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ECONOMICS

# Brazil shines as India disappoints

**Latest GDP data shows Brazil's economy improving after a dismal first quarter, while India's economy slowed. However, both face brighter futures.**

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**30 Minutes**
Unstructured
Learning Time

India's second quarter GDP recorded a significant slowdown, growing 7.1% year-on-year (y/y) compared to 7.9% in the first quarter. Growth of 7.6% had been expected. The government's preferred measure, Gross Value Added - GVA - (GDP plus taxes and less subsidies) slowed by less, slipping to 7.3% y/y from 7.4%.

Brazil, by contrast, did better than expected, though it is a sign of how low the bar has fallen that a contraction of 3.8% y/y can be considered a positive surprise. Still, compared to the -5.4% recorded in the first quarter, this is a great improvement.

## Indian data to put pressure on central bank

Higher frequency data in India has not been particularly strong over the quarter, and so supports the headline story told by GDP. Industrial production has picked up, it is true, alongside the manufacturing purchasing managers' index (PMI) – though at 2.1% y/y and 51.7 respectively, these hardly seem indicative of blistering growth.

Meanwhile, the composite PMI has weakened somewhat, and auto sales have softened. Part of the explanation may lie in the slower pace of credit growth compared to the first quarter. We expect pressure to be placed on the new central bank governor to move to address this by using central bank reserves to recapitalise the banking system, particularly after such a marked slowdown.

## Brazil on the rise?

Brazil's monthly data had suggested a much better second quarter following a dismal first. Business confidence, typically a good indicator of investment, had staged a strong recovery on impeachment hopes towards the end of the first quarter.

For the consumer, new vehicle registrations and retail sales had posted similar rebounds as they stride back towards positive growth territory. Trade, though still positive, weakened slightly, reflecting the stronger currency and better domestic demand. All of this was reflected in the breakdown of the national accounts.

Investment made a positive quarterly contribution, its first in some time, though still contracting annually. Consumption also improved considerably in year on year terms. Net exports and government spending both deteriorated compared to the first quarter, thanks to a stronger currency and fiscal restraints, respectively.

## Concerns raised over India

For India, while headline GDP has moved in the direction higher frequency data might have suggested, a breakdown of the national accounts still raises questions.

Manufacturing, according to the national accounts, slowed slightly in y/y terms, despite the pick up in the PMI and industrial production data. Consumption, though, slowed in both the quarterly and monthly releases, with the national accounts showing a deceleration from 8.3% last quarter to 6.7% y/y in the second quarter.

Government consumption posted a large increase, which must raise some concerns over the sustainability of this growth rate if investment can not be encouraged to pick up. However, some of the investment weakness is due to base effects, reflecting strong government support in Q2 and Q3 of last year, so this should not persist much further.

## Brighter outlook ahead for both

Overall, the direction of travel is encouraging for Brazil, and less so for India. However, the latter has finally cleared the reform hurdle posed by the Goods and Services Tax, which should generate improved business sentiment and investment.

Meanwhile, Brazil presses ahead with the impeachment of President Rousseff, which now looks all but certain, and is making some progress with its own reforms. We think the outlook for both economies is positive and expect stronger growth in the third and fourth quarters in each.

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