



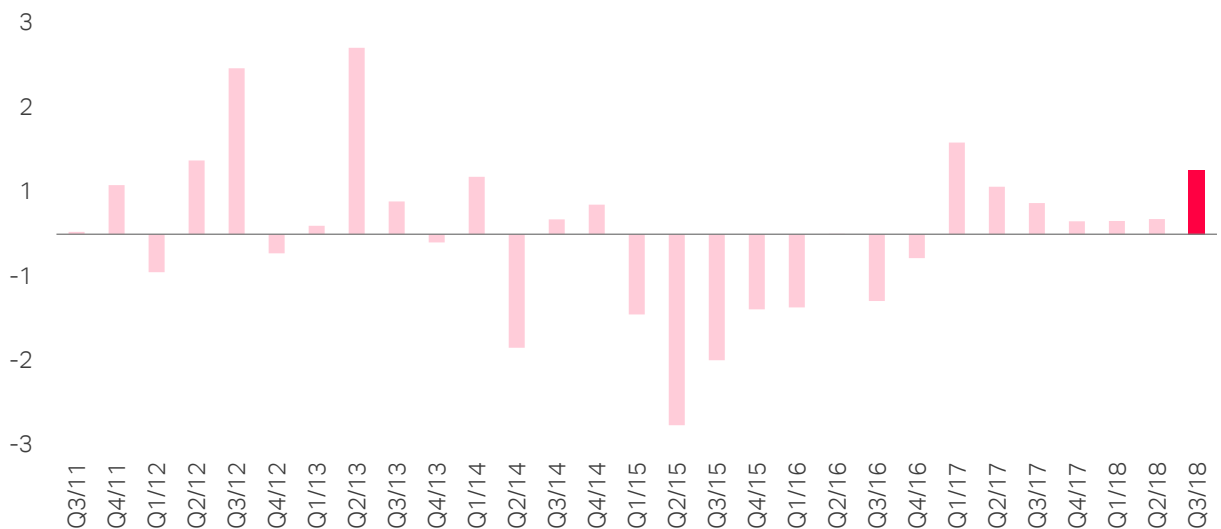
Brazil

# GDP DATA HIGHLIGHTS LONG ROAD TO RECOVERY

Brazil team

- The Brazilian economy continued to underperform in Q3/18, expanding by just 0.8% qoq/sa; with the latest data, the GDP has recovered to 2012 levels
- However, the outlook for 2019 has brightened, as the end of election-related uncertainty has helped to boost key indicators
- Strong October tax collection data confirms that the 2018 primary deficit will be smaller than the yearend target, but the longer-term fiscal outlook remains bleak
- President-elect Bolsonaro will meet with key party leaders this week but faces potential bad news if up to 15 parties form a united front, isolating his PSL party
- Brazilian farmers are vigilantly monitoring the US-China trade talks for tariff changes as the sector prepares to harvest Brazil's largest soy crop in history

**GDP growth**  
% change qoq/sa



Source: IBGE.

