

PM Datanote: Industrial Production, Brazil, September

In one line: A disappointingly modest rebound after August's drop.

Industrial production in Brazil rose 0.2% month-to-month in September, below the consensus, 0.6%. On a year-over-year basis, production rose 2.6%, down from 3.9% in August, and also below the consensus, 3.1%. August production was revised marginally up to -0.7% m/m from -0.8%.

Production fell in two of the the four major categories and in eight of the 24 sectors. The modest m/m increase in production was driven mainly by a 2.1% jump in durable goods output, the third straight big increase. Intermediate goods output, meanwhile, rose 0.7% m/m, reversing most of the 0.9% dip in August, and supporting our view that last month's weakness was not the start of a new downtrend. These positive numbers, though, were partially offset by weakness in non-durable goods production, down -1.8%, and a dip capital goods output, which fell 0.3% m/m. But these declines follow solid increases in previous months and the underlying trends are positive. Industrial production rose by 0.9% quarter-on-quarter in Q3, marginally slower than the 1.1% gain in Q2.

The key takeaway here is that the industrial sector is recovering at a relatively healthy pace, consistent with stronger survey data. Improving capacity utilization, rising consumer and business confidence, low inflation and interest rates, all suggest that the positive trend will persist in the near term. Still, overall the September data were softer than we expected after August's drop, and the report strengthens our view that interest rates will continue to fall in the near term.

The chart shows that the trend in production rebounded slightly in September. But key leading indicators, such as the PMIs, energy consumption, or weekly external trade data, are suggesting that the industrial sector will start the fourth quarter strongly



Andres Abadia
Senior International Economist
Pantheon Macroeconomics
www.pantheonmacro.com
Twitter @andres__abadia
+44 1912 600 309 (Office)

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