

Brazil Blames Interest Rates for 13% Decline in Industrial Sales

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Industrial sales in Brazil grew 2.03% last year, less than in 2004, when the sector increased its sales by 15%. The figures that register this slowdown appear in the National Industrial Confederation's (CNI) study, Industrial Indicators.

The CNI's executive secretary of economic policy, Flávio Castelo Branco, attributes the slowdown to high interest rates and the appreciation of the real in relation to the US dollar.

Castelo Branco also suggests that sales growth in 2005 was disappointing compared with what was expected. "We began 2005 with very high expectations, generated by the growth in 2004. Over the course of the year, the economy cooled, and, despite the positive figures, there is an air of frustration," he affirmed.

Despite the weak sales performance, the industrial job market did not mirror this trend. Employment was up 4.18% in 2005, in comparison with 2004. Moreover, industrial workers' purchasing power rose 8.10%, in comparison with 2004.

According to CNI economist Paulo Mol, workers are able to buy more as a result of the drop in inflation.

"Salaries were readjusted in 2005 in line with a high inflation rate [that of 2004], and since inflation [in 2005] was less than the salary readjustment, the hike in purchasing power was not wiped out. This difference is what leads to gains in purchasing power," he observed.

Industrial employment is expected to grow in 2006 as well, but at a lower rate than in 2005.

The CNI expects that industrial growth will accelerate in 2006, stimulated by lower interest rates.

"In 2005 the economy was mainly affected by the monetary policy practiced in 2004. What basically restrained the economy were the high interest rates. This was the chief factor that caused the currency to appreciate and the economy to decelerate.

"If the decline in interest rates intensifies in the early part of this year, it may begin to produce positive results in the second and third quarters of 2006," Castelo Branco commented.

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