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Brazil Macro Compass

Is TV the Thing This Year?

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Political Agenda: TV and Radio Campaign Starts on Friday, August 31

TV was "the thing" in 1953, as sung by Dinah Washington—"Radio was great/Now, it's out of date/TV is the thing this year." 65 years later, one of the most important questions permeating the coming elections in Brazil is whether TV is still "the thing" to persuade voters, or if it has become outdated, replaced with social media and the internet. According to a recent (June 28) Ibope poll, 62% of Brazilian voters use TV to get information on candidates. A quarter of the full sample relies exclusively on TV for that purpose.

TV and radio advertising for the October elections starts today in Brazil. (See our report *Countdown to Elections Officially Begins*, August 10, 2018 for more information on the TV time allocation.) Broadcasting will take place until October 4, three days before the first round of voting. In the table below, we summarize some findings from academic political science and economics literature on the impact of the campaign on voting intentions.

A new Ibope poll was submitted to the Electoral Court, to be released on September 4. It will be the first large face-to-face poll that may start to capture the effects of TV advertising this year.

Brazil—A Summary of Some Studies on the Impact of TV Campaign on Voting

Study*	Scope/Data	Methods	Findings/Observations
Pimentel (2018)	Voting in 102 mayoral elections in state capitals.	Cross-tabulation of voting given TV time and voting intention before the campaign.	**Only 1% of the candidates with less than 10% of TV time got elected**. Probability of winning is substantially higher for candidates with more than 30% of TV time, especially when they start the campaign with more than 20% of voting intention. On average, the election rate of candidates with more than 30% TV time is 58% (25% if below 10% initial voting intention; 79% if above 30% voting intention).
Borba and Cervi (2017)	Voting in 1,281 presidential, gubernatorial, and state capital mayoral elections between 2002 and 2014.	Cross-tabulation and linear regressions, splitting the sample according to incumbency and government support.	TV time is the most important variable in explaining voting for candidates not supported by the incumbent both in gubernatorial and mayoral elections. **In gubernatorial elections, an additional percentage point in TV time allocation is associated with a 0.67 pp increase in the share of voting for candidates not supported by the outgoing governor**.
Speck and Cervi (2016)	Voting in 4,888 mayoral elections in 2012.	Linear regressions using variables such as TV time and campaign spending to explain voting.	**TV time has a significant effect on voting (explaining about 10% of voting), but much smaller than money (which explains around 42% of voting)**. The effect of TV time is strongest in large cities.

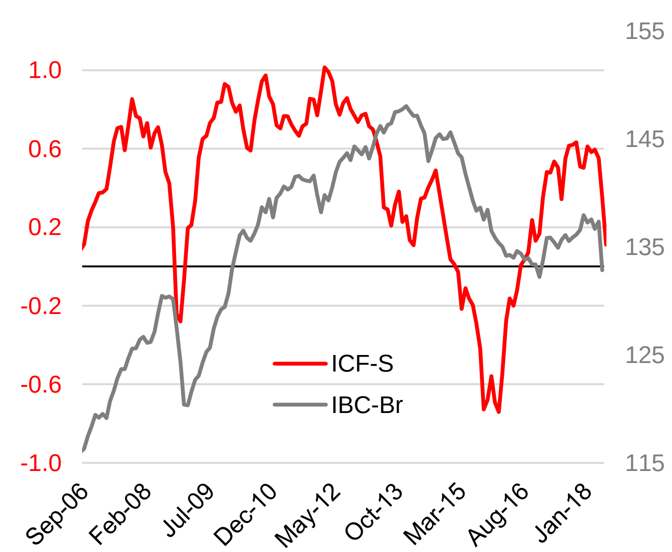
Study*	Scope/Data	Methods	Findings/Observations
Borba and Figueiredo (2014)	Share of voting in the first round of 1,103 elections for president, state governor and mayor between 1998 and 2012.	Cross-tabulation of voting and television time rankings.	**Candidates with most TV time finished first in 57% of the elections analyzed; among those, another 18% finished second**. Among candidates ranked second in TV time, 51% won outright or moved on to the second round. Only 15.5%, 8.3%, and 2.8% of the candidates ranked third, fourth, and fifth, respectively, in TV time were able to advance to a run-off.
Silveira and Mello (2011)	Voting records for 34 mayoral and gubernatorial elections between 1996 and 2006.	Difference-in-differences estimates using the variation of TV time between the two rounds of the elections.	"**The point estimate means that a one p.p. change in the difference in TV time share causes a 0.272 p.p. change in the difference in vote share**." TV exposure explains between 46% and 70% of the closing gap from first to second round in gubernatorial elections, representing a major determinant of election outcomes.
Figueiredo (2007)	Voting intention for president throughout the 2002 and 2006 campaigns.	Linear regression using dummy variables for different electoral periods as predictors.	**In 2002, Lula and Serra gained, respectively, 1.74 and 2.4 extra votes per each vote they had before the official campaign started**, in-line with model predictions. In 2006, Alckmin's voting intentions rose from 24% before the campaign to 35% right before the elections, 6 pp more than the model prediction; Lula slightly underperformed supposedly because of corruption scandals.

