



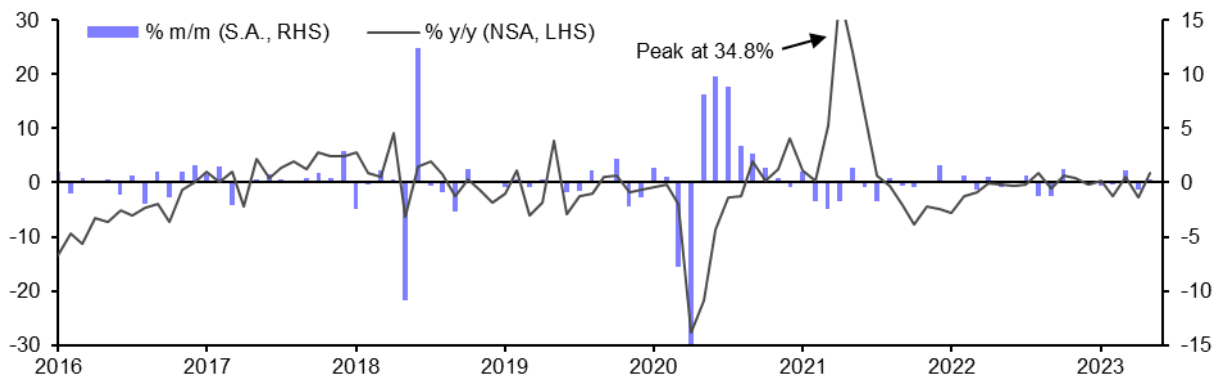
LATIN AMERICA RAPID RESPONSE

Brazil Industrial Production (May 2023)

Industry struggling in Q2

- **The weaker-than-expected 0.3% m/m rise in Brazilian industrial production in May only partly reverses April's 0.6% m/m decline and suggests that industry remained weak over the course of the second quarter. At the margin, this will strengthen the arguments of the more dovish members of Copom who are inclined to vote to lower interest rates at the next meeting in early August.**
- The consensus forecast collected by Refinitiv was for growth of 0.6% m/m. In year-on-year terms, output increased by 1.9%, following a 2.7% fall in April. **But the big picture is that growth has bumped around 0% for the best part of a year.** (See Chart 1.)
- The breakdown of the data showed that capital and consumer durable goods production was strong in m/m terms in May, expanding by 4.2% and 9.8% respectively. (See Table 1.) But intermediate goods production barely eked out positive growth (0.1%), while production of semi- and non-durable consumer goods fell.
- The statistics office's press release noted large gains in the auto, petroleum products and machinery and equipment sectors, but falls in output in the food and pharmaceutical sectors.
- We'll get a better idea of how the economy shaped up in Q2 when the services output and retail sales figures for May are published next week (so far, these sectors seem to be doing better than industry). But with industry struggling, GDP growth over the quarter as a whole is likely to fare slightly worse than expectations.
- The central bank is, first and foremost, focusing on inflation expectations and core inflation. **But softer-than-anticipated activity data makes us more confident in our view that policymakers will begin their monetary easing cycle at the next meeting in early August (with a 25bp move, to 13.50%).**

Chart 1: Brazil Industrial Production



Sources: Refinitiv, IBGE

Table 1: Brazil Industrial Production

	Industrial Production		Of which:							
	% m/m	% y/y	Capital Goods		Intermediate Goods		Durable Cons. Goods		Semi & Non-Durable Cons. Goods	
	% m/m	% y/y	% m/m	% y/y	% m/m	% y/y	% m/m	% y/y	% m/m	% y/y
Feb. '23	-0.2	-2.5	-0.5	-13.1	0.4	-3.0	-1.4	2.2	-0.1	0.7
Mar. '23	1.1	1.0	8.9	-1.2	1.1	-1.1	2.5	11.2	-0.7	4.9
Apr. '23	-0.6	-2.7	-11.8	-15.4	0.3	-2.7	-4.5	0.4	0.9	-0.2
May '23	0.3	1.9	4.2	-11.6	0.1	3.1	9.8	11.1	-1.1	0.9

Source: IBGE



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