

The Second GDP Retreat in a Row

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- The 3Q21 GDP data released today pointed to the second decline in a row: the headline index retreated slightly (-0.1% QoQ-sa), below market consensus (0%) and our projection (0.1%), but with significant revisions in the series. Regarding the last two quarters, in the seasonally adjusted series, 1Q21 was up to +1.3% QoQ-sa (from +1.2%), while 2Q21 was cut to -0.3% QoQ-sa (from -0.1%). Regarding the original series, 1Q21 was up to +1.3% YoY (from +1.0%), while 2Q21 was cut to +12.3% YoY (from +12.4%).
- On the supply side, the services sector continued to strengthen (+1.1% QoQ-sa) and surpassed the pre-pandemic mark (up 0.6% in 4Q19). Among the subsectors, Other Services (+4.4%), Public Services (+0.8%), and Transports (+1.2%) were the highlights, while Retail broke a string of four expansions by retreating 0.4%. Industry surprised positively by showing stability (0% QoQ-sa). Manufacturing continued to weaken (-1.0%), while Mining broke a string of three gains (-0.4%); conversely, Construction continued to strengthen, expanding 3.9%. Farm output, a less cyclical sector, was the lowlight, plummeting 8.0% QoQ-sa and reflecting the weak figures in agriculture, exacerbated by the suspension of Chinese meat imports.
- On the demand side, household consumption expanded 0.9% QoQ-sa, still showing some idleness relative to the pre-pandemic mark (down 2.1%). Government consumption expanded 0.8%, in line with the gradual recovery of the provision of public services. Conversely, investments retreated slightly (-0.1%) but still stand well above the pre-crisis mark (up 18%). The external sector dragged down overall activity, reflecting the sharp tumble seen in exports (-9.8%, likely reflecting the decline in farm output), which more than offset the decrease in imports (-8.3%).
- This result implies a 4.8% carryover for 2021 (-0.1% to 2022), and places GDP 0.1% below the pre-pandemic mark. Moreover, the 2020 full-year variation increased to -3.9% from -4.1%. Regarding the current quarter, the negative carryover implied by September's results, high inflation, the weakening in economic confidence, and increasing uncertainty bring challenges for overall activity in 4Q21. However, we still expect sequential GDP growth, stemming mainly from good contributions from mobility-related services segments (e.g., Services to Families), which still show wide idleness relative to the pre-pandemic period, and from a rebound in farm output.



Figure 1. GDP Breakdown*

	2Q21		3Q21		Rolling 4Q	4Q19*	
	Weights	% YoY	% QoQ	% YoY	%	%	
GDP	100%	12.3	-0.3	4.0	-0.1	3.9	-0.1
Supply							
Taxes	15%	16.6	-0.6	6.2	0.3	5.8	1.7
Agriculture	6%	0.1	-2.8	-9.0	-8.0	0.2	-5.2
Industry	21%	16.6	-0.6	1.3	0.0	5.1	1.1
Mining	27%	6.9	6.9	3.5	-0.4	0.2	1.0
Manufacturing	51%	25.3	-2.5	-0.7	-1.0	7.8	0.5
Construction	11%	13.5	2.7	10.9	3.9	5.6	6.5
Utilities	11%	1.5	1.2	-4.6	-1.1	-0.9	-0.7
Services	59%	11.0	0.6	5.8	1.1	3.3	0.6
Retail	23%	20.8	-0.5	2.8	-0.4	7.1	3.0
Transports	6%	25.3	1.1	13.1	1.2	8.0	1.8
Information	5%	15.4	4.8	14.8	2.4	9.6	13.0
Financial	8%	-0.1	-0.1	-1.3	-0.5	1.8	3.4
Other Services	22%	16.6	2.5	13.5	4.4	2.1	-3.8
Rents	14%	3.1	0.1	1.8	0.0	3.0	4.6
Public Services	23%	5.5	-0.1	2.9	0.8	0.1	-3.1
Demand							
Consumption	60%	10.6	-0.2	4.2	0.9	2.1	-2.1
Government	18%	5.8	0.9	3.5	0.8	0.4	-2.2
Investments	19%	33.1	-3.0	18.8	-0.1	20.2	18.0
Exports	21%	14.2	13.7	4.0	-9.8	3.8	1.4
Imports	-18%	20.3	-1.2	20.6	-8.3	10.3	-2.7

*We set our pre-crisis mark at 4Q19. Sources: IBGE, Santander.

