Optimism about Brazilian growth wanes
Joe Leahy

Brazil's finance minister Guido Mantega appeared unperturbed last week during a teleconference on the country's first-quarter gross domestic product figures.

In spite of delivering a result that was less than half of what economists had expected, with the economy growing 0.2 per cent in the first three months of the year compared with the final quarter of 2011, Mr Mantega said he was still upbeat.

"In the second quarter it is possible that we will achieve a growth rate which when annualised will be about 4 per cent," he told reporters.

Outside the government, however, there is less optimism. As Brazil struggles with slowing global growth and a crisis of competitiveness in its manufacturing sector, analysts are cutting their forecasts for the once fast-growing economy.

A survey of analysts by the central bank released on Monday revealed they are now expecting 2.7 per cent growth for the year on average – on par with 2011 and about one-third of 2010s 7.5 per cent – with some shooting even lower. Credit Suisse is now predicting the economy will grow as little as 2 per cent this year.

As far as markets are concerned, Brazil is suffering from a "perfect storm", says Marcelo Salomon, economist at Barclays, who recently published a report: "Brazil, tarnished but still alluring".

A slew of government polices that the market sees as hostile – such as ad hoc interventions to weaken the exchange rate, growing protectionism and a rapid fall in interest rates – are now combining with disappointing economic growth at home and a gloomy international outlook to dull Brazil's appeal.

"Maybe Brazil is not going to be on the radar for a while, until at least growth reappears," Mr Salomon said.

Surprisingly, the weak performance in Brazil's first-quarter gross domestic product figures came from a sharp fall in the agricultural sector. Erratic weather, expected to be temporary, was to blame.

More worrisome for the government is the weakening industrial sector, though there was some good news. Industrial production was up 1.7 per cent overall with the manufacturing up 1.9 per cent.

Mr Mantega claimed industry's improved performance was in part thanks to the government's currency war – its bid to weaken Brazil's currency, the real, which has lost nearly 8 per cent of its value against the dollar since the start of this year.

The government has also been activist on providing protection and tax breaks to sectors that have been struggling with competition from imports. Last week, President Dilma increased taxes on motorbikes, microwaves and air-conditioners in a move that will mostly affect imports.

"Industrial growth is sustainable," Mr Mantega said.

But there is anecdotal evidence that industries are still struggling. Truck and bus production has been plunging, leading Mercedes-Benz to suspend more than 10 per cent of its workforce for five months.

Industry's stronger first quarter was also due to the statistical base effect of a particularly weak fourth quarter. Year-on-year, first quarter manufacturing still contracted 2.6 per cent.

In a bid to replay its strategy in 2009, when previous president Luiz Inácio Lula da Silva saved the economy from a deep recession by pumping up domestic demand, the government has been bullying banks to lend more.

The central bank has played its part, slashing rates last week to a record low of 8.5 per cent – down from a peak last August of 12.5 per cent.

But economists are beginning to question whether the old economic system, known as the "Lula" model, which relied on salary increases, social welfare transfers, a credit boom and fiscal stimulus to boost domestic demand, is broken.

Brazilian consumers seem to have borrowed as much as they can for now. Non-performing loans are stubbornly high, particularly in the important automotive sector.

In this environment, private banks have been refusing to lend more aggressively until the bad loan cycle turns downwards.

Neil Shearing, economist with Capital Economics, said an emerging market credit boom as big as Brazil's – borrowing has risen from 40 per cent of GDP to 50 per cent in about five years – would normally require some periods of consolidation.

"We've just come off the cusp of a huge boom in credit, so it's doubtful how effective cutting interest rates will be in reviving lending," he said.

Economists talk of the need for a new economic paradigm for Brazil based on investment rather than consumption. But investment fell during the first quarter to 18.7 per cent of GDP from 19.5 per cent a year earlier.

Still, as major emerging markets are struggling, Brazil at least is promising a return to quicker growth towards the end of the year.

The country's foreign exchange reserves are among the highest in the world and its solid fiscal situation means it has room to cut taxes – unlike many European states.

"We are in a situation to face the threats that may come from overseas," Mr Mantega said.
Fonte: Financial Times, London, 4 June 2012, International.

Fonte: Financial Times, London, 4 June 2012, International.