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Monthly Economic Outlook

The 2014 Balance of Trade and the effects of Exchange Rate Depreciation

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Over the last few years, we have witnessed a downward trend in Brazil's balance of trade surplus. This year we expect that trend (as shown in table 1) to hit its lowest point yet registering a surplus of only US$1 billion. It is important to note that the lack of competitiveness of the Brazilian industrial sector, together with specific factors that have occurred in the Brazilian oil and gas sector (i.e. the decline of production at Petrobras coupled with rising domestic demand for gasoline, and the delayed registration of US$5 billion in imports carried over from 2012) help explain this deterioration of the trade balance and, consequently, of the current account. In recent months, this worsening of Brazil's external accounts and the resumption of economic growth in the U.S. economy have pushed up the BRL/USD average exchange rate to BRL2.27/USD1.00 in September. Therefore, the question that remains is to measure how much this exchange rate depreciation will help Brazil's balance of trade moving forward.

On the export side, the depreciation of the exchange rate will tend to make our products more competitive on the international markets. However, we believe that this advantage will be limited to the group of manufactured products, since the more weighty exports on our list are commodities, which have much lower price sensitivity. Additionally this is demonstrated in one of the boxes of the September Inflation Report, where the Central Bank shares this view regarding the effect that the exchange rate depreciation will have on exports. That said, after three years in which manufactured exports have remained stationary at around 90 billion dollars, we are now projecting that those exports could become the main vector of export growth, reaching a level of US$96.5 billion in 2014, an increase of almost 8% over 2013. However, it should be noted that the weaker economic performance of regional partners, particularly Argentina, could result in less demand for our manufactured goods.

On the other hand a more depreciated exchange rate, coupled with the prospect of domestic demand growing at a moderate pace will begin to inhibit the entry of some imported items. In table 2 we project that, after doubling in value from 2007 to 2013, imports in 2014 should remain very close to their 2013 level. In this regard we point to the slower growth of the Capital Goods group. The depreciated exchange rate

Evolution of the Balance of Trade and Brazilian Exports
Values in USD billions - FOB

		2014	2013	2012	2011	2010	2009	2008	2007	2006
Trade Balance	Variation (%)	$7.8	$1.0	$19.4	$29.8	$20.1	$25.3	$25.0	$40.0	$46.5
Exportation	Variation (%)	3.7%	-1.2%	-5.3%	26.8%	32.0%	-22.7%	23.2%	16.6%	16.3%
	Value (bn)	$249	$240	$243	$256	$202	$153	$198	$161	$138
Basic commodities	Variation (%)	0.1%	0.1%	-7.4%	36.1%	45.3%	-15.2%	41.5%	28.1%	16.0%
	Value (bn)	$114	$114	$113	$122	$90	$62	$73	$52	$40
Iron Ore	Variation (%)	1.7%	2.5%	-25.9%	44.6%	118.3%	-19.9%	56.6%	18.0%	22.6%
	Value (bn)	$32.3	$31.8	$31.0	$41.8	$28.9	$13.2	$16.5	$10.6	$8.9
Soybeans (grain + meal)	Variation (%)	-11.3%	25.5%	9.2%	39.7%	-1.6%	4.6%	58.4%	19.6%	-1.6%
	Value (bn)	$26.8	$30.2	$24.1	$22.0	$15.8	$16.0	$15.3	$9.7	$8.1
Crude Oil	Variation (%)	17.0%	-32.9%	-6.0%	33.8%	76.5%	-32.5%	52.2%	29.2%	65.6%
	Value (bn)	$16.0	$13.6	$20.3	$21.6	$16.2	$9.2	$13.6	$8.9	$6.9
Semi-manufactured Goods	Variation (%)	5.2%	-5.9%	-8.3%	27.7%	37.6%	-24.3%	24.2%	11.7%	22.3%
	Value (bn)	$32.7	$31.1	$33.0	$36.0	$28.2	$20.5	$27.1	$21.8	$19.5
Manufactured Goods	Variation (%)	7.9%	-1.4%	-1.7%	16.0%	18.1%	-27.3%	10.4%	11.9%	14.8%
	Value (bn)	$96.5	$89.4	$90.7	$92.3	$79.6	$67.3	$92.7	$83.9	$75.0

*Note: The group "Special Operations" is not included in this table, therefore, the sum of "Basic commodities", "Semi-manufactured Goods" and "Manufactured Goods" does not total 100% of exports.

Source: MDIC/SECEX | Preparation: VAM

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together with declining business confidence and a bad environment for investments generate a more unfavorable scenario for these imported products. The difficulty of the Federal Government to meet its schedule for granting concessions illustrates this current situation. Finally, the durable goods group, which primarily consists of imported goods for final consumption should decrease in 2014, as this group of products reacts to the effects of exchange rate depreciation in an even faster and more direct manner.

Additionally, as can be seen in both tables, the balance of the oil and fuel group (relevant to the worsening of the 2013 results) should have less of a negative impact on the 2014 trade balance. We project that fuel imports will contract by 4.7% due to two main factors: (i) the absence of carry-over charges from the previous year, and (ii) the leveling off of natural gas and gasoline imports. Moreover, with the expected maturity of some of its projects, Petrobras should deliver improved production numbers that will primarily favor the exportation of crude oil, for which we expect to see an increase of 17%. This perspective should continue for the long term, as production from new oil fields comes online. However, as we have seen over the last few years, the possibility of delayed investments can cause a lot of uncertainty regarding the timetable for these increments.

Based on the aforementioned factors we expect to see an improvement in the 2014 trade balance with the surplus reaching US$7.8 billion. Even though it is still important to note that this trade balance result depends a great deal on commodity prices, the depreciated exchange rate will create more competitive advantage for the industrial sector, stimulating exportation and favoring domestic production.

Evolution of Brazilian Imports

Values in USD billions - FOB

		2014	2013	2012	2011	2010	2009	2008	2007	2006
Imports	Variation (%)	0.9%	6.9%	-1.4%	24.5%	42.3%	-26.2%	43.4%	32.0%	24.1%
	Value (bn)	$241	$239	$223	$226	$182	$128	$173	$121	$91
Consumer Goods	Variation (%)	0.1%	4.2%	-1.8%	27.6%	46.0%	-4.5%	40.6%	34.1%	41.2%
	Value (bn)	$41.1	$41.0	$39.4	$40.1	$31.4	$21.5	$22.5	$16.0	$12.0
Durable Goods	Variation (%)	-1.5%	-0.5%	-7.8%	29.7%	60.0%	-8.6%	54.0%	35.8%	54.7%
	Value (bn)	$21.8	$22.1	$22.2	$24.1	$18.6	$11.6	$12.7	$8.3	$6.1
Passenger Cars	Variation (%)	0.9%	-5.1%	-18.4%	39.6%	54.9%	-2.6%	71.9%	61.3%	115.1%
	Value (bn)	$10.0	$9.9	$10.4	$12.7	$9.1	$5.9	$6.1	$3.5	$2.2
Durable Goods Ex-autos	Variation (%)	-3.5%	3.6%	4.2%	20.2%	65.2%	-14.1%	40.8%	21.5%	33.7%
	Value (bn)	$11.8	$12.3	$11.8	$11.4	$9.5	$5.7	$6.7	$4.7	$3.9
Non-Durable Goods	Variation (%)	2.1%	10.2%	7.2%	24.5%	29.6%	1.0%	26.2%	32.3%	29.5%
	Value (bn)	$19.3	$18.9	$17.2	$16.0	$12.8	$9.9	$9.8	$7.8	$5.9
Raw materials and intermediate products	Variation (%)	3.1%	7.4%	-2.2%	21.5%	40.6%	-28.1%	39.9%	31.2%	19.7%
	Value (bn)	$111	$107	$100	$102	$84	$60	$83	$59	$45
Capital Goods	Variation (%)	1.2%	5.1%	1.5%	16.8%	38.1%	-17.4%	43.0%	32.8%	23.0%
	Value (bn)	$51.7	$51.1	$48.6	$47.9	$41.0	$29.7	$35.9	$25.1	$18.9
Fuels and lubricants	Variation (%)	-4.7%	11.3%	-2.4%	42.7%	51.3%	-46.8%	56.7%	32.2%	27.4%
	Value (bn)	$37.5	$39.3	$35.3	$36.2	$25.3	$16.7	$31.5	$20.1	$15.2

Source: MDIC/SECEX | Preparation: VAM