The GDP data released today pointed to a technical recession. The headline index retreated 0.1% QoQ-sa (4.0% YoY), below market consensus (0%) and our projection (+0.1%) but with significant revisions in the historical series—as usual in 3Q releases—for both seasonally adjusted (SA) and original series (NSA). Regarding the last two quarters, in the SA series 1Q21 was up to +1.3% QoQ-sa (from +1.2%), while 2Q21 was cut to -0.3% QoQ-sa (from -0.1%). Regarding the NSA series, 1Q21 was up to 1.3% YoY (from +1.0%), while 2Q21 was cut to +12.3% YoY (from +12.4%).

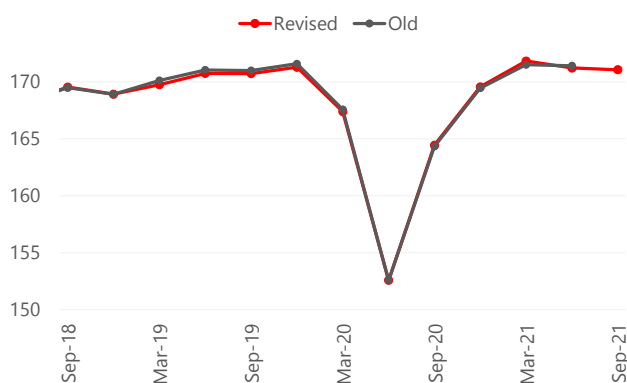
On the supply side, the services sector continued to rebound (+1.1% QoQ-sa). The most important segment of GDP (from a supply standpoint) finally surpassed the pre-pandemic mark (up 0.6%), reinforcing the continued strengthening seen since 2H20, as the economy reopens and mobility returns to “normal” levels. Among the subsectors, Transports (+1.2%), Other Services (+4.4%), and Public Services (+0.8%) were the highlights. It is worth noting that Other Services and Public Services account for nearly 30% of total GDP and still show widespread idleness relative to the pre-pandemic mark (-3.8% and -3.1%, respectively); we expect them to gradually fill these gaps, contributing to GDP growth in the coming quarters. Industry showed stability (0% QoQ-sa), even considering the weak figures seen in Manufacturing (-1.0%) and Mining (-0.4%). The main explanation was the solid growth posted by Construction (+3.9%), reflecting the increase in construction employment and positive figures in construction supplies in the period. The major surprise (to the downside) was the decline in farm output (-8.0% QoQ-sa). This figure reflects crop failures—due to the severe frost seen in the period—and the plunge in livestock output, reflecting the suspension of Chinese meat imports in September.

On the demand side, household consumption was the highlight (+0.9% QoQ-sa). Even considering the ambiguity between services and goods in household spending, the steep climb in the services to families segment boosted private consumption in 3Q21. This segment still shows some idleness relative to the pre-pandemic mark (down 2.1%), and we expect it to recover from 4Q21 onward, on the heels of a recovery in services to families. Government consumption expanded 0.8%, in line with the gradual recovery of the provision of public services (such as public health and education services). Conversely, investments continued to weaken, retreating slightly by 0.1% QoQ-sa but still standing well above the pre-crisis mark (up 18%). The external sector dragged down overall activity (from a demand standpoint), reflecting the tumble in exports (-9.8%), which more than offset the decrease in imports (-8.3%). It is worth noting that this plunge in exports reflects weak figures in agriculture (due to the severe frost in 3Q21) and the suspension in Chinese meat imports.