## Economics

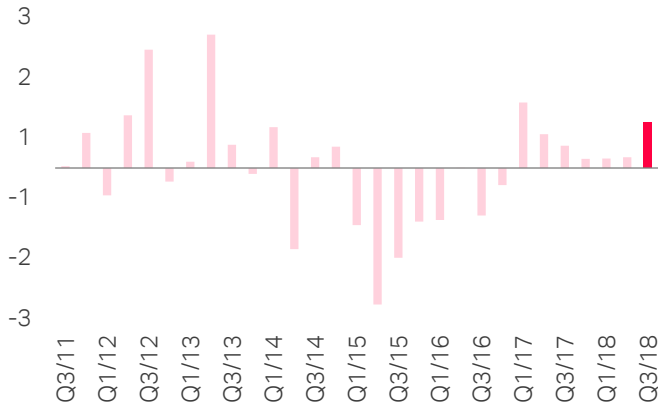
Top issues	Comment	Expected market impact
<b>Economy expands in Q3 by just 0.8% qoq/sa and 1.3% yoy</b>	Despite the weak base effect from Q2/18, which was hit by the 11-day truckers' strike, Q3 growth still underperformed (Chart 1). The GDP is currently back at H1/12 levels and 5% below its historic 2014 peak.	Neutral, as the outlook is for 2019 growth to pick up now that the election is over
<b>Q3 investment jumps 7.8% yoy, distorted by accounting changes for oil platforms</b>	The annual increase for investment was the most since Q2/13; but without the inclusion of 82 oil platforms as "imports" under the Repetro tax break, investment would have grown by just 2.7% yoy.	Neutral, although investment as a share of GDP rose to 16.9%, it remains low (Chart 2)
<b>Household consumption expands 0.6% qoq/sa but slows to 1.4% yoy</b>	The quarterly recovery was aided by a post-truckers' strike pickup; but consumption is still slowing yoy (down 0.4pp from 1.8% in Q2) and Brazil remains stuck in its consumer led-growth model, which accounts for 64% of GDP (Chart 3).	Neutral; without a shift to a more investment-led model, growth will continue to underperform
<b>Unemployment slips to 11.7% in Oct, -0.2pp mom and -0.5pp yoy</b>	The decline (Chart 4) was aided by a 4.8% qoq rise in informal sector jobs although formal sector employment stayed flat qoq.	Positive, but formal job creation is needed for a faster decline
<b>Oct fiscal surplus surprises on upside, on higher tax revenues</b>	Tax revenues rose 6.2% sa in the 12-month period, the highest since Jun 2012; the 2018 primary deficit may come in BRL20 bn below its target (BRL159bn).	Neutral (Chart 5) as pension reform is still urgent for next year
<b>Brazil soy farmers monitor US-China trade war; early tariff removal would hurt sales</b>	Brazil remains on track to harvest a record soybean crop (Chart 6); while the 90-day truce between China and the US does not change things yet, if the 25% tariff on US soy is dropped sooner, it will hurt sales.	Neutral for now, as the outlook depends on trade talks between the US and China

## Politics

Top issues	Comment	Expected market impact
<b>Bolsonaro to meet with party leaders this week, but trouble brews as 15 parties mull a united front to isolate his PSL party</b>	The President-elect has meetings with the MDB, PSDB, PR and PRB parties in an effort to garner support; but the first three parties may also join a united front with 12 other parties that would exclude Bolsonaro's PSL party as well as Lula's Workers' Party (PT).	Negative if the PSL is indeed isolated; the key test ahead is the Feb election of the Lower House Speaker and the Senate President (see <a href="#">Guedes wades into the fray</a> )
<b>Political coordination posts in Bolsonaro team are split up</b>	Incoming Chief-of-Staff Onyx Lorenzoni must divide his power with two other key advisers, leading to potential turf wars ahead.	Negative if the friction continues into Q1/19, although Onyx says he will be in charge
<b>Admiral Bento Costa Lima named Mines and Energy Minister</b>	While the new minister is a nuclear power expert, his views on key issues, such as the privatization of Eletrobras, are unknown.	Neutral until his view on the Eletrobras privatization is clear
<b>Pre-salt mega-auction bill still awaiting Senate approval</b>	The vote was delayed again last week; if it does not pass this year, the mega-tender of pre-salt blocks could be delayed until 2020.	Positive if approved without changes before yearend, very negative otherwise for 2019
<b>Temer approves rail, airport and road concessions</b>	This paves the way for the H1/19 sale of 12 airports, 1,537km of rail lines and three port terminals worth BRL3.4 bn in investment.	Neutral, as the approval of these concessions was expected

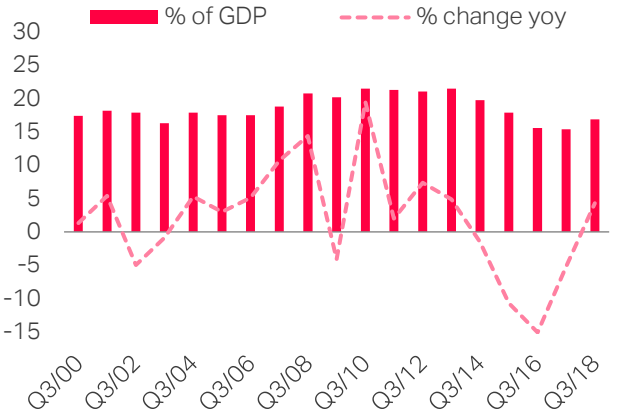
**Chart 1: GDP growth**

% change qoq/sa



Source: IBGE.

