In, On and For Emerging Markets

A CEIC Insights Report

Brazil Economy in a Snapshot Q1 2021

CEIC

In, On and For Emerging Markets

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.

Summary

Real GDP increased by a seasonally-adjusted 3.2% q/q and declined at the slower pace of 1.1% y/y (unadjusted) in Q4 2020. This compares with falls of 3.9% y/y in Q3 and 10.9% y/y in Q2, and it has led to a year-average decline of 4.1% for 2020 following annual growth of 1.1% in 2019.

Retail trade value grew by 6.0% y/y in 2020, supported by the sales performance of home appliances and groceries. However, after reporting six months of consecutive growth, the seasonally adjusted series posted a sharp drop of 5.3% m/m in December, with y/y growth slowing to 7.8%.

The unemployment rate totalled 14.1% in the three-month period which ended in November. Informal (unregistered) workers totalled 33.5mn in the period.

Higher prices of food and beverages pushed the consumer price inflation rate up to 4.52% in December 2020, its highest since 2016. The central bank's monetary policy committee decided to keep its policy interest rate, the Selic rate, at 2.0% at its January 2021 meeting due to the low level of domestic economic activity.

Foreign investors supplied capital worth more than USD 55bn in Q4 2020, which led to the B3 Stock Exchange index ending 2020 at 119,017 points, rising from 115,645 at the end of 2019. The Brazilian real appreciated from BRL 5.62 per USD in October 2020 to BRL 5.15 per USD in December 2020, which did not prevent an overall 30.1% y/y devaluation.

Resources deployed to fight the COVID-19 outbreak pushed the fiscal deficit up to BRL 703bn in 2020, or 9.5% of the GDP. Public sector net debt totalled BRL 4.7tn and accounted for 63.0% of GDP. Congress approved an exemption for the federal government, which obviated the requirement to comply with some fiscal rules during the pandemic.

Brazil's trade surplus reached USD 50.9bn in 2020, the third highest annual total since 1989. Imports (down by 10.4% y/y) were affected by weak domestic economic activity, while exports performance (up by 6.1% y/y) was helped by agricultural commodities shipments to Asia.

Economic Outlook

Expectations concerning domestic economic activity continued on an upward trend in January 2021 when the smoothed CEIC Leading Indicator rose for an eighth consecutive month to 111.5, after it reached a low of 76.4 points in May 2020. This is in line with January projections from the two largest national financial institutions – Bradesco and Itau – predicting a return to GDP growth in 2021 of 3.6% y/y and 4.0% y/y, respectively.

However, the second wave of COVID-19 hitting the country in Q4 2020, increasing the risks for the 2021 fiscal budget, have started to change perceptions about Brazil's economic outlook. The resurgence of the COVID-19 contagion in Brazil has been attributed to the holiday season, when people travelled to the countryside or the coast. A different strain of the virus began to circulate in the Northern region, affecting the metropolitan area of Manaus which has a population of 2.1mn. Amazonas state (surrounding Manaus) has a poor public health infrastructure and the emergency services failed to provide enough oxygen to those hospitalised with C-19. Manaus reached 1,486 deaths/mn on February 15, well above the average of 263 deaths/mn among state capitals.

The latest IHS Markit Purchasing Managers Index (PMI) shows the economic impact. It peaked at a seasonally adjusted 66.7 in October, but has since fallen in each successive month to 56.5 in January 2021. The services PMI fell sharply in April. It then displayed consistent improvement in the following months to end 2021 at 51.1 points, before falling to 47.0 in January 2021.

According to the Central Bank of Brazil's Quarterly Inflation Report, in December, growth projections for 2021 in the agricultural and manufacturing sectors have been revised down to 2.1% y/y, and up to 5.1% y/y, respectively. Soaring international prices have driven producers to expand their cultivation of soybeans and maize, which is expected to account for 57% of the total area in 2021. However, the performance of agro-industry may be undermined by the climate effects of the La Niña, an environmental phenomenon that alters winds and rainfall patterns in Latin America. Manufacturing output on the other hand should be underpinned by the increased share of products in household consumption that were a substitute for services during the stricter C-19 measures in 2020.