* Full references in the appendix on page 4 of this report. Sources: studies mentioned above.

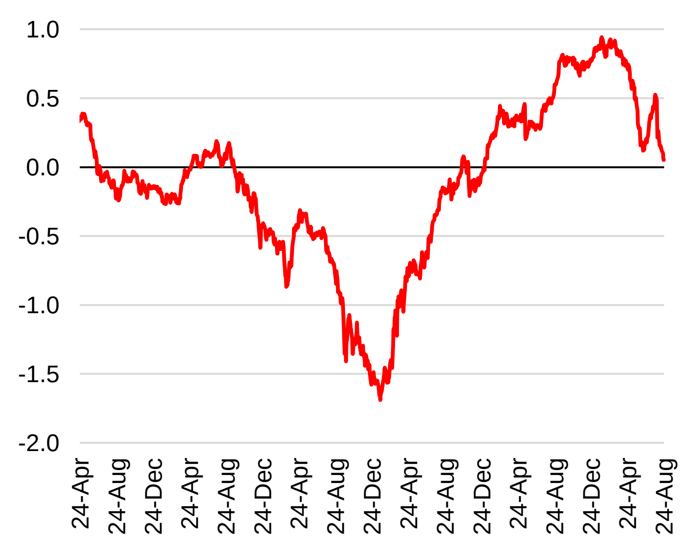
Chart of the Week: Santander Brazil's Financial Conditions Index

This week we introduced our proprietary Financial Conditions Index (SAN-ICF), built from variables such as the domestic yield curve slope, real interest rates, country risk, and stock prices. (For more information, see our report *Worse Financial Conditions at the Margin Reinforce the Likelihood of Selic Remaining "Low for Long"*, August 30, 2018.) SAN-ICF has been, retrospectively, a good leading indicator of economic activity (in the charts below, we use IBC-Br, the monthly GDP proxy estimated by the Central Bank), tending to anticipate by up to one quarter swings in the economic growth rate. A recent deterioration reinforces our negative bias to our 2018 GDP growth forecast, currently at 2%.

SAN-ICF and Economic Activity



SAN-ICF: Recent Daily Evolution



Sources: Central Bank of Brazil, Santander.

What's New: 2Q18 GDP

GDP grew 0.2% q/q on 2Q18, in-line with our forecast and slightly above market consensus (+0.1% q/q). The slowdown can be explained mainly by the May strikes, in our view. Looking at the supply side, the industry was the main drag, contracting 0.6% in the quarter. On the demand side, we highlight a sharp contraction in capital formation (-1.8% q/q), interrupting a string of five consecutive positive quarters. Household consumption stayed almost flat in the period.

Note that the macroeconomic scenario has significantly changed since our latest GDP forecast revision. First, the labor market has not improved as expected, and the pace of recovery seems to be slow. Another key factor has been the recent market aversion to emerging market risk and a deterioration in asset prices. Finally, uncertainty about the elections has been contributing to the deterioration in confidence indicators and financial conditions. (See our "Chart of the Week" on page 2.) Therefore, we assign a downward bias to our expectation of 2% GDP growth in 2018.

In-Depth Research: Fiscal Risk, FX, and the Elections

In *We're Not in 2002 Anymore (Caution Advised, Though),* August 28, 2018, we argue that the economic root cause of all the market noise in the lead-up to the elections in Brazil is likely the perception that the country's government debt will continue on an unsustainable path unless the next president builds a credible agenda of fiscal consolidation. (Perceived future political instability is interlinked with that.) This may not be easy, but economic fundamentals now look better than in another episode of extreme volatility associated with political/policy risk, before the 2002 elections, and may serve as a buffer to contain FX depreciation. (Under a reformist president-elect, we continue to see room for the BRL to strengthen to 3.50/USD by year-end.) Moreover, the next president may govern through a period of cyclical economic recovery, and this perspective may be a strong incentive for moderate and responsible economic policies.

