

1Q21 GDP Growth Means Resilience of Activity

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- **The GDP data released today confirmed expectations for solid and resilient growth at the start of 2021.** Brazilian GDP climbed 1.2% QoQ-sa (1.0% YoY) in 1Q21, slightly above our projection (0.9%) and market consensus (0.7%).
- **On the supply side, the services sector expanded by 0.4% (our call: 0.8%), a widespread increase among most of the segments, albeit dragged down by public services and other services (-0.6% and +0.1%, respectively).** Industry showed resilience by growing 0.7% (our call: 0.3%) as the drop in manufacturing (-0.5%) was offset by expansion in mining (3.2%). On the heels of the commodities price hike, agriculture contributed positively by growing 5.7%.
- **On the demand side, widespread positive surprises.** Household consumption surprised to the upside by retreating only 0.1% (our call: -1.3%), despite the weak figures for broad retail sales and services to families in 1Q21. Investments came in positive, climbing 4.6% (our call: -0.1%), while imports expanded sharply, +11.6%.
- **This result implies a carryover of 4.9% to 2021 GDP and virtually places the economy at the pre-crisis mark (4Q19).** We believe the already positive figures for the tertiary sector, along with the materialization of the first effects of the new round of emergency aid, point to better than expected activity in 2Q21. Moreover, although important services segments such as public services and other services are still at depressed levels, we expect them to recover as the economy reopens and the health crisis is surmounted. **Therefore, these figures imply substantial upside risks to our current projection for 2021 GDP (3.6%), above 4% .**

Solid and resilient GDP growth at the start of 2021. The GDP headline index ended 1Q21 by climbing 1.2% QoQ-sa (1.0% YoY), whereas the market consensus was at 0.8% (our call: 0.9%). The surprisingly positive activity releases for 1Q21 showed the resilience of the economy amid the withdrawal of fiscal stimuli and the resurgence of the pandemic, culminating in this quarterly growth. In our view, two main factors explain these surprises. The first one is companies' adaptation to the pandemic environment, with the digitalization of activities and gains in work-from-home productivity amid the expansion of mobility restrictions. The second factor is the spending of part of the household savings accumulated in the past year, especially by those segments of the population with higher income (who did not consume services during the lockdown), softening the effects of the fiscal cliff.

On the supply side, widespread growth. The services sector expanded 0.4%, mainly driven by the more cyclical segments; we highlight transport (3.6%) and retail (1.2%). In contrast, other services and public services posted weak figures, +0.1% and -0.6%, respectively. Given this result, the services sector now runs at readings 1.9% below the pre-crisis mark, and the carryover to 2021 is at a solid 3.0%. Regarding industry, the sector ended the quarter growing 0.7%, mainly due to the mining industry (+3.2%), while manufacturing retreated 0.5%. The latter figure reflects the lingering impact of the pandemic and the widespread shortage of inputs. Moreover, the agricultural sector expanded solidly in the period (+5.7%), with this growth stemming mainly from commodities price hikes.

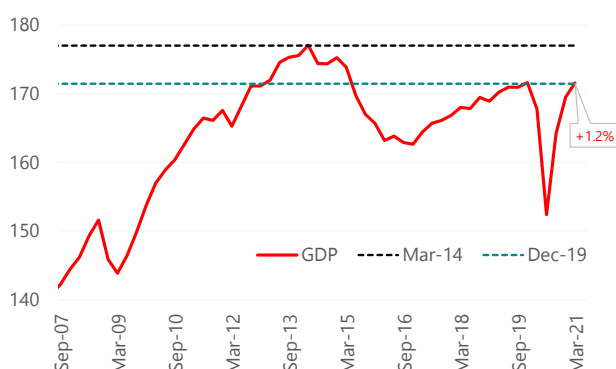
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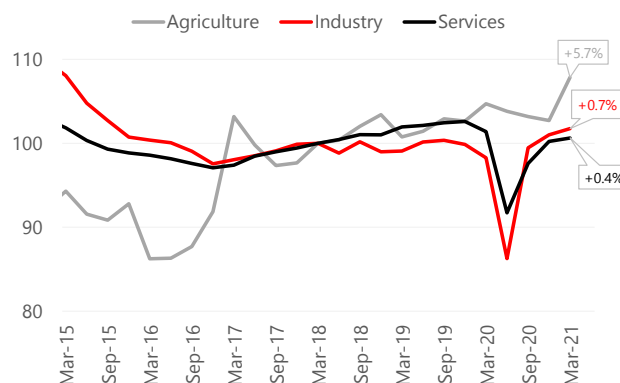


Figure 1 – GDP (sa, index 1995=100)



Sources: IBGE, Santander.

