

Weak Industrial Output at the Start of 3Q21

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- **Industrial production had a weak start in 3Q21.** The headline index was down by 1.3% in July (with June revised to -0.2% from flat), below the market consensus (-0.7%) and our estimate (-1.0%). July's figure stems from decreases in both manufacturing (-1.2%) and mining (-1.2%).
- **Looking at the breakdown, durable goods stood out by retreating 2.7%, while intermediate goods were down 0.6%, the fourth decline in a row.** Conversely, capital goods showed resilience by expanding 0.3%, the fourth gain in a row.
- **July's figure brought industrial production back to levels below the pre-pandemic mark: the index is down by 2.1% since February 2020.** Moreover, in quarterly terms, this result implies a -1.0% carryover for 3Q21, marking a weak start to the quarter for the industrial sector. Indeed, we expect industry to continue to be a short-term drag on activity, as it is still suffering from the shortage of inputs. **We are updating our IBC-Br tracking for July to +0.2% MoM-sa from +0.3%.**

Figure 1 – Industrial Production Breakdown

	% MoM			% YoY			% QoQ		
	May-21	Jun-21	Jul-21	May-21	Jun-21	Jul-21	May-21	Jun-21	Jul-21
Total Industry	1.2	-0.2	-1.3	24.1	12.0	1.1	-3.8	-3.0	-1.4
Mining	1.7	-0.5	-1.2	11.6	4.2	-2.7	4.2	4.6	3.9
Manufacturing	1.2	-0.7	-1.2	25.9	13.1	1.8	-4.7	-3.9	-2.2
Capital Goods	0.8	1.6	0.3	73.4	54.3	33.1	-4.9	-1.6	1.6
Intermediate Goods	-0.7	-0.7	-0.6	18.1	10.8	0.2	-1.2	-1.9	-2.2
Consumer goods	1.6	-1.3	-0.4	28.1	6.6	-3.6	-11.6	-8.1	-3.9
Durable	-2.3	-1.0	-2.7	150.9	31.3	-10.3	-13.2	-9.3	-7.0
Non-Durable	3.8	-1.7	0.2	14.1	2.1	-2.0	-9.1	-5.9	-1.5
Construction Supplies	-1.1	-1.4	-1.5	34.2	17.1	3.0	-1.7	-2.0	-3.0

Sources: IBGE, Santander.

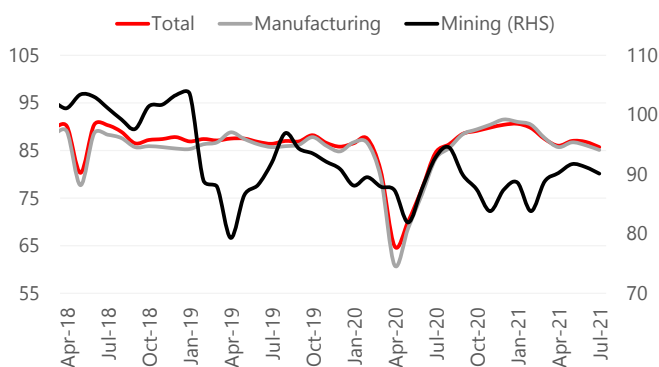
Industrial production marked a weak start to 3Q21. The headline index fell 1.3% MoM (1.1% YoY), below the market consensus (-0.7%) and close to our call (-1.0%). July's figure stems from decreases in both manufacturing and mining (both down by 1.2%), in line with the declining figures for important coincident indexes (e.g., road flow and vehicle production). This result brought industrial production back to levels below those seen before the outbreak of the COVID-19 pandemic (we set our mark at 4Q19): i.e., down by 2.1% since the pre-crisis mark. Moreover, in quarterly terms, July's result implies a -1.0% carryover for 3Q21, and we expect the industrial sector to keep dragging down activity (albeit less intensely) this quarter, reflecting the cost increases and widespread shortage of inputs seen in manufacturing.



Among the economic categories, durable goods stood out by retreating 2.7%, the seventh decline in a row. Moreover, durable goods are running at notably depressed levels: down by 18.2% since the pre-crisis mark. Intermediate goods were down by 0.6%, the fourth drop in a row, but still above February 2020's mark. Capital goods showed resilience by expanding 0.3%, the fourth consecutive gain and continuing to run at high levels (up by 16% since the pre-crisis mark). Construction supplies (also related to investments as capital goods) fell 1.5% (the fifth weak figure), but still are running at high levels (up by 13.9% since the pre-crisis mark). Among industrial activities, other transport equipment (except vehicles) and beverages were down by 15.6% and 10.2%, respectively, while vehicle production retreated 2.8% (the seventh consecutive weak figure). The diffusion index (which captures the percentage of industrial activities that show monthly increases) was down to 28% (44% in June), highlighting a quite widespread drop.

