



Brazil Macroeconomic Report



Economic Profile

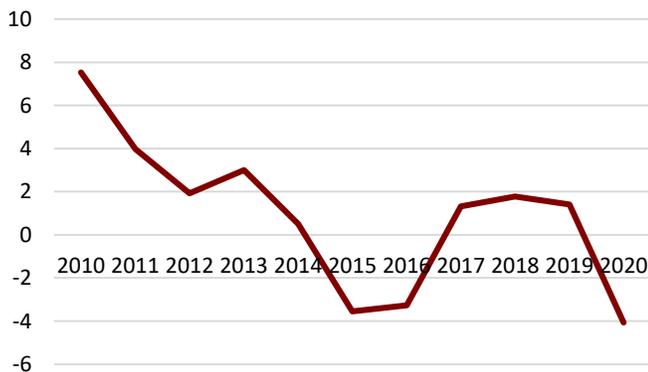
Currency	Brazilian Real
Population	214 million
Economy	Mixed Developing
GDP (2020)	\$1.43 trillion
GDP per Capita	\$6,783

Market Outlook

Point in Economic Cycle Right of Peak

Outlook Bearish

GDP Growth (annual %)



(GDP Growth (Annual %) – Brazil, Prev 10 years (Source: World Bank))

Macroeconomic Thesis:

After conducting research on several leading, lagging and coincidental economic indicators, it is my belief that Brazil is currently right of peak in its business cycle. My outlook for the next year is bearish due to poor governance and the pressure that the Covid-19 pandemic has put on the Brazilian economy.

I chose to focus on Brazil because the country is in the news a lot, particularly because of President Bolsonaro. I was curious to see what kind of effect his policies were having on the economy. Additionally, Brazil is abundant with natural resources, and I wanted to see how they were being utilized.

By conducting an analysis of economic data such as unemployment rate, GDP per Capita, Consumer Price Index, Purchasing Managers Index and Government debt, I have a negative outlook on the Brazilian economy for the upcoming year. In my opinion, Brazil has failed to live up to its economic potential. Brazil is in need of large-scale reforms, none of which will be happening under the Bolsonaro administration.

One of the bright spots in the Brazilian economy is the trade surplus. Brazil needs to capitalize on this strength by increasing trade with other countries. When compared to other large, resource rich countries, Brazil's trade volume is significantly lower. This is not only a missed opportunity for Brazil to export more of their goods, but it also increases the burden of supply shocks for consumers. Brazil also underutilizes its workforce with more than 14 million people currently unemployed and manufacturing operations well below capacity. Without serious policy reform, I believe that it will be very difficult for the Brazilian economy to expand. Therefore, I have a bearish outlook on the Brazilian economy for the upcoming year.



Economic Indicators

Unemployment Rate:

The rate at which an economy employs its workers is an important economic indicator because it correlates with productivity and the purchasing power of workers. Brazil has battled a double-digit unemployment rate since its recession in 2016. Exacerbated by the pandemic, unemployment reached 14.7% in Q1 2021.

Brazil's continuous struggles with unemployment, coupled with its low vaccination rate, make it seem likely that the unemployment rate will remain persistently high for quite some time.

GDP per Capita

GDP per Capita can serve as a proxy for the standard of living and productivity. While Brazil has diverse industrial range, its GDP per capita of \$6,783 is still well below the \$12,000 that is required to be considered developed economy. GDP overall has declined significantly over the past decade, with 2020's GDP down 45% from its peak in 2011. One of the ways that a country can improve GDP per Capita is by educating more of its population so that they become more productive. Unfortunately, President Bolsonaro announced in 2019 that he intended to cut 30% of university funding, so it does not seem that Brazil will be making any improvements to its education system under the Bolsonaro administration.

Balance of Trade:

Balance of trade is the difference between the import and exports of a country. Brazil has had a trade surplus since 2015. The country is a top exporter of raw materials like iron ore, tin, uranium and timber. Brazil has one of the largest natural resource endowments in the world. Economist estimate that the country has more than \$20 trillion worth in untapped natural resources. This means that it is likely that the country will maintain its trade surplus for the foreseeable future.

Unemployment Rate



(Unemployment rate – Brazil, Prev 8 years (Source: Central Bank of Brazil))

GDP per Capita



(GDP per Capita – Brazil, Prev 12 years (Source: Federal Reserve Bank of St. Louis))

Balance of Trade (in billion U.S. dollars)



(Balance of Trade (In billions of U.S.. Dollars – Brazil, Prev 10 years (Source: Statista))



Economic Indicators

PMI:

The Purchasing Managers Index (PMI) is a leading indicator that helps give insight into the manufacturing and service sectors of an economy. In 2020, manufacturing and service combined to make up 81% of GDP, so PMI is an important indicator for Brazil. PMI had a strong recovery from the beginning of the pandemic, but it has begun to creep back down to its nine-year average of 50.39. Global supply chain issues brought on by the pandemic have decreased Brazil's industrial output well below capacity, as it is believed to be 30% lower than pre-pandemic levels. However, once supply chains are reconfigured, Brazil's manufacturing and service industries will be back on the path towards full capacity.