The central bank's projection for services sector growth in 2021 is 3.8%, which is similar to the 3.7% forecast in September. Some segments are expected to recover strongly in the first half of 2021, such as tourism and travelling services, if the national vaccination campaign allows the reopening of tourist sites and traditional fairs. According to the annual "Business Map" report from the Ministry of Economy, the segments with most firms closed in the May to August period of 2020 were clothing retail (22,961), sales promotion (11,608), snack bars (10,780), restaurants (8,784) and other retail (8,243).

CEIC Leading Indicator
Main

CEIC Leading Indicator
Smoothed

Real Sector

Real Sector

The economy has continued to show improvement since the severe downturn in Q2 2020 resulting from the containment measures required to tackle the pandemic. Real GDP increased by a seasonally-adjusted 3.2% q/q and declined at the slower pace of 1.1% y/y in Q4 2020. This compares with falls of 3.9% y/y in Q3 and 10.9% y/y in Q2, and it has led to a year-average decline of 4.1% for 2020 following annual growth of 1.1% in 2019.

The decline in household consumption slowed to 3% y/y in Q4, from 6% y/y in Q3, while gross fixed capital formation (i.e. investment spending) returned to growth of 13.5% y/y following a decline of 7.8% y/y in Q2, with government consumption declining by 4.1% y/y. Goods and services exports volume declined at the faster pace of 4.3% y/y in Q4 (previously -1.1% y/y), while imports, bolstered by improving domestic demand, contracted at the slower pace of 3.1% y/y following a drop of 25% y/y in Q3.

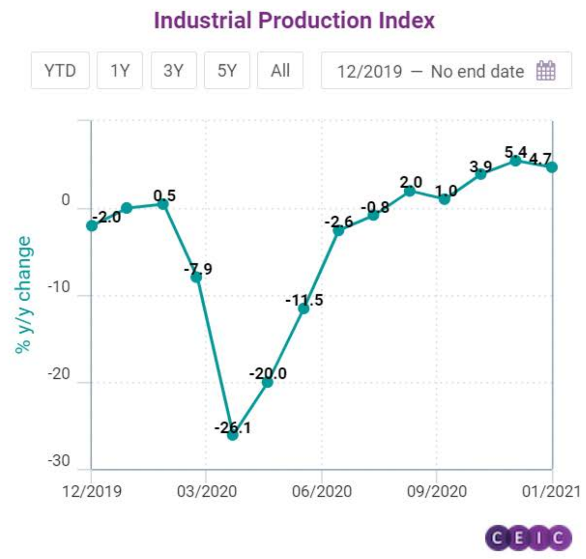
The industrial production index (IPI) posted a 4.5% y/y drop in 2020, despite registering growth of 3.4% q/q in Q4 2020, which ended a continuous decline since Q4 2018. The performance of capital goods production (+ 14.8% q/q), especially transport equipment (+7.1% q/q), was the main driver of IPI growth in Q4 2020. However, on an annual basis, output in the automotive sector (-28.1% y/y), clothing (-23.7% y/y) and leather (-18.8% y/y) weighed on the 2020 index performance, partially offset by fuel (+4.4% y/y) and food (+4.2% y/y).

Retail trade value posted a 6.0% y/y increase in 2020, after sales revenues registered a 5.3% m/m drop in December but increased by 7.8% y/y. With Brazilian consumers spending more time at home this was reflected in the sales performance of supermarkets, food and beverages (growing by 14.4% y/y), home appliances and furniture (11.5% y/y), and pharmaceuticals (8.7% y/y). Social distancing was still affecting over-the-counter goods, however, such as books, newspapers and stationery, which posted a 28.2% y/y drop. Fewer people travelling around also translated into a 10.8% y/y fall in sales of fuels and lubricants.