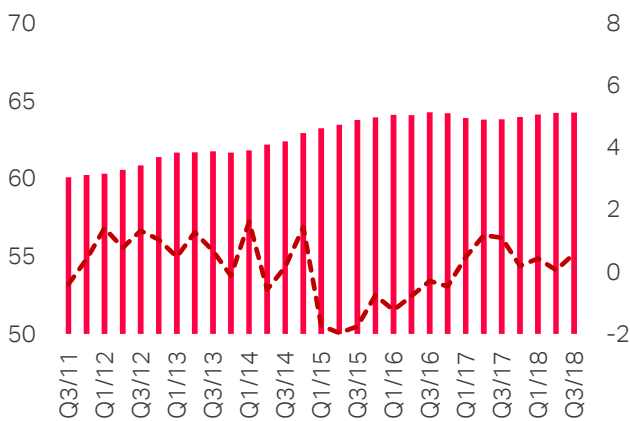
**Chart 2: Investment (gross fixed capital formation)**



Source: IBGE.

**Chart 3: Household consumption**

■ % of GDP (LHS) - - - % change qoq/sa (RHS)

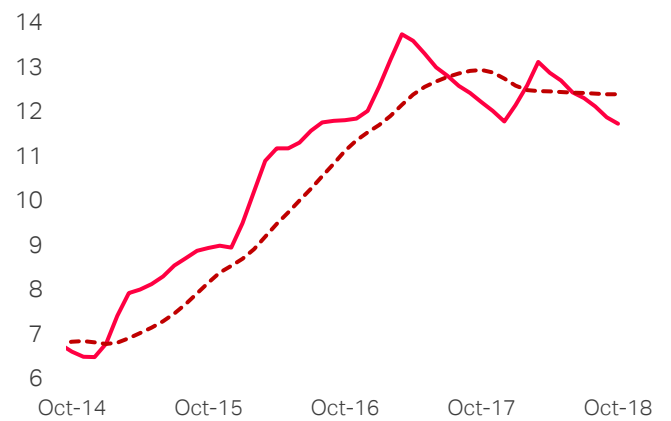


Source: IBGE.

**Chart 4: Unemployment**

%

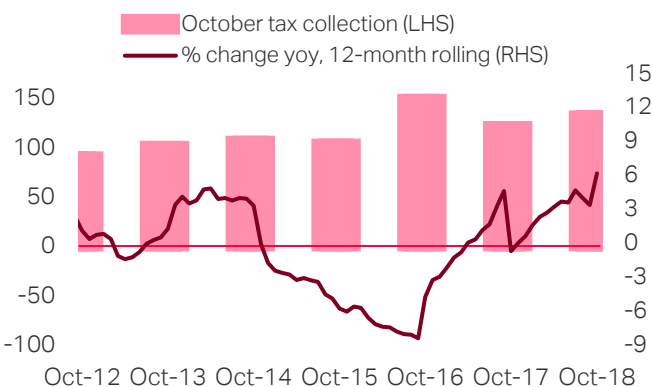
— 3-month moving average  
- - - 12-month moving average



Source: IBGE.

**Chart 5: October federal tax revenues (inflation adjusted)**

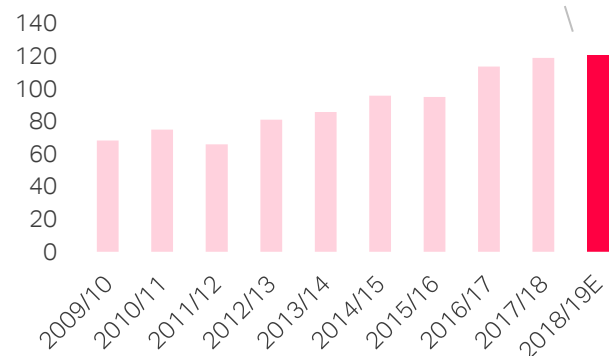
BRL bn (LHS) / % (RHS)



Source: Receita Federal.

**Chart 6: Brazilian soybean production**

mn tonnes



Sources: Conab, AgRural.