Purchasing Managers Index

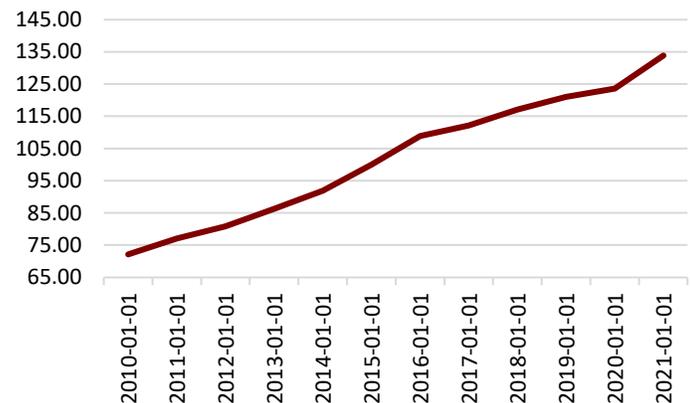


(Purchasing Managers Index – Brazil, Prev years (Source: Statista))

CPI:

Consumer Price Index (CPI) is a basket of goods and services that is gathered and monitored to gauge inflation. Average year-over-year growth in CPI has been 5.8% over the past decade. Compared to the rest of the world, Brazil is more of a closed economy. The global average for imports and exports as a percentage of GDP are 28.75% and 29.49%, respectively. Brazil's import and exports as a percentage of GDP are only 14.35% and 14.11%. This makes Brazil much more sensitive to domestic supply shocks and puts upward pressure on prices. The Brazilian government has expressed its desire to increase trade in 2019, but the numbers show that these aspirations have yet to materialize.

Consumer Price Index (% change)

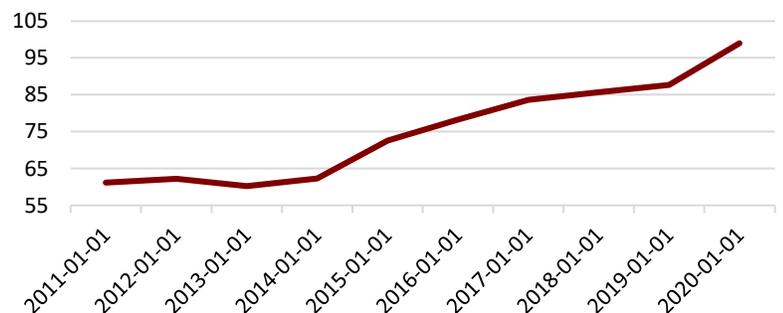


(Consumer Price Index – Brazil, Prev 11 years (Source: Federal Reserve Bank of St. Louis))

Debt as a % of GDP:

This metric helps show how leveraged a country is. The number also represents the number of years it would take for a country to pay off its debt if all of GDP was dedicated to debt repayment. As of 2020, it would take Brazil 99 years to repay their debt, making it the most leveraged emerging economy. On the upside, only 3% of Brazil debt is in foreign currency, making it much easier for Brazil to service its debt.

Debt as % of GDP



(Debt as % of GDP) – Brazil, Prev 9 years (Source: Federal Reserve Bank of St. Louis)



Geopolitical Factors

President Bolsonaro:

Presidential Bolsonaro is an extremely controversial leader, he leads a right-wing populist movement and has been likened by many to former U.S. President Donald Trump. From an economic perspective, Bolsonaro term has not been all bad. He has boosted the agriculture industry and has been working to encourage more global trade. His handling of the pandemic, on the other hand, has been a disaster. Bolsonaro has constantly downplayed Covid-19 and has told Brazilians to 'stop whining' about the virus. He has also ridiculed vaccines and has refused to get vaccinated. Socially, Bolsonaro is even worse. He regularly makes misogynistic, racist and homophobic comments during public appearances which draws the ire of global human rights activists. Brazil has one of the worst education systems in the world that is in dire need of restructuring, an issue that Bolsonaro campaigned on. Bolsonaro hasn't followed through, instead he has cut funding for federal public universities by 30% and opposed curriculum that explores gender and racism. Brazil's next Presidential election will be held in October 2022 and former President Lula Da Silva currently leads Bolsonaro in the polls. The outcome of that elections will determine Brazil's path into the next decade.

Covid-19:

The recovery of Brazil's economy will be extremely dependent on the country's ability to get its population vaccinated. To date, Brazil's vaccination rate is at 40% which is well below other countries of comparable size. At the beginning of the year, it only took Brazil's Covid-19 death toll to jump from 300,000 to 400,000. The death toll currently sits at 595,000 with more than 21 million cases recorded in the country. The rapid spread can be attributed to poor social distancing policies, the contagious Delta variant and a botched vaccine roll-out. Brazil also started administering the vaccine in January, much later than some of its South American peers. Shortages in some cities has prevented people from receiving the second dose they need to become fully vaccinated. However, it seems that the country is beginning to turn the corner. AstraZeneca and Sinovac vaccines are now being produced in the country, significantly increasing the supply of vaccines for Brazilians. Logistical issues have also been ironed through trial and error. Bolsonaro estimates that every Brazilian that wants to get a vaccine will be vaccinated by November. Still, Bolsonaro's administration is strongly opposed to vaccine mandates and passports so time will tell how much of the population will become vaccinated.