This week we also introduced a proprietary Financial Conditions Index (SAN-ICF), which can be used as a leading indicator of economic activity. (See the "Chart of the Week" on page 2 for more information.)

Upcoming Data: August Inflation, July Industrial Production

We expect August CPI inflation, to be released on September 6, at 0.02% m/m (4.27% y/y). The deceleration from July (4.48% y/y) would be, in our view, mostly due to falling foodstuff and fuel prices, the items most affected by the May truckers' strike. Until the August preview (IPCA-15), the exchange rate pass-through from the recent BRL weakening was low, and we expect that to continue in the next few months.

July industrial production data will be released on September 4. We expect a 1.9% m/m contraction (+1.7% y/y), reflecting relatively poor auto production, corrugated cardboard shipments, and truck traffic volumes, which were already released for the month.

Number of the Week

BRL 8 bn

President Temer's decision to authorize a 16.4% wage increase for federal judges and 4.75-6.75% increases for federal civil servants should add around BRL 8 billion to government spending next year, according to Ministry of Finance estimates.

Quote of the Week

"Refis [corporate tax debt relief program], new benefits for agriculture, wage increases. We're making a huge effort to turn 2019 into an even more difficult year."

— **Marcos Lisboa**, president of Insper, in an interview with *Folha de S. Paulo* (August 30, 2018).

What We've Been Reading

- "Emerging Vulnerabilities in Emerging Economies", by Michael Spence (*Project Syndicate*, August 24, 2018). The 2001 Nobel Prize winner recommends emerging economies to focus on the management of foreign debt and capital flows as preparation for dealing with a world with less abundant liquidity.

- “Brazil's Crisis, in Two Sentences or Less,” by Brian Winter (*Americas Quarterly*, August 27, 2018). “Too many privileges for the elite. Not enough good leaders.”

- “Latin America’s Left Needs Better Heroes,” by Mac Margolis (*Bloomberg Opinion*, August 29, 2018). Lula is the last in a long line of Latin American leftist martyrs, whose blind following ends up undermining democracy, argues Margolis.

- “Elections in Brazil: Blank and Null Votes Are the Favorite,” by Valeria Saccone (*Global Americans*, August 30, 2018). Disenchantment with politicians may lead to record high levels of absenteeism in October elections, according to Saccone.

- “Special Report: Appetite for Destruction - Soy Boom Devours Brazil's Tropical Savanna,” Jake Spring (*Reuters*, August 28, 2018). Discusses the conflicts between environmental preservation and the boom of Brazil’s most important cash crop.

Recent Publications (Available on Our Website)

- *Worse Financial Conditions at the Margin Reinforce the Likelihood of Selic Remaining “Low for Long”* (August 30, 2018)
- *We’re Not in 2002 Anymore (Caution Advised, Though)* (August 28, 2018)
- *The Power of Trade-Off* (August 2, 2018)
- *It’s Not for a Lack of Credit—Part III: Delinquency, Way Better Than It Seems* (July 20, 2018)
- *It’s Not for a Lack of Credit—Part II: Companies* (July 20, 2018)

Appendix: Full References for the Studies Mentioned on Page 1

Borba, Felipe and Emerson Urizzi Cervi. 2017. “Relação entre propaganda, dinheiro e avaliação de governo no desempenho de candidatos em eleições majoritárias no Brasil.” *Opinião Pública*, vol. 23(3): 754-785.

Borba, Felipe and Marcus Figueiredo. 2014. “Quanto vale o voto da TV?” *Insight Inteligência*, Jan/Feb/Mar: 100-114.

Figueiredo, Marcus. 2007. “Intenção de voto e propaganda política: Efeitos da propaganda eleitoral.” *LOGOS 27: Mídia e democracia*. Ano 14, 2º semestre: 10-20.

Pimentel Jr., Jairo. 2018. “O dilema de Tostines nas campanhas de TV.” *Valor Econômico*, August 8.

Silveira, Bernardo S. da and João M. P. de Mello. 2011. “Campaign Advertising and Election Outcomes: Quasi-natural Experiment Evidence from Gubernatorial Elections in Brazil.” *The Review of Economic Studies*, 78(2): 590-612.

Speck, Bruno W. and Emerson Urizzi Cervi. 2016. “Dinheiro, Tempo e Memória Eleitoral: Os Mecanismos que Levam ao Voto nas Eleições para Prefeito em 2012.” *DADOS – Revista de Ciências Sociais*, 59(1): 53-90.

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