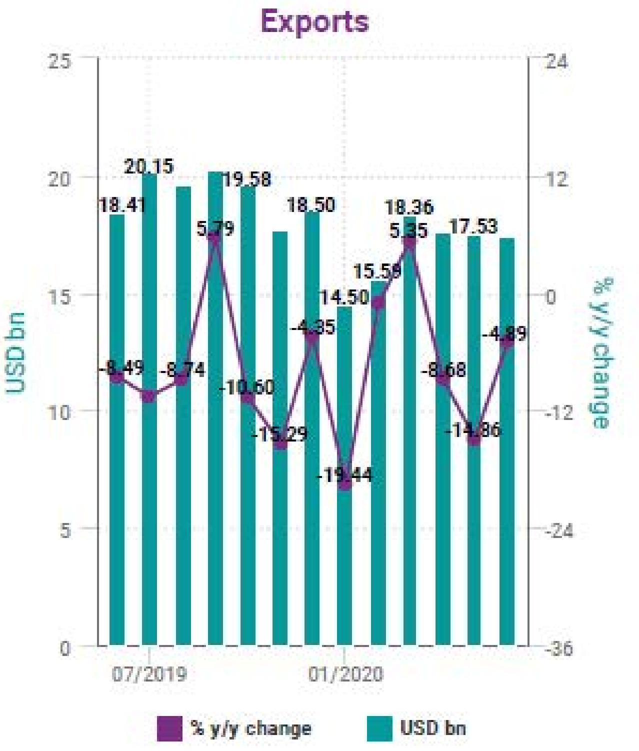
Exports to China - Brazil's biggest trade partner - increased by 20.9% y/y in Q2 2020, in value terms, reflecting the recovery of the Chinese economy after it was hit hard by the pandemic in Q1. In July 2020, the growth of exports to China accelerated to 24.3% y/y, influenced by the partial recovery of some commodity prices. Soybean exports to China grew by 30.9% y/y in July, in value terms, while crude oil recorded a 47.2% y/y increase. However, exports of iron ore and concentrates dropped by 10.8% y/y during the month.

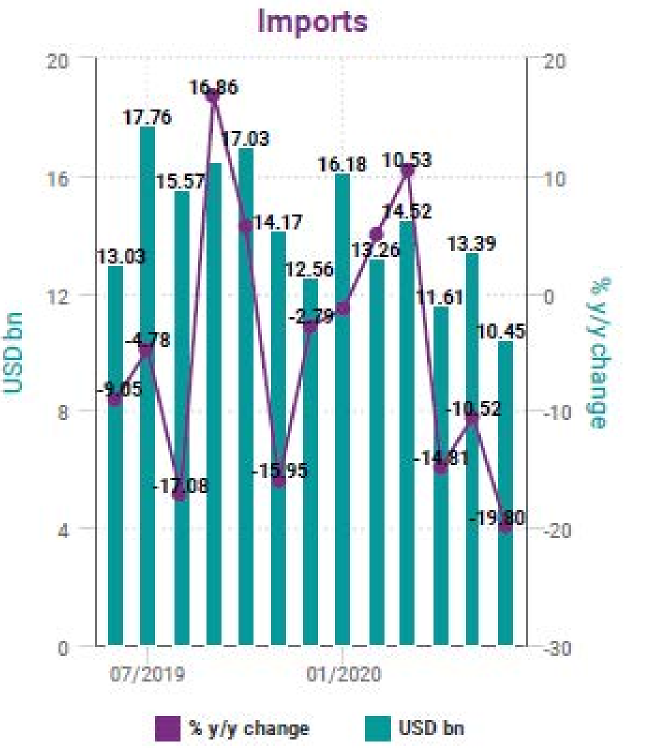
Exports to the US plummeted by 37.4% y/y in July 2020, while exports to Argentina plunged 18.6% y/y, as the country remained in quarantine for more than five months, and the downturn is expected to last until the end of August.

The fall in imports in Q2 2020 was supported by mineral fuels, and machinery and transport equipment, which dropped by 46% y/y and 12.5% y/y, respectively, in value terms. In July 2020, further contractions of 33.9% y/y for machinery and transport equipment and 65.3% y/y for mineral fuels and lubricants pushed down total imports. In addition, imports of chemicals plummeted by 18% y/y in July, after registering a fairly resilient performance in Q2, falling by just 1.2% y/y.

