Brazil-LEI: Getting the bad news more quickly?

In July the Conference Board partnered with The Brazilian Institute of Economics of Getulio Vargas Foundation to launch a new indicator to track Brazil’s economic ups and downs.

Thais Thimoteo, Rio de Janeiro

EARLIER THIS YEAR, MOST ANALYSTS bet that the Brazilian economy would grow about 3.5% for the year. Today, with industrial production down, households too heavily indebted to contemplate consumption, and inflation rising, the reality is that in 2013 growth is likely to be more modest: between 2% and 2.5%. The new Conference Board (TCB) Leading Economic Indicator for Brazil (Brazil-LEI) aims to better anticipate Brazilian business cycles.

There was no change in April, but in May the Brazil-LEI fell 1.2% and in June it fell 0.6%. According to Paulo Picchetti, IBRE economist, it is still too soon to say that the country will soon be facing an “unequivocal contraction” of the economy, but the index results are sufficient to raise concerns. “There is no rule of thumb for telling whether a downward trend will become a downturn over time—economic cycles are exceptionally difficult to predict; however, we do not see any factor suggesting that growth will resume,” he says.

Ataman Ozyildirim, TCB economist, says Brazil’s LEI has been moving sideways compared to last year, but both the financial markets and consumer expectations are pushing it down. “The weakening of the Brazil-LEI is in line with the weakening of the main indicators in China and India,” he says. He points out that before it was introduced the Brazil-LEI series was calculated retroactively to 1996 based on findings of the IBRE Dating Economic Cycles Committee.

Expectations

For Bart Van Ark, TCB vice president and chief economist, Brazil will be able to achieve higher growth in the next few years only if it can increase its public and private investment and carry out structural reforms to make markets more flexible so that it can become more competitive internationally. Also, the country urgently needs to simplify its tax legislation, which hinders Brazilian development. “These are undoubtedly the main problems that Brazil needs to address if it wants to grow above 2% in coming years,” he says, emphasizing that if Brazil follows these recommendations it might grow 3.2% a year between 2014
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and 2018—and even contemplate long-term growth of up to 4.5%.

Van Ark cautions against comparing Brazil’s economy to China’s—they are quite distinct: “Brazil and other South American countries have a per capita income that is much higher than the Asian population. To grow at sustainable levels, it is not enough to add fixed capital to the economy, as China does; it is also necessary to invest in intangible capital, such as innovation and education. If Brazil can attain growth rates of 4.5%, it would have a significant possibility of catching up with mature economies.”

Aloisio Campelo, IBRE deputy director of business cycles, also foresees no major changes in the Brazilian economy if the government fails to do its job. “If there are no changes in economic fundamentals, Brazil will never reach potential growth of 4.5% . . . We have the policy tools to make adjustments but we need to change the sources of the economy’s growth from encouraging consumption to increasing investment,” he says.

Nevertheless, it is true that economic success does not depend entirely on the domestic market. The uncertain global outlook, resulting partly from expectations of poor performance in emerging countries and only modest recovery in developed countries, is also contributing to Brazil’s slowdown. According to TCB projections, economies in developing countries are...
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expected to grow on average about 4% in 2013 and 5% annually between 2014 and 2018. Advanced economies should grow 2%, bringing the global average to about 3%. “World economic growth of 3% is not a disaster. And it will come to a large extent from emerging economies, including countries in South America that have significant potential. But we still have to deal with uncertainty,” Van Ark says.

Components
In the domestic market, one of the main factors that has held back Brazilian economic growth is the performance of industry. The FGV Industry Confidence Index (CCI) fell by 4% in July, the lowest level since July 2009 during the global recession. “The wave of demonstrations in the country, low GDP growth in the first quarter, and a change in U.S. monetary policy [the Fed, the U.S. central bank, has signaled withdrawal of monetary stimulus] may have contributed to business expectations worsening and a decline in the Brazil-LEI,” Campelo explains.

According to Picchetti, leading indicators are an attempt to measure economic trends more quickly than other

ABOUT THE CONFERENCE BOARD LEADING ECONOMIC INDEX FOR BRAZIL

The Brazil LEI was launched July 17, 2013. It aggregates eight indicators of economic activity in Brazil. Each of the LEI components has been proven accurate elsewhere. The eight components of Brazil-LEI are:

- The 1-year swap rate (source: central Bank of Brazil)
- Stock prices on the Bovespa Index (São Paulo Stock Exchange)
- The Industry Expectations Index (IBRE/FGV)
- The Services Expectations Index (IBRE/FGV)
- The Consumer Expectations Index (IBRE/FGV)
- Production of durable consumer goods (Brazilian Institute of Geography and Statistics [IBGE])
- The Terms of Trade Index (Foundation Center for Foreign Trade Studies [FUNCEX])
- The Exports Volume Index (FUNCEX)

https://www.conference-board.org/data/bcicountry.cfm?cid=12
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The Brazilian Institute of Economics (IBRE) Economic Outlook provides statistics, projections and analysis of the Brazilian economy:

- Economic activity
- IBRE business and consumer surveys
- Employment and income
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economic activity indicators, such as quarterly GDP, using a simpler statistical model. “There are several advantages to its simplicity: the first is transparency, since the leading indicator is easy to calculate; second is the comparability of indicators across countries; and third is its stability,” he explains. With Brazil, there are now 12 regions or countries for which TCB calculates indicators of economic activity monthly: Australia, China, the Euro area, France, Germany, Japan, Korea, Mexico, Spain, the United Kingdom, and the United States. In September, the TCB will release India’s LEI, which will help to complete the global indicator of the world’s major economies.