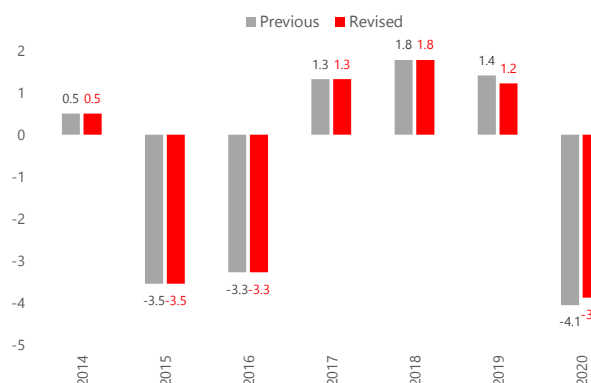
This result implies a 4.8% carryover for 2021 (2020 increased to -3.9% from -4.1%) and places GDP 0.1% below the pre-pandemic mark. Regarding the current quarter, the negative carryover implied by September’s results, high inflation, a weakening in economic confidence, and the increasing uncertainty brings challenges for overall activity in 4Q21. However, we still expect sequential GDP growth, stemming mainly from expectations of good contributions from mobility-related services segments, which still show wide idleness relative to the pre-pandemic period (e.g., Services to Families). **For details on Santander’s outlook, please refer to our last scenario review¹.**

Figure 2 – GDP (sa, index 1995 average =100)



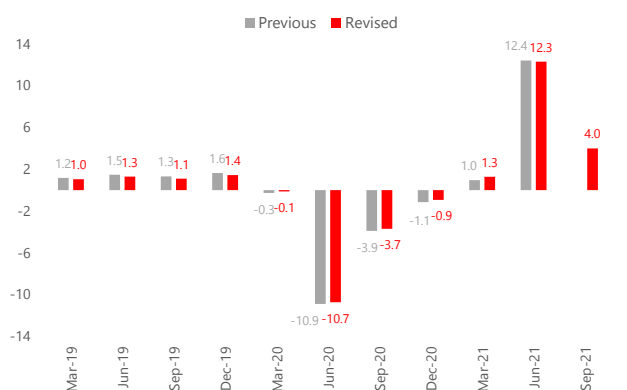
Sources: IBGE, Santander.

Figure 3 – GDP (sa, % QoQ)



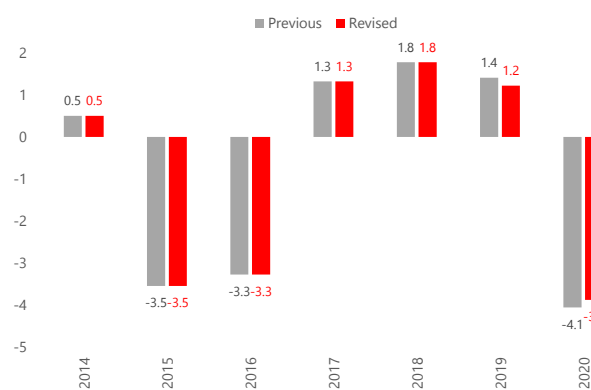
Sources: IBGE, Santander.

Figure 4 – GDP (nsa, % YoY)



Sources: IBGE, Santander.

Figure 5 – GDP (Full-Year %)

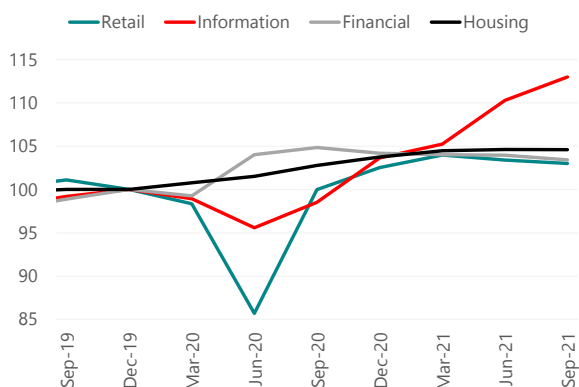


Sources: IBGE, Santander.