Figure 2 – GDP Supply (sa, index 1Q18=100)



Sources: IBGE, Santander.

Figure 3 – GDP Breakdown*

	1Q21		2021e		Pre-Crisis
	Weights	% YoY	% QoQ	% Carryover	% 4Q19
GDP	100%	1.0	1.2	4.9	0.0
Supply					
Taxes	14%	1.9	2.1	0.1	2.3
Agriculture	10%	5.2	5.7	4.8	5.8
Industry	17%	3.0	0.7	5.7	1.9
Mining	21%	-1.3	3.2	0.1	-3.9
Manufacturing	52%	5.6	-0.5	5.7	4.3
Construction	13%	-0.9	2.1	3.1	-2.9
Utilities	13%	2.1	0.9	2.8	2.4
Services	58%	-0.8	0.4	3.0	-1.9
Retail	21%	3.5	1.2	7.0	3.4
Transports	6%	1.3	3.6	9.3	-1.1
Information	5%	5.5	1.4	5.1	3.7
Financial	10%	5.1	1.7	2.8	5.2
Other Services	21%	-7.3	0.1	2.7	-9.5
Rents	14%	3.9	1.0	2.4	4.6
Public Services	23%	-4.4	-0.6	0.3	-4.5
Demand					
Consumption	60%	-1.7	-0.1	2.9	-3.1
Government	18%	-4.9	-0.8	-0.6	-4.9
Investments	19%	17.0	4.6	20.5	19.3
Exports	18%	0.8	3.7	2.3	-0.7
Imports	-19%	7.7	11.6	18.6	8.1

Sources: IBGE, Santander.

* We set our pre-crisis mark at 4Q19.

On the demand side, some positive surprises. Household consumption surprised to the upside by retreating only 0.1%, which totally mismatches the weak quarterly figures for broad retail sales (-3.9%) and services provided to families (-6.3%) in 1Q21. In comparison to the pre-crisis mark, household consumption now reaches levels 3.1% below 4Q19, and the carryover left to 2021 is at 2.9%. Regarding investments, also a positive surprise: there was a solid growth of 4.6%, after strong 2H20 result (with 4Q20 inflated by accounting effects of oil platforms imports), likely reflecting the resilience of domestic capital goods production amid a drop in confidence and tightening financial conditions. The external sector contributed negatively, with exports climbing 3.7% — not enough to fully offset import's expansion (11.6%). Government consumption retreated by 0.8%. It's important to highlight that, given the negative contribution of external sector and the relatively weak figures of domestic demand (household and government consumption), 1Q21 was boosted by a solid positive contribution of inventories (such as in 4Q20), according to an inventories proxy (+2.0% p.p, in our calculus).



For 2Q21, the risks are to the upside. In our baseline scenario, we have contemplated a weak figure for 1H21 GDP, but already released activity data put solid upside risks to this view. Despite the negative carryover left by March's retreat, the faster than expected increase in mobility since April, along with some positive activity figures for April and May (based on our proprietary index IGet¹) and the materialization of the first effects of the new round of emergency aid suggest strong upside risks to our current forecast (-0.6%), likely reaching a stable figure this quarter. On the negative side, we expect industry to continue to suffer from the lingering impact of the pandemic and the widespread shortage of inputs.

Regarding full-year 2021, the services sector will be the main driver of the recovery. The solid carryover left by first quarter's figure to 2021 reinforces this point. Moreover, relevant services segments, such as public services and other services, are still at depressed levels (4.5% and 9.5% below 4Q19), but they should recovery as the economy reopens and the health crisis is overcome, following further advances in the vaccination campaign. On the other hand, industry should still create something of a drag on the recovery, featuring a recovery with the opposite pattern from recent quarter.