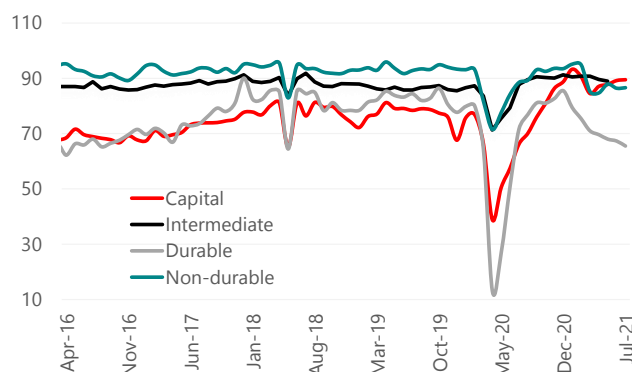
We expect industry to keep acting as a short-term drag on activity, but not due to lack of demand. Following the second quarter's weak figure (Industrial GDP was down by 0.2%), cost increases and the widespread shortage of inputs should weigh on production this quarter, in our view. Indeed, despite low inventory levels and the increase in external demand, supply-chain constraints are compromising production. **We are updating our IBC-Br tracking for July to +0.2% MoM-sa from +0.3%. For details on Santander's activity outlook, please refer to our last chartbook¹.**

Figure 2.A. – Industrial Production Index (sa, 2012=100)



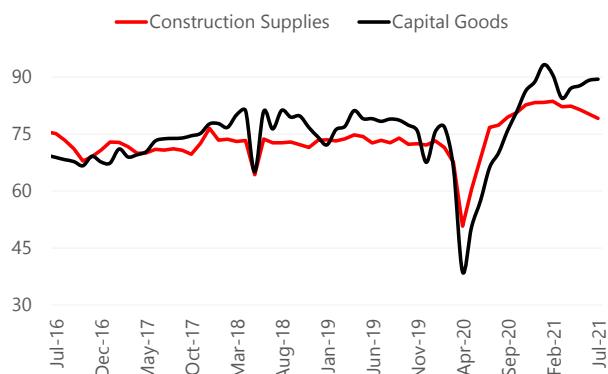
Sources: IBGE, Santander.

Figure 2.B. – Economic Categories Index (sa, 2012=100)



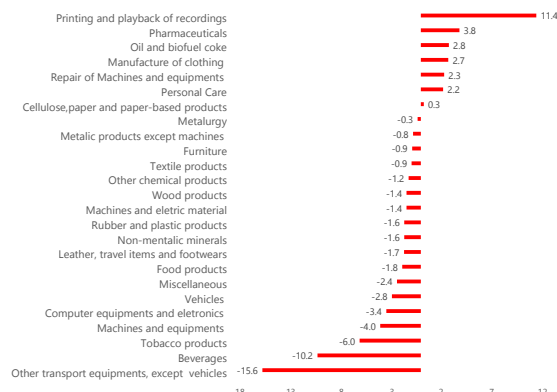
Sources: IBGE, Santander.

Figure 3.A. – Industrial Production Related to Investment (sa, 2012=100)



Sources: IBGE, Santander.

Figure 3.B. – Industrial Production by Activity (sa, MoM %)

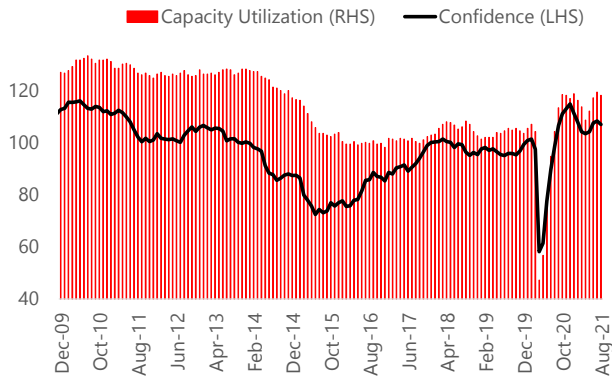


Sources: IBGE, Santander

¹ Santander Brazil Economic Activity - "Chartbook – A Brighter Outlook for Mobility and Services" – August 18, 2021 - Available on: <https://bit.ly/Std-chart-econact-aug21>

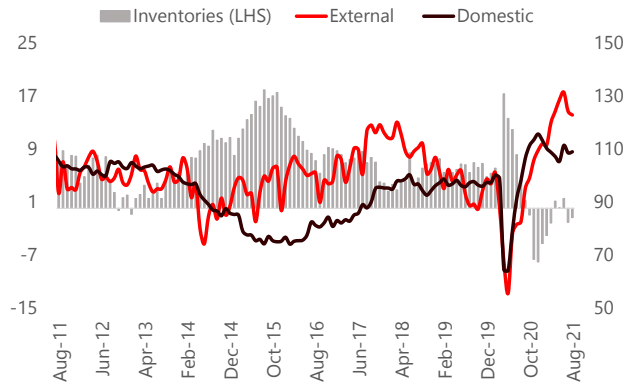


Figure 4.A. – Confidence (points, sa) x Capacity Utilization (% , sