Investing / #MarketMoves

SEP 1, 2017 @ 02:15 PM 2,539

Brazil: Better Than Portugal!

Kenneth Rapoza, CONTRIBUTOR

I cover business and investing in emerging markets. FULL BIO

Brazil's economy grows for second consecutive quarterly, but industrial expansion is still non-existent. (AP Photo/Eraldo Peres)

Brazil celebrated 0.2% quarterly growth on Friday. It's not a heck of a lot and may not seem all that worth celebrating. Within 42 countries ranked by Sao Paulo **based rating agency, Austin Rating**, Brazil is almost dead last, at No. 41!

Bloomberg's ranking of 44 second quarter GDP figures also has them at 41. In terms of annual growth rates ending in 2Q, Brazil is better than Portugal, Singapore and Taiwan.

Brazil's stock market rose 2% on the news that its economy is going forward, rather than in its old direction: backwards. Still, the iShares MSCI Brazil (EWZ), the preferred index trade into that country's equity market, is trailing the MSCI Emerging Markets Index by about 200 basis points. Brazil is up 22% year-to-date. Within the BRICS, it is in third place for market performance. South Africa and Russia are the bottom two.

If 0.2% growth doesn't look like much to get excited about. Consider the fact that the country has been slammed with back-to-back years of recession, then this second quarter in a row of growth means Brazil is seeing some light.

If its growth story could be compared to a fuzzy little mammal, I'd liken it to a prairie dog, sticking its nose out of its burrow, sniffing the air for safety. It's not safe yet, of course. Brazil as an equity market is doing well thanks to a general weak dollar environment, which helps out commodity nations like theirs. The government still faces headwinds, like corruption investigations that can pull the rug out from under important legislators needed to pass reforms. All bets are off for meaningful pension reform this year. And the government of Michel Temer, highly unpopular in the streets, is now hoping to pass fiscal rules that will control spending more, and likely increase deficit targets. Brazil's deficit is now admittedly worse than Finance Minister Henrique Meirelles first believed when he took to the post less than a year ago.

Brazil's Finance Minister Henrique Meirelles says the country is climbing out of years of economic contraction. Next year will be even better, he believes. (Photographer: Lucian Read/Bloomberg News)

Yet, as long as portfolio investors like emerging markets, Brazil will benefit. As long as corporate investors think Brazil is cheap and opportunistic, money will come in. The government, meanwhile, is cutting back on investment. And Brazilian businesses, other than the service sector, did not grow at all in the second quarter when compared to the first.

The industrial component fell 0.5% and is down 2.1% on the year. Agribusiness flatlined with no growth, but remains Brazil's locomotive, up double digits from last year. Only services registered quarterly growth, at 0.6%, but is down 0.3% from last year, according to the Brazilian Geographical and Statistical Institute, IBGE.

The good news is that Brazilians are spending money again. Individual consumption rose 0.7% annually and around 1.4% from the first quarter. The government spent 0.9% less in the second quarter than it did in the first, and nearly 3% less than it did last year as cutbacks continue under the Temer Administration. Thanks to the commodities trade, exports rose 0.5% and are up over 2% from a year ago.

FinMin Meirelles thinks Brazil is climbing out of the hole the previous government dug for it.

"The measures we have adopted to put Brazil back on track to sustainable growth are beginning to have an impact," he said in a statement on Friday. "This comeback will strengthen in the months ahead. We will start 2018 on strong, stable footing...and we are going to keep working to make sure this expansion is durable and long lasting," Meirelles said.