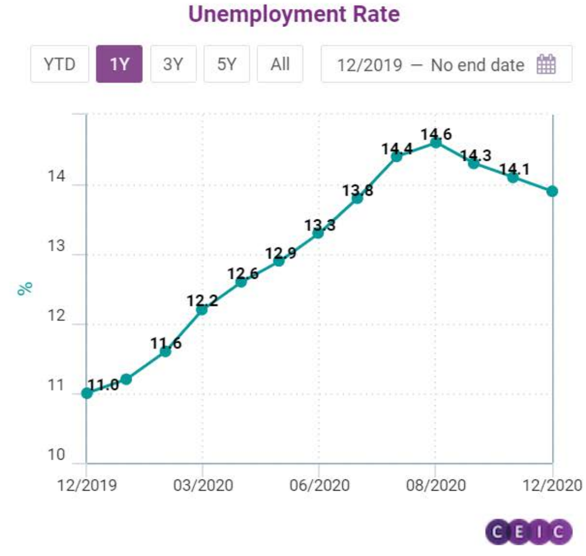
The unemployment rate was 14.1% in the three-month period that ended in November 2020, which translates into 14mn workers and a rise of 2.9 pp compared with the same period in 2019. The occupation level of the workforce was 48.6%, which means there were more workers idle than working in Brazil. Easing social distancing and opening hours restrictions increased the occupation level of informal (i.e. unregistered) workers by 11.2% y/y to 33.5mn.

With lower interest rates and changing preferences towards larger residences, the real estate boom in Brazil continued over the second half of 2020. Properties sold in the country totalled 137,385 units in the 12-month period that ended in October 2020, up by 22.2% y/y. The average price per square metre was BRL 7,486 among Brazil's 50 largest cities in 2020 and the most expensive cities for housing were Rio de Janeiro (BRL 9,437), São Paulo (BRL 9,329) and Brasilia (BRL 7,985).


Real GDP, % y/y change
1Y
3Y
5Y
All
06/2019 — No end date
% y/y change
0.00
-5.00
-10.00
-15.00
06/2019
10/2019
03/2020
07/2020
12/2020
1.9
0.8
1.6
-1.4
-10.9
-3.9
-1.2


Industrial Production Index
YTD
1Y
3Y
5Y
All
12/2019 — No end date
% y/y change
0
-10
-20
-30
12/2019
03/2020
06/2020
09/2020
01/2021
-2.0
0.5
-7.9
-26.1
-20.0
-11.5
-2.6
-0.8
2.0
1.0
3.9
5.4
4.7


Retail Trade Index
Value
YTD
1Y
3Y
5Y
All
12/2019 — No end date
% y/y change
10.00
0.00
-10.00
-20.00
12/2019
03/2020
06/2020
09/2020
01/2021
7.7
5.2
5.8
3.2
-14.3
-5.1
3.2
7.7
11.7
12.3
14.3
14.2
7.8


Unemployment Rate
YTD
1Y
3Y
5Y
All
12/2019 — No end date
%
14
13
12
11
10
12/2019
03/2020
06/2020
08/2020
12/2020
11.0
11.6
12.2
12.6
12.9
13.3
13.8
14.4
14.6
14.3
14.1

In, On and For Emerging Markets

Monetary & Financial Sector

Monetary and Financial Sector

Consumer price inflation accelerated to 4.52% y/y in December 2020, the highest level recorded for the broad consumer price index (the IPCA) since 2016, which rose consistently from a low of 1.88% in May. The IPCA also increased by 1.35% m/m, its strongest pace since February 2003 (1.57%) and the highest December rise since 2002 (2.10%). The fourth quarter was notable for the acceleration of food and beverages prices, which peaked at 2.54% y/y in November, and posted a 14.1% y/y rise. Soybean oil (103.8%), rice (76.0%), potatoes (67.3%), and tomatoes (52.8%) were the main inflation drivers for the year, mostly influenced by currency devaluation and the upward trend in global commodity prices.

Brazil is a net exporter of soybeans, but the federal government lowered the imports tariff on the product to zero in October 2020 (along with rice and maize) to balance inventories and smooth domestic prices given also the weaker real was boosting exports. Housing-related costs posted a 5.25% y/y increase in 2020, driven mostly by the cost of electricity rising by 9.14%. Along with food and beverages, and housing, home appliances (6.0%) contributed to 84% of the overall IPCA rise in 2020. On the other hand, COVID-19 restrictions preventing people from attending social events or going shopping resulted in a 1.13% y/y price fall for clothing.