This positive figure for GDP places the index at the pre-crisis mark (4Q19) and implies a solid carryover of 4.9% to 2021. Moreover, we believe the already positive figures for the tertiary sector in 2Q21, along with the materialization of the first effects of the new round of emergency aid, point to better than expected activity in 1H21. Therefore, these figures imply solid upside risks to our current projection for 2021 GDP (3.6%), with 4% mark as a lower bound. **For details on Santander's economic activity scenario, please refer to our last chartbook³.**

Figure 4 – GDP Breakdown (QoQ-sa and YoY-nsa)

	Weights	% QoQ-sa						% YoY					
		19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1
GDP	100%	0.4	-2.2	-9.2	7.8	3.2	1.2	1.6	-0.3	-10.9	-3.9	-1.1	1.0
Supply													
Taxes	14%	-0.8	-1.5	-12.4	10.8	4.8	2.1	2.2	-0.3	-14.5	-5.1	0.2	1.9
Agriculture	10%	-0.8	1.1	0.1	0.5	-1.5	5.7	-1.4	4.0	2.5	0.4	-0.4	5.2
Industry	17%	-0.5	-1.6	-12.2	15.3	1.6	0.7	1.0	-0.3	-14.1	-0.9	1.2	3.0
Mining	21%	2.4	-2.8	-1.9	3.1	-5.2	3.2	4.1	5.5	7.1	1.0	-6.7	-1.3
Manufacturing	52%	-0.1	-0.9	-18.9	24.6	4.7	-0.5	0.8	-1.1	-20.9	-0.2	5.0	5.6
Construction	13%	-3.6	-3.2	-7.5	6.5	-0.2	2.1	0.0	-1.6	-13.6	-7.9	-4.8	-0.9
Utilities	13%	1.3	0.2	-6.0	8.8	-1.0	0.9	-1.0	-1.1	-5.5	3.8	1.5	2.1
Services	58%	0.1	-1.2	-9.5	6.4	2.7	0.4	1.8	-0.7	-10.2	-4.8	-2.2	-0.8
Retail	21%	-1.0	-1.2	-13.1	16.2	2.4	1.2	2.1	0.7	-14.4	-1.3	2.5	3.5
Transports	6%	-0.2	-2.2	-19.1	13.5	6.4	3.6	0.8	-1.5	-20.7	-10.4	-4.3	1.3
Information	5%	0.1	-1.6	-2.9	3.2	3.7	1.4	5.3	1.3	-3.4	-1.3	2.4	5.5
Financial	10%	1.9	0.1	2.1	1.4	-0.2	1.7	3.2	1.1	5.7	6.0	3.1	5.1
Other Services	21%	0.0	-3.6	-17.0	7.1	5.6	0.1	2.2	-3.6	-20.8	-14.4	-9.4	-7.3
Rents	14%	0.1	0.7	0.8	1.1	0.9	1.0	1.3	2.0	1.8	2.7	3.5	3.9
Public Services	23%	0.2	-1.3	-7.1	3.0	1.7	-0.6	0.3	-1.1	-8.4	-5.4	-3.8	-4.4
Demand													
Consumption	60%	0.1	-1.5	-11.4	7.6	3.2	-0.1	2.3	-0.7	-12.2	-6.0	-3.0	-1.7
Government	18%	-0.3	-0.2	-7.8	3.3	0.9	-0.8	-0.1	-0.8	-8.5	-5.3	-4.1	-4.9
Investments	19%	-2.6	1.7	-16.1	11.3	20.0	4.6	0.5	6.0	-13.9	-7.8	13.5	17.0
Exports	18%	2.3	-2.9	1.5	-1.7	-1.1	3.7	-4.8	-2.4	0.7	-1.1	-4.3	0.8
Imports	-19%	-7.0	-1.0	-11.4	-7.3	19.3	11.6	0.6	5.2	-14.6	-25.0	-3.1	7.7

Sources: IBGE, Santander.

¹ Santander Brazil Economic Activity - "IGet Serviços: Um Trimestre Aparentemente Promissor" – May 19, 2021 - Available (in Portuguese) on: <http://bit.ly/Iget-serv-previa-mai21>

² Santander Brazil Economic Activity - "IGet: Varejo Segue Apresentando Bom Desempenho" – May 21, 2021 - Available (in Portuguese) on: <http://bit.ly/Std-IGet-210521>

³ Santander Brazil Economic Activity - "Chartbook – Positive Surprises with Risks On The Upside" – May 25, 2021- <http://bit.ly/Std-chart-econact-may21>



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