¹ Santander Brazil - “Scenario Review – Higher Fiscal (And Inflation) Risks Weigh on the Growth Outlook” – December 02, 2021 – Available on: <https://bit.ly/Std-scenreview-dec21>

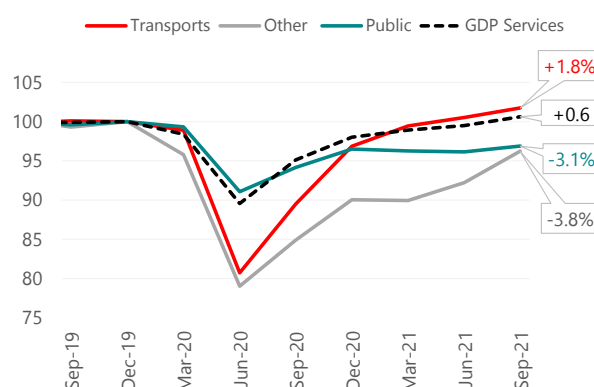


Figure 6 – Segments of Services (sa,4Q19=100)



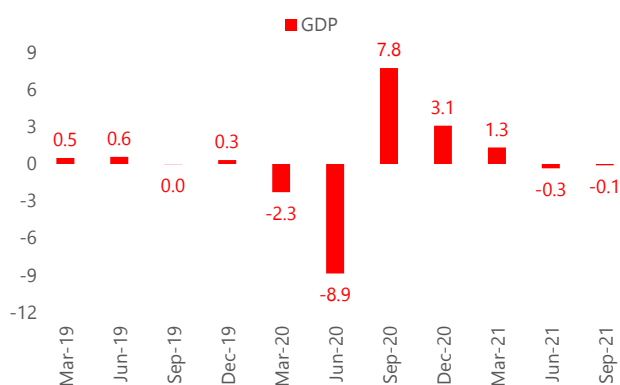
Sources: IBGE, Santander.

Figure 7 – Segments of Services* (sa, 4Q19=100)



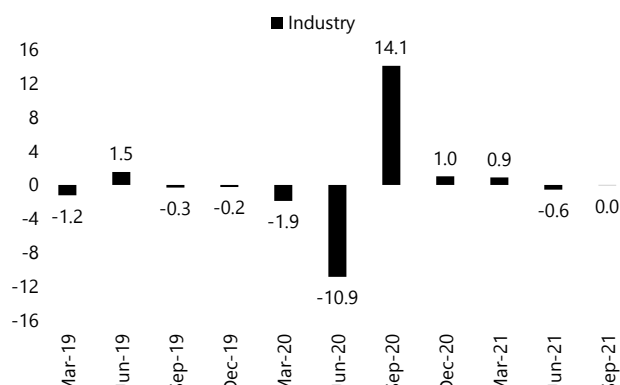
*% change since the pre-crisis mark. Sources: IBGE, Santander.

Figure 8 – Total GDP (QoQ-sa, %)



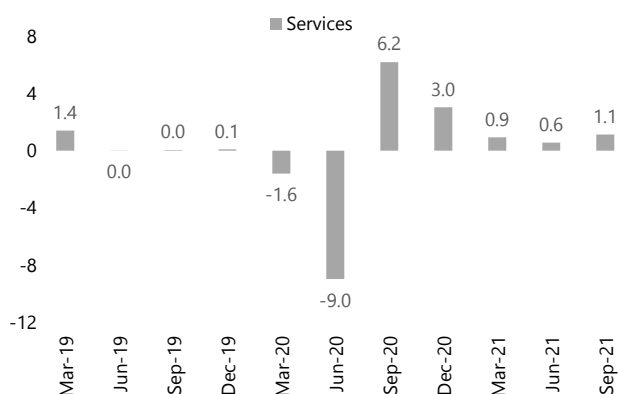
Sources: IBGE, Santander.