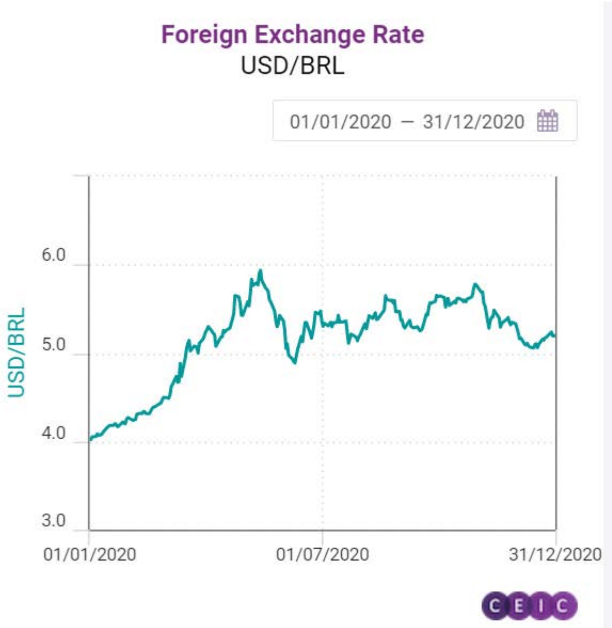
Inflation was above the central target of 4.0%, but still below the upper tolerance limit of 5.5%. The central bank's rate-setting committee (COPOM) decided to hold the benchmark Selic rate at 2.0% at its meeting in January 2021. The COPOM members made the decision based on the persistence of idle installed capacity, especially in the services sector, but balanced by the growing risks stemming from fiscal expansions and its impact on the deficit and debt levels to control the COVID-19 outbreak. COPOM ruled against any short-term raising of its policy interest rate, noting the requirement for "extraordinary high stimulus in the face of uncertainties and domestic activity evolution". COPOM expects consumer price inflation of 3.6% in 2021 and 3.4% in 2022, which indicates a Selic rate of 3.25% at the end of 2021 and 4.75% by the end of 2022.

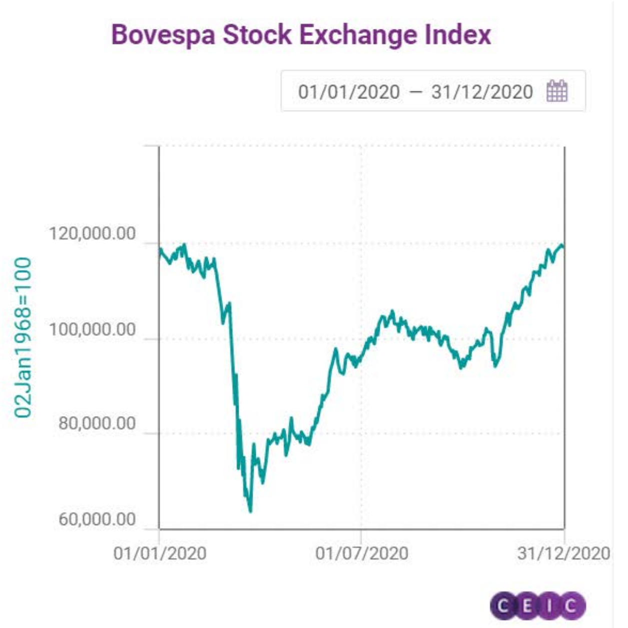
Producer price inflation averaged 19.4% y/y in 2020, the highest value since 2014 and 3.6 times higher than the average PPI inflation rate over the 2014-2019 period. In December, the PPI increased by 0.41% m/m (and 19.4% y/y), which was the 17th consecutive monthly rise in the index. The combination of higher agricultural commodities prices and currency devaluation resulted in the food manufacturing sector contributing 7.1 pp to the overall result. Interruptions to the steel supply chain due to the pandemic helped to push metallurgy input prices up by 34.4% y/y, which also spilled over to the vehicles (11.4% y/y) and machinery (11.1% y/y) segments. On the other hand, lower international prices of crude oil smoothed input costs for fuel refining, which registered a 5.47% y/y price fall.

