



BY AMANDA FANTINATTI

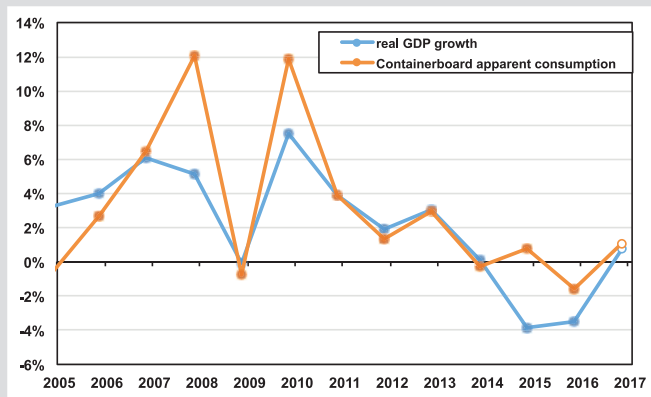
# A WEAKER-THAN-PREVIOUSLY-EXPECTED RECOVERY IN BRAZIL

The pulp and paper sector gained momentum around the globe as economic activity worldwide began to pick up – the IMF (International Monetary Fund) expects world growth to rise from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018. In the paper packaging sector, demand trends in the USA, Europe and China continue to be favorable and it now appears that the corrugated market is in the midst of the strongest sustained rally in demand since before the Great Recession.

It is reasonable to assume that the rapid growth in e-commerce, especially in the USA and Western Europe, was one factor behind this trend. Additionally, supply shocks have created a short-term imbalance in the market, such as the International Paper Pensacola mill incident in the USA (Pensacola used to export a sizable amount of virgin kraftliner), temporary capacity curtailments in Western Europe and uncertainties around actions China will take to control pollution – which could lead to some mill closures, both temporary and permanent.

However, a weaker-than-previously-expected recovery is projected to take hold in Latin America. As a matter of fact, containerboard demand growth in the region has remained sluggish in the last couple of years, reflecting economic uncertainties in major markets such as Brazil, Argentina, Ecuador and Venezuela (and, more recently, Mexico). In fact, these countries continue to experience challenging economic circumstances, which have contributed to a contraction in apparent consumption in 2016.

Taking a closer look into Brazil, it accounts for more than 30% of total containerboard demand in Latin America (including Mexico) and in our base-case scenario, we were already expecting the Brazilian economy to recover slowly after the recession in 2015-2016, with GDP growing around 0.8% in 2017 and containerboard apparent consumption rebounding 1.1% this year after decelerating 1.6% in 2016.



According to ABPO (Brazilian Corrugated Board Association), corrugated board shipments in Brazil increased 2.7% in the first four months of 2017 compared to the same period last year – in line with our view.

Recent political developments in Brazil have added more uncertainty to the outlook and compromised recovery speed – it is important to note that chances of another GDP contraction in 2017 increased; indeed, it is likely that the economy will move sideways until the presidential elections in 2018. A crucial assumption regarding the expected economic recovery was the ongoing adjustment of fiscal accounts and that, at least, some structural reforms would be approved in Congress. The current political scenario removes governability and makes reform approvals an unlikely outcome in the short/medium term. Consequently, we should expect a significantly weaker domestic currency, eliminating/reducing the room for major interest rate cuts, and pressuring demand downwards.

Therefore, our current forecast for containerboard apparent consumption in Brazil is under review and now has a downside risk; also, domestic problems in Latin America may delay the ongoing recovery of paper packaging demand in the region. ■

\*SPECIALIZED ECONOMIST ON STUDIES PERTAINING TO LATIN AMERICA'S PACKAGING MARKETS. AT RISI, SHE IS ONE OF THE MOST RECENT ADDITIONS HIRED TO COVER AND PROVIDE FORECASTS NOT ONLY OF THE PACKAGING MARKET IN LATIN AMERICA, BUT ALSO AFRICA, OCEANIA, AND MIDDLE EAST.

✉: afantinatti@risi.com

RISI is a leading provider of information on the pulp and paper market worldwide, offering reports, databases and detailed studies on new mill projects. Learn more about RISI at [www.risi.com](http://www.risi.com)

