Changes in the Brazilian Productive Structure and Economic Growth During the Great Recession

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Author: Carolina T. BALTAR

Brazil achieved a period of relatively high economic growth from 2004 to 2008, after a long period of unstable and low economic activity. This short period of improved performance was achieved when the world scenario was favourable for the performance of the Brazilian trade balance due to rising commodity prices and growing external demand. In this setting, Brazilian exports increased considerably, followed by rises in domestic GDP, manufacturing GDP, consumption, gross fixed capital formation and imports. The Great Recession that emerged after the financial crisis of August 2007 brought challenges to the Brazilian manufacturing industry, with consequences for the countryâ€™s GDP growth. Brazil has an important and diversified industry, especially compared to other Latin American countries, and its performance has an important role to play on the Brazilian economic activity. The outcome after the Great Recession is lower manufacturing GDP and considerably higher imports. A recent debate on the difficulties to boost the Brazilian economy stresses the problem of currency appreciation and favourable prices for production and exports of commodities. According to some authors, the high competitiveness of these commodity sectors would generate excessive surplus in trade that, together with high capital inflows, would promote appreciation of the national currency and increase the disadvantages of the manufacturing sector in terms of the external competition. The low dynamism of the manufacturing production would then explain the lower GDP growth.

The aim of this paper is to investigate the changes occurred in the Brazilian productive structure in the period after the emergence of the Great Recession, when Brazil was not able to sustain its previous GDP growth rates, in relation to the period after 2003, when the countryâ€™s economic performance improved. For this purpose, we use the input-output structural decomposition analysis (SDA) applied to the data provided by the World Input-Output Database for the case of Brazil between 2003 and 2011. More specifically, the objective is to decompose the production variation and verify which component (intermediate consumption or final demand) caused the change in each economic sector's output over the period of investigation. This is the standard analysis of the SDA literature and we improve it further by including a disaggregated study of the causes of changes in imports in the relevant sectors.

The results, then, contribute to a better understanding of the changes in the relevant sectorsâ€™ products, the impact of imports and their consequences for the countryâ€™s GDP; thereby providing further evidence and explanation of the poor performance of the Brazilian manufacturing sector and GDP growth.