Credit operations of the national financial system totalled BRL 4.0tn in 2020, up by 15.5% y/y. Most of the credit (55%) was contracted by households, but the pandemic-related stimulus policies also led to 21.8% y/y growth in corporate credit, to BRL 1.8tn, especially among small companies which recorded 31.6% y/y growth. Credit easing along with official income assistance resulted in a 29.6% y/y expansion of the broad monetary base. The narrow measure of the monetary supply, M1, posted 39.1% y/y growth to BRL 622.8bn in 2020, while M2 – including deposits and cash equivalents – was up by 28.6% y/y to BRL 3,986bn. M2 grew by 3.8% y/y in Q4 2020, well down on the 13.3% y/y expansion in Q2 during the most critical time of the pandemic.

After six circuit breakers were triggered during sell-offs in March 2020, and huge uncertainty during the year, the São Paulo Stock Exchange (B3) index ended 2020 at 119,017 points, up 2.9% y/y, with foreign capital totalling USD 55.9bn flooding the local stock market in Q4 in response to the revival in domestic economic activity. Soon after, the index peaked at 122,385 points on January 7, 2021.

The real appreciated from BRL 5.62 per USD in October 2020 to BRL 5.15 per USD in December 2020. However, the annual average exchange rate indicates a devaluation of 30.1% for 2020. Central bank foreign exchange interventions in the spot market totalled USD 2.9bn between October and December 2020, well down on the USD 10.7bn worth of interventions in March 2020.





Fiscal Sector

Fiscal Sector

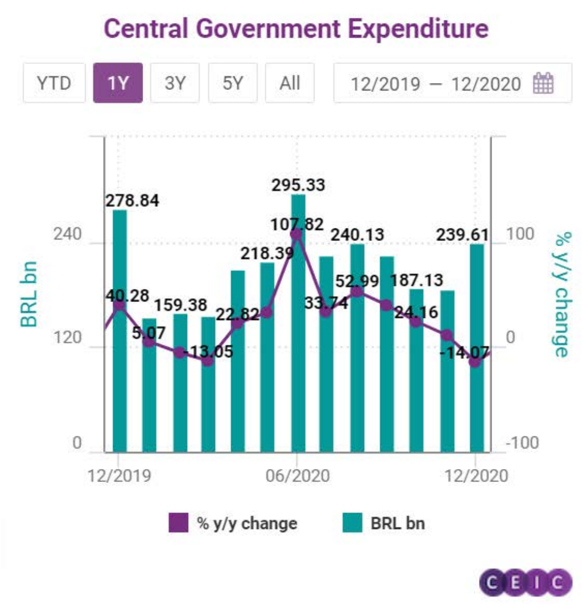
Brazil's fiscal performance deteriorated during the pandemic. The primary budget deficit was BRL 703bn in 2020, or 9.5% of GDP in real terms. Federal resources deployed to fight the COVID-19 outbreak increased the central government deficit to BRL 745.3bn which was the main cause of the overall fiscal imbalance. The state of emergency was in force until December 2020, when the central government deficit totalled BRL 44.1bn, a rise of 202.1% y/y. On the other hand, regional governments and state-owned enterprises added BRL 38.7bn and BRL 3.6bn to offset the annual result, respectively.

The economic slowdown naturally lowered tax revenues, which posted a 13.1% y/y drop to BRL 1.47tn in 2020. Unemployment and the authorised suspension of labour contracts led to a 5.3% y/y drop in the collection of social contributions. Also, the postponement of the concessions and privatisation programmes resulted in a 91% y/y fall in federal revenues attributable to grants.