Figure 9 – Industry (QoQ-sa, %)



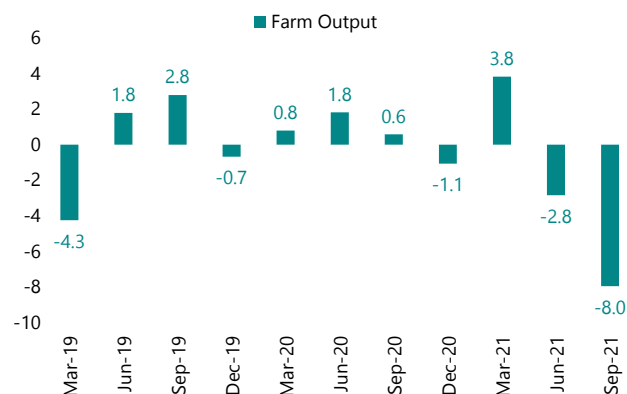
Sources: IBGE, Santander.

Figure 10 – Services (QoQ-sa, %)



Sources: IBGE, Santander.

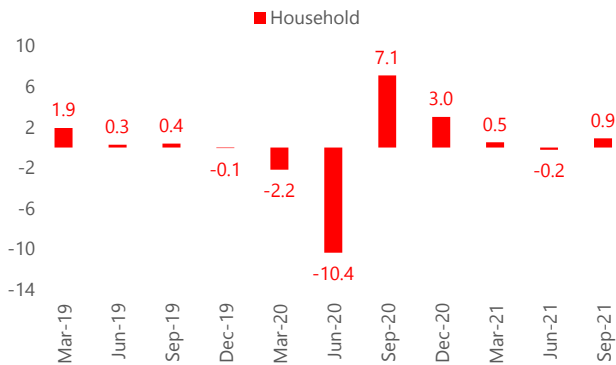
Figure 11 – Agriculture and Livestock (QoQ-sa, %)



Sources: IBGE, Santander.

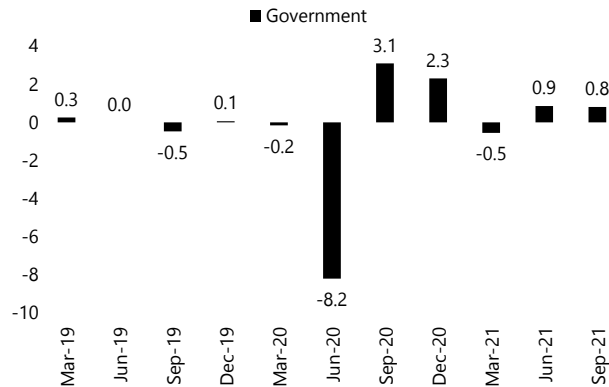


Figure 12 – Household Consumption (QoQ-sa, %)



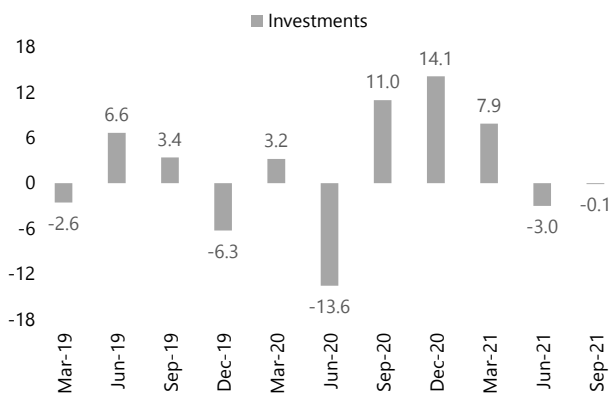
Sources: IBGE, Santander.

Figure 13 – Government Consumption (QoQ-sa, %)



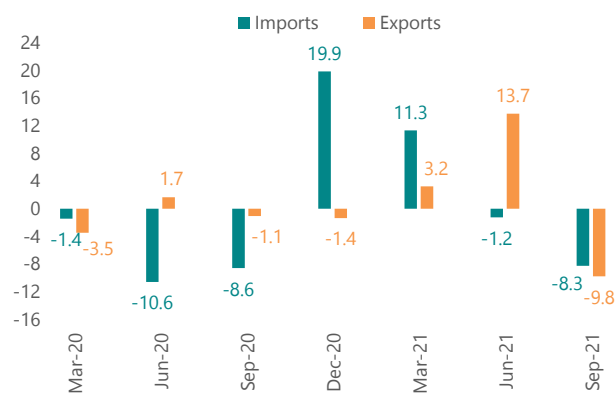
Sources: IBGE, Santander.