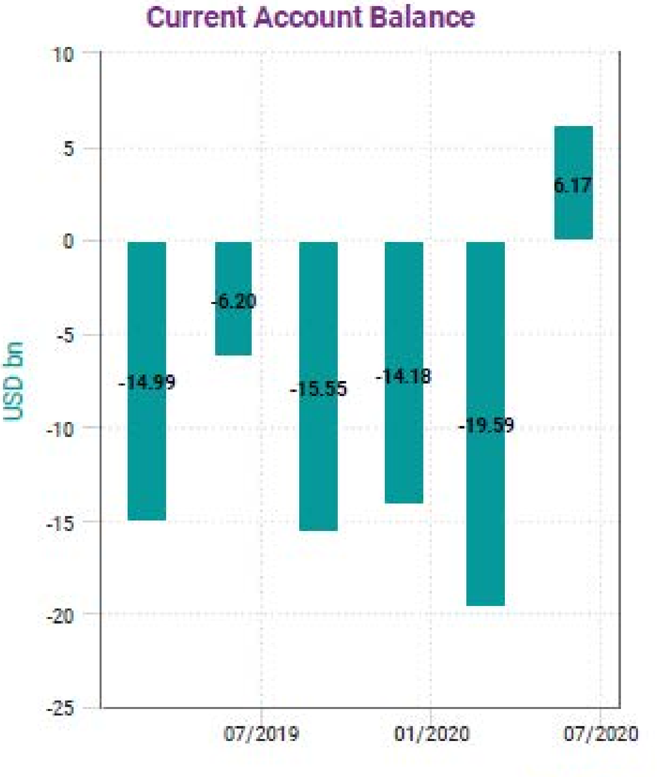
Imports from China fell by 11.3% y/y in Q2 2020 and 5.8% y/y in July, in value terms. Imports from the US declined by 27.9% y/y in Q2, and by 46.3% y/y in July to USD 1.7bn. Argentinian imports contracted by 45.3% y/y in Q2 and 38.9%y/y in July, as a result of declines in imports of cargo vehicles and passenger cars.

Brazil's current account surplus totalled USD 6.4bn in Q2 2020, equivalent to 2% of nominal GDP. Amid increasing monetary and fiscal stimulus in the US and Europe, and higher demand for risky assets, foreign portfolio investment recorded a net inflow of USD 4.3bn in June, compared to a net outflow of USD 1.7bn in May. Brazil also attracted USD 7.5bn of foreign direct investment (FDI) in Q2 2020, as both inter-company loans and foreign investments in equity capital edged up in May and June.


Exports
USD bn
% y/y change
18.41
20.15
19.58
5.79
18.50
18.36
5.35
17.53
15.59
14.50
-4.35
-4.89
-8.49
-8.74
-10.60
-15.29
-19.44
-8.68
-14.86
07/2019
01/2020
% y/y change
USD bn


Imports
USD bn
% y/y change
16.86
17.76
17.03
15.57
14.17
16.18
10.53
14.52
13.03
12.56
13.26
13.39
11.61
10.45
-4.78
-2.79
-9.05
-17.08
-15.95
-10.52
-14.81
-19.80
07/2019
01/2020
% y/y change
USD bn


Trade Balance
USD bn
5.38
2.39
4.10
3.80
2.55
3.56
5.95
-1.67
2.33
3.85
6.00
4.14
7.06
09/2019
01/2020
05/2020


Current Account Balance
USD bn
-14.99
-6.20
-15.55
-14.18
-19.59
6.17
07/2019
01/2020
07/2020

CEIC

In, On and For Emerging Markets

About CEIC Data

CEIC is an ISI Emerging Markets Group Company specialized in high quality macroeconomic databases. CEIC's databases have earned a world-class reputation among financial institutions, government agencies, universities, and corporations due to accuracy and comprehensiveness. Today, we are the service of choice for economic research on emerging and developed markets by economists around the globe.

CEIC Insights

CEIC Insights is a unit of CEIC Data that produces proprietary research and analysis. The service features data templates with dynamic visuals for Emerging and Developed markets, providing instant insight from macro overviews to individual sector analysis.

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