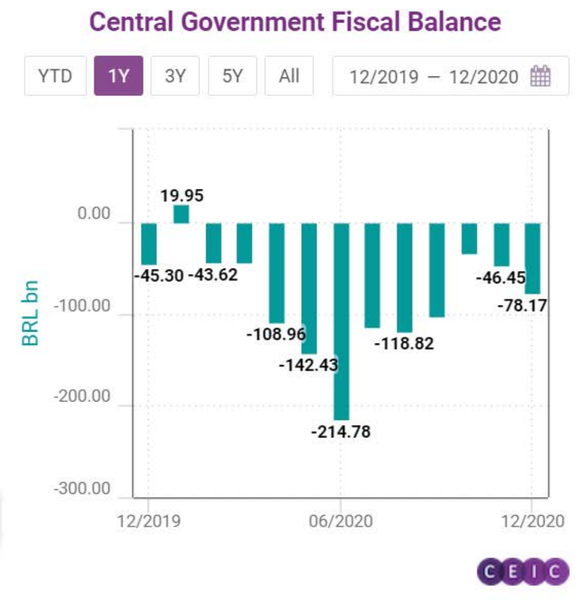
Government spending posted 31.1% y/y growth to BRL 1.95tn, mostly driven by the BRL 524bn spending on healthcare to contain the pandemic. Official income assistance related to COVID-19 totalled BRL 293bn and wage compensations rendered to companies were BRL 33.5bn for the year.

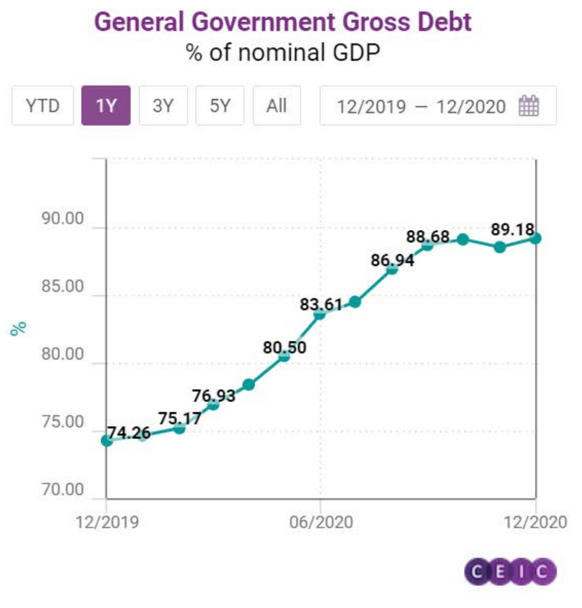
Public sector net debt totalled BRL 4.7tn and accounted for 63.0% of GDP in 2020. The net debt-to-GDP ratio increased by 8.5 pp on a y/y basis due to the primary deficit (rising by 9.5 pp), incorporation of nominal interest (up by 4.2 pp) and currency devaluation effect.

Along with the state of emergency in force between March and December, in May Congress approved, a "war budget" that exempted the federal government from complying with some fiscal rules in 2020, including the ban on issuing new debt to finance current expenses such as wages, pensions and social benefits. The national Treasury expects the gross public debt to reach BRL 5.9tn in 2021. rapidly it can recover from the 2020 recession.


Central Government Expenditure
YTD 1Y 3Y 5Y All
12/2019 – 12/2020
BRL bn
% y/y change
278.84
295.33
107.82
240.13
239.61
218.39
52.99
187.13
40.28
159.38
22.82
33.74
24.16
5.07
-13.05
-14.07
240
120
0
100
0
-100
12/2019
06/2020
12/2020
% y/y change
BRL bn


Central Government Revenue
YTD 1Y 3Y 5Y All
12/2019 – 12/2020
BRL bn
% y/y change
233.54
173.93
161.44
139.66
115.76
100.82
111.06
121.95
80.55
9.89
-35.78
-30.87
200
100
0
80
0
-80
12/2019
06/2020
12/2020
% y/y change
BRL bn


Central Government Fiscal Balance
YTD 1Y 3Y 5Y All
12/2019 – 12/2020
BRL bn
19.95
-45.30
-43.62
-46.45
-78.17
-108.96
-142.43
-118.82
-214.78
0.00
-100.00
-200.00
-300.00
12/2019
06/2020
12/2020


General Government Gross Debt
% of nominal GDP
YTD 1Y 3Y 5Y All
12/2019 – 12/2020
%
88.68
89.18
86.94
83.61
80.50
76.93
75.17
74.26
90.00
85.00
80.00
75.00
70.00
12/2019
06/2020
12/2020

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External Sector

External Sector

Brazil's trade surplus totalled USD 50.9bn in 2020, the third highest annual result since 1989. The weakened domestic economic activity due to the pandemic led to a 10.4% y/y drop in imports of goods which were valued at USD 158.9bn. Exports performance was less affected, mainly due to agricultural commodities shipments to Asia, posting a 6.1% y/y fall overall to USD 209.8bn. In January 2021, a preliminary forecast from the Ministry of Economy indicated exports would grow by 5.3% y/y and imports 5.8% y/y by year-end.

