Brazil car output drops more than forecast in 2012

* Auto output down 1.9 pct from 2011, first drop in a decade

* Production falls 14 pct in Dec on expiring tax breaks

* Temporary stimulus lifts 2012 sales to 6th straight record

SAO PAULO, Jan 7 (Reuters) – Brazil’s auto production plunged more than expected in December, contributing to the first annual decline in output in a decade, as carmakers braced for the end of temporary tax breaks.

Automobile production in Brazil fell 14 percent in December from November, the national automakers’ association, Anfavea, said on Monday. Output contracted 1.9 percent in 2012 from the previous year to 3.34 million vehicles, worse than the 1.5 percent decline Anfavea had forecast at the beginning of December.

Determined to stir Brazil’s economy from a stubborn slump, President Dilma Rousseff has aimed aggressive stimulus at the auto industry, which contributes one-fifth of the country’s industrial output.

Sales have jumped but production has responded more tepidly to the temporary measures, reinforcing calls for deeper-reaching labor and tax reforms.

Auto sales rose 15.3 percent in December from November as consumers took advantage of tax incentives before the government begins to phase them out this year.

Strong December demand helped lift auto sales 4.6 percent in 2012 from the year before to 3.8 million vehicles, the sixth straight year of record sales for the world’s fourth-largest car market.

In May, Rousseff announced an “emergency” tax break for the auto industry, reducing prices for consumers by around 7 percent. Payroll tax cuts have also eased operating costs for Brazilian manufacturers and kept unemployment near historic lows.

But with productivity sliding and some incentives set to expire, carmakers have been hesitant to ramp up production and bet heavily on a sustained recovery.

With sales in Europe plunging and a U.S. recovery still uncertain, Brazil and other major emerging markets have taken center stage in the auto industry’s search for new growth.

The biggest car brands in Brazil – Italy’s Fiat SpA , Germany’s Volkswagen AG and U.S.-based General Motors Co and Ford Motor Co – have fought to keep a combined 70 percent market share, with mixed results.

Fiat and VW extended their first- and second-place leads in 2012, increasing sales of cars and light trucks 11 percent and 10 percent respectively. Third-place GM and fourth-place Ford saw market share slip, as their sales grew 2 percent and 3 percent respectively, slower than the rest of the market.