Figure 14 – Investments (QoQ-sa, %)



Sources: IBGE, Santander.

Figure 15 – External Sector (QoQ-sa, %)



Sources: IBGE, Santander.



Figure 18 – GDP Quarterly Contributions

	% QoQ-sa							Quarterly Contributions (p.p)						
	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3
GDP	-2.3	-8.9	7.8	3.1	1.3	-0.3	-0.1	-2.3	-8.9	7.8	3.1	1.3	-0.3	-0.1
Supply	YoY													
Taxes	-2.0	-11.1	9.9	4.3	2.1	-0.6	0.3	-0.3	-1.1	1.4	0.7	0.3	-0.1	0.0
Agriculture	0.8	1.8	0.6	-1.1	3.8	-2.8	-8.0	0.1	0.1	0.0	0.0	0.4	-0.2	-0.4
Industry	-1.9	-10.9	14.1	1.0	0.9	-0.6	0.0	-0.3	-2.0	2.7	0.2	0.2	-0.1	0.0
Mining	-2.4	-2.8	3.2	-4.4	1.4	6.9	-0.4	-0.1	-0.1	0.1	-0.1	0.1	0.3	0.0
Manufacturing	-1.0	-18.0	24.4	3.5	-0.4	-2.5	-1.0	-0.1	-1.8	2.6	0.3	0.0	-0.2	-0.1
Construction	-2.5	-7.6	6.8	0.4	3.3	2.7	3.9	-0.1	-0.2	0.2	0.0	0.1	0.1	0.1
Utilities	-2.8	2.0	4.9	-6.2	1.8	1.2	-1.1	-0.1	0.1	0.1	-0.1	0.0	0.0	0.0
Services	-1.6	-9.0	6.2	3.0	0.9	0.6	1.1	-1.0	-5.8	3.8	1.9	0.5	0.3	0.7
Retail	-1.6	-12.9	16.7	2.5	1.4	-0.5	-0.4	-0.2	-1.4	2.1	0.3	0.2	-0.1	-0.1
Transports	-1.1	-18.4	10.9	8.2	2.6	1.1	1.2	0.0	-0.7	0.4	0.3	0.1	0.0	0.0
Information	-1.1	-3.4	3.1	5.2	1.5	4.8	2.4	0.0	-0.1	0.1	0.2	0.0	0.1	0.1
Financial	-0.7	4.8	0.8	-0.6	-0.2	-0.1	-0.5	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Other Services	-4.2	-17.5	7.4	6.1	-0.1	2.5	4.4	-0.6	-2.5	1.0	0.8	0.0	0.3	0.6
Rents	0.8	0.7	1.3	0.9	0.7	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Public Services	-0.7	-8.3	3.4	2.5	-0.2	-0.1	0.8	-0.1	-1.4	0.5	0.4	0.0	0.0	0.1
Demand														
Consumption	-2.2	-10.4	7.1	3.0	0.5	-0.2	0.9	-1.4	-6.3	4.4	1.9	0.3	-0.1	0.5
Government	-0.2	-8.2	3.1	2.3	-0.5	0.9	0.8	0.0	-1.8	0.6	0.5	-0.1	0.2	0.1
Investments	3.2	-13.6	11.0	14.1	7.9	-3.0	-0.1	0.5	-2.1	1.8	2.6	1.6	-0.6	0.0
Exports	-3.5	1.7	-1.1	-1.4	3.2	13.7	-9.8	-0.5	0.3	-0.2	-0.2	0.6	3.1	-2.0
Imports	-1.4	-10.6	-8.6	19.9	11.3	-1.2	-8.3	0.2	1.7	1.3	-3.4	-2.2	0.2	1.5
MEMO (Contribution)														
Inventories (proxy)	-	-	-	-	-	-	-	-1.1	-0.7	-0.1	1.8	1.2	-3.1	-0.3
Domestic	-	-	-	-	-	-	-	-0.9	-10.2	6.8	5.0	1.8	-0.5	0.7
External	-	-	-	-	-	-	-	-0.3	2.0	1.1	-3.7	-1.6	3.3	-0.5

Sources: IBGE, Santander.