Soybeans, iron ore, crude oil, sugar and beef accounted for 42.9% of the total value of exports in 2020 and were all in demand in 2020. However, shipments of higher value-added goods reported a historical drop. The value of passenger vehicle exports fell by 28.9% y/y, while aircraft exports were down by 36.4% y/y. Both are traditional products in Brazil's high-end value chains as companies have supply-chain links with Argentina and the US.

Imports performance was impaired by energy-related products in 2020. Crude oil acquisitions contracted by two thirds of their 2019 value. Fuel oil, mainly diesel and petrol, posted a 17.9% y/y drop, while mineral coal and natural gas imports shrank by 46.9% y/y and 30.7% y/y, respectively. However, demand for local agro-industry pushed up imports of fertilisers by 11.6% y/y, and with more people working remotely this increased the demand for imports of telecommunications devices which rose by 11.2% y/y.

China accounted for 27.6% of Brazil's total trade flow of USD 101.7bn in 2020 and it was a principal reason for the 50.3% y/y growth in Brazil's beef exports. By comparison, the US accounted for 12.4% or USD 45.6bn of Brazil's foreign trade in 2020. Brazilian steel products exported to the US market fell by 32.7% y/y. Argentina, a free-trade partner, saw its total trade with Brazil fall by 20.1% y/y, mainly due to the 27.3% fall in passenger vehicles exports from Brazil.

In 2020, Brazil's current account deficit totalled USD 12.5bn, or 0.87% of GDP. The result was mainly driven by the reduction of expenditure on international travelling, rental of equipment, and transport, which resulted in a services account deficit of just USD 19.9bn, the lowest since 2009. There was a net outflow of portfolio investments totalling USD 2.6bn for the year, mostly influenced by withdrawals at the beginning of the COVID-19 outbreak in Brazil (i.e. at the end of the first quarter). The trend reversed during the year and the December net inflows of USD 3.6bn marked the seventh consecutive month of a positive outcome.

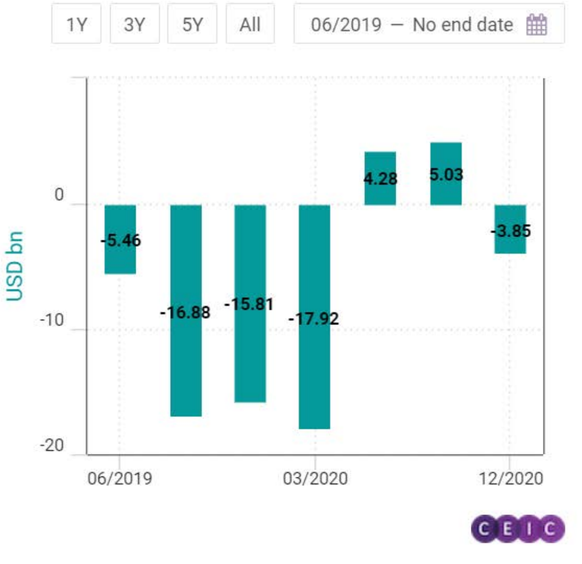
Net inflows of foreign direct investment (FDI) into Brazil totalled USD 34.2bn in 2020, down by 50.5% y/y. The reduction was in line with the global FDI contraction of 42% y/y, estimated by the United Nations Conference on Trade and Development (UNCTAD), which also indicates that Brazil ranked sixth as the main hosts of net FDI in 2019. Infrastructure segments, especially oil and gas, and utilities, reported a severe drop in FDI of 62% y/y. Because of the pandemic, the postponement of the federal concessions programme (focused on infrastructure projects and launched by the Temer administration in 2017) and the halt in investment decisions worldwide were the main causes.

Exports

Imports

Trade Balance

Current Account Balance



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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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