KFW ECONOMIC RESEARCH

Economics in Brief

One Pager

No. 74, 14th April 2015

Brazil's consumers are in a tight spot

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The Brazilian economy stagnated last year. This was due not only to the country's well-known investment and infrastructure weakness but also to private consumption, which grew by just under 1 % in real terms. For this year, consumer expectations do not signal any fundamental recovery either, particularly since neither income trends nor private credit growth are likely to provide impetus.

The mood is sombre

The year has not started on an optimistic note for the Brazilian economy. In the first two months, manufacturing output contracted by a seasonally adjusted 6 and 8 %, compared with the same month of the previous year, and retail sales stagnated in January.

Accordingly, business sentiment has weakened and literally collapsed since the beginning of 2015. Consumer confidence declined in the first half of 2014 as well but partly rebounded before the October 2014 elections.

Incomes are rising more slowly

In March, consumers' income expectations fell to the lowest level since the survey began in March 2010. This corresponds with a decline in real incomes at the start of the year, which was also caused by rising inflation.

Nominal and real income growth rates are trending lower in the longer term as well. The (intended) budget consolidation measures include tax increases and stricter rules for the granting of social benefits, which are likely to impair the development of disposable income.

Credit volume of private households and businesses has grown

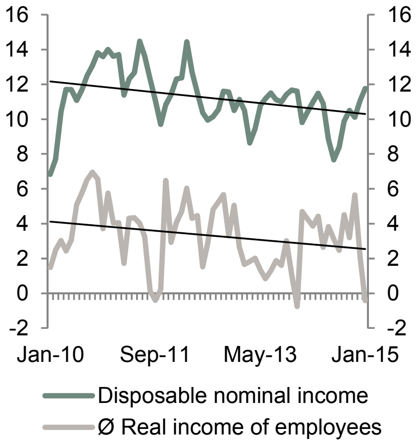
The volume of outstanding debt owed by households and businesses to financial institutions has risen fast in the past years and has now reached almost 60 % of GDP. Since 2010, the credit volume of private households has grown slightly more strongly than that of non-financial corporations. Today credit volume is divided almost equally between businesses and private households. The latter must now use around 22 % of their disposable income to service their debts. Although a rise in NPL ratios has not yet been registered, there has been an increase in loans that are 15 to 90 days overdue.

It is worth mentioning that in recent years credit growth has been sustained exclusively by public financial institutions. They now account for slightly more than half the credit volume outstanding (representing some 32 % of GDP).

Interest rates are rising

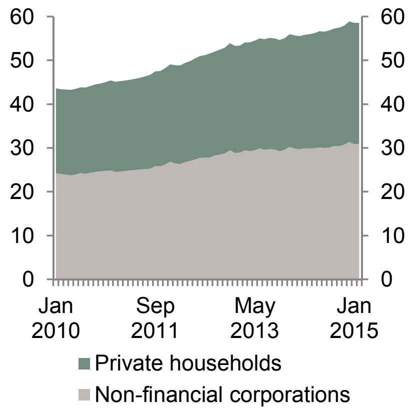
The Monetary Policy Committee has adopted a contractive policy to contain rising inflation (8.1% in March 2015). Because of an increase in administrated prices and the currency devaluation, inflation now exceeds the upper limit of the target range. This results in a generally rising interest rate level. Even interest rates for earmarked loans (compulsory lending and/or use of government resources; credit volume outstanding of approximately 28 % of GDP) are rising, although they still remain significantly below market interest rates. ■

Figure 1: Income development (yoy, in per cent)



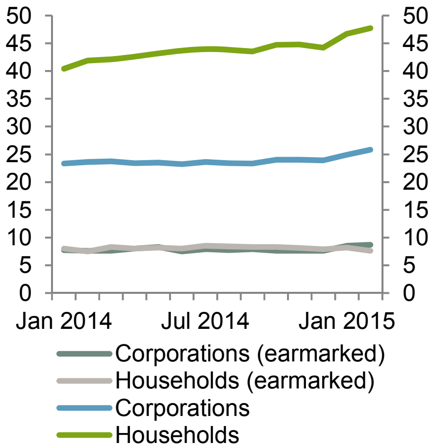
Source: IBGE, BCB, own calculations.

Figure 2: Loans outstanding with financial institutions (in per cent of GDP)



Source: Banco Central do Brasil (BCB).

Figure 3: Loan interest rates (in per cent)



Source: Datastream; BCB, IBGE.