Figure 19 – GDP Yearly Contributions

	% YoY							Yearly Contributions (p.p)						
	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3
GDP	-0.1	-10.7	-3.7	-0.9	1.3	12.3	4.0	-0.1	-10.7	-3.7	-0.9	1.3	12.3	4.0
Supply														
Taxes	0.0	-14.0	-5.0	0.0	2.3	16.6	6.2	0.0	-1.4	-0.7	0.0	0.3	2.3	0.9
Agriculture	6.0	4.6	1.6	1.3	6.5	0.1	-9.0	0.4	0.3	0.1	0.1	0.7	0.0	-0.5
Industry	-1.0	-13.2	-0.5	0.9	3.3	16.6	1.3	-0.2	-2.4	-0.1	0.2	0.6	3.2	0.3
Mining	4.5	7.1	1.5	-6.4	-3.0	6.9	3.5	0.1	0.2	0.0	-0.2	-0.1	0.4	0.2
Manufacturing	-1.4	-20.8	-0.1	4.8	5.6	25.3	-0.7	-0.1	-2.1	0.0	0.4	0.5	2.5	-0.1
Construction	-1.8	-13.2	-6.7	-3.4	2.4	13.5	10.9	-0.1	-0.4	-0.2	-0.1	0.1	0.3	0.2
Utilities	-3.5	0.3	4.7	-2.5	2.0	1.5	-4.6	-0.1	0.0	0.1	-0.1	0.0	0.0	-0.1
Services	-0.3	-10.4	-4.8	-1.9	-0.7	11.0	5.8	-0.2	-6.7	-2.9	-1.2	-0.4	6.4	3.4
Retail	0.4	-14.6	-1.3	2.7	4.5	20.8	2.8	0.0	-1.6	-0.2	0.3	0.6	2.7	0.4
Transports	-0.4	-19.6	-10.5	-2.9	0.5	25.3	13.1	0.0	-0.7	-0.4	-0.1	0.0	0.8	0.4
Information	2.7	-2.6	-0.6	3.6	5.2	15.4	14.8	0.1	-0.1	0.0	0.1	0.1	0.4	0.4
Financial	1.3	6.3	6.3	4.0	4.9	-0.1	-1.3	0.1	0.4	0.4	0.2	0.3	0.0	-0.1
Other Services	-3.6	-21.4	-14.4	-9.8	-7.4	16.6	13.5	-0.5	-3.0	-1.9	-1.3	-0.9	2.1	1.8
Rents	2.3	1.8	2.8	3.7	3.7	3.1	1.8	0.2	0.2	0.2	0.3	0.3	0.2	0.1
Public Services	-0.2	-8.9	-5.5	-3.4	-4.2	5.5	2.9	0.0	-1.5	-0.8	-0.6	-0.6	0.8	0.4
Demand														
Consumption	-0.5	-12.1	-6.1	-3.1	-1.7	10.6	4.2	-0.3	-7.4	-3.8	-2.0	-1.0	6.2	2.6
Government	-0.7	-8.6	-5.3	-3.3	-3.9	5.8	3.5	-0.1	-1.9	-1.0	-0.7	-0.7	1.1	0.6
Investments	7.2	-14.0	-7.5	13.2	17.8	33.1	18.8	1.2	-2.1	-1.2	2.4	3.5	6.1	3.6
Exports	-2.7	0.5	-1.0	-4.3	1.0	14.2	4.0	-0.4	0.1	-0.2	-0.7	0.2	3.2	0.8
Imports	5.8	-14.3	-25.0	-3.5	7.5	20.3	20.6	-0.9	2.3	3.7	0.6	-1.4	-3.6	-3.8

Sources: IBGE, Santander.



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