

# Brazil

## Brazil entered recession in Q1, tracking PMI data

### Slide in Q1 GDP sends Brazil into its first recession since late-2003...

Official data showed that the Brazilian economy shrank 0.8% in Q1 (down 1.8% on the same quarter a year ago). The drop in GDP was less than had been expected (the consensus forecast had been for an annual reduction of 2.8%), and far weaker than the drop seen in the final quarter of 2008, when GDP dropped by 3.6% on the previous quarter – the largest quarter-on-quarter reduction ever recorded for Brazil. However, the Q1 drop in GDP was notable in being the second successive quarterly decline, indicating that Latin America's largest economy entered recession.

### ...however it is likely to be short-lived as PMI figures point to swift upturn

Both the steep fall in GDP late last year and the slower rate of decline in Q1 was indicated in advance by PMI data, with the Banco Santander Brazil Manufacturing PMI (compiled by Markit) rising from a survey-low at the beginning of the year to a five-month high in March. The PMI has historically been an accurate indicator of growth estimates (see chart 1), **displaying a correlation of 0.87** against official figures.

The primary drag on the Brazilian economy was its manufacturing sector, which contracted by 12.6% in the first quarter, but the PMI also suggests that this sector has seen the worst in terms of the rate of decline (see chart 2). This is highlighted by the Brazil Manufacturing PMI Output Index, which rose to a nine-month high in May. The index has accurately tracked the official data on manufacturing production, with the two series exhibiting a **correlation of 0.85**.

The Brazilian government is perceived to have acted quickly to ease the impact of the global slump, and data for Q1 suggest that this swift reaction is having an impact on the real economy. Tax breaks, agricultural initiatives and closer trade ties with China have all helped to soften the downturn. Growth of the service sector has also acted to limit the depth of the recession

(official figures showed that Brazil's service sector expanded by 1.7% in Q1).

Most recent PMI data suggest that Brazil's recession will continue to ease over the months ahead, suggesting that the upturn in economic activity registered in Q1 has been sustained and that the economy is likely to record growth for Q2. Brazil's faster than expected recovery is similar to economic trends observed in other emerging markets monitored by PMI surveys, such as China and India, which have both rebounded more quickly than most key developed countries.

Chart 1: Brazil GDP

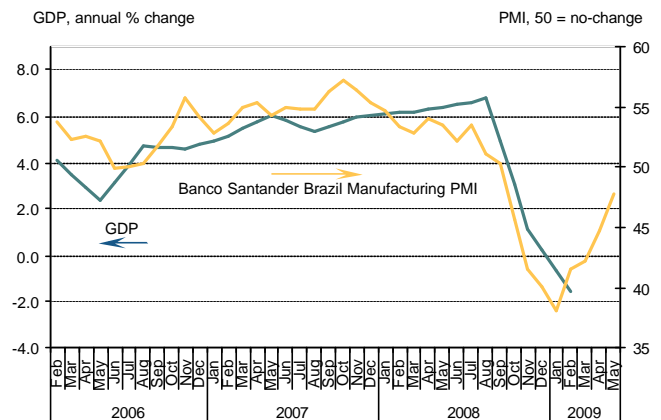
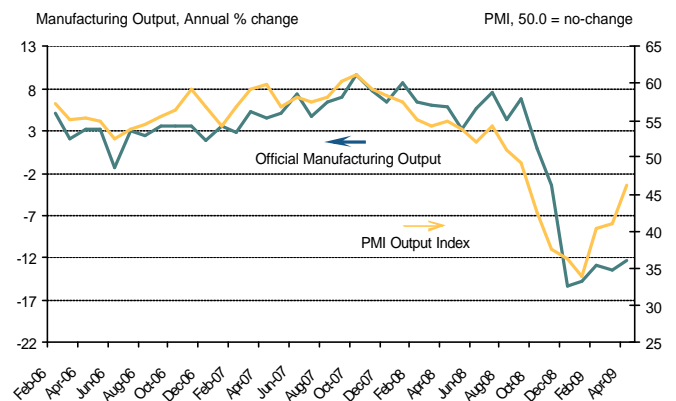


Chart 2: Brazil Manufacturing Output



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The next snapshot of economic conditions in Brazil will be provided by the Banco Santander Brazil Manufacturing PMI, released 1 July and covering the June data period. To find out how to receive data from the surveys, or obtain copies of the reports please contact [economics@markit.com](mailto:economics@markit.com)

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