

Brazil Metals Report Q2 2014

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Abstracts

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BMI View: We expect solid metals consumption growth in Brazil through 2018 on the back of the automotive, construction and infrastructure sectors, among others. Despite delays in infrastructure spending under the Growth Acceleration Programme, we see an uptick in construction activity in H214 and 2015, which should drive both production and consumption higher. Furthermore, we forecast gross fixed capital formation (GFCF) to accelerate from 2015 through 2018. Additionally, we forecast support for the metals sector due to our forecast for average annual real GDP growth of 3.0% from 2014 to 2018, with growth accelerating over the period.

Upside In 2015 Onward

We remain constructive towards the Brazilian metals sector over the medium term, though note we expect 2014 to see muted production and consumption growth. After disappointing economic data in 2013, a year in which overall economic growth and fixed asset investment slowed, we see activity picking up towards year-end 2014 and into 2015. For full-year 2014 though, we recently downgraded our forecast for real GDP growth from 2.5% to 2.0% and our forecast for gross fixed capital formation (GFCF) from 5.0% to 4.5%. Furthermore, infrastructure projects still face various delays, which presents a downside risk to our metals consumption and production forecasts this year. Yet from 2015 through 2018, we see a broader recovery, with GFCF averaging growth of 4.9% per year and real GDP growth averaging 3.3% per year. These growth forecasts are underpinned by our expectation for strong growth in metals-consuming sectors, including auto production, construction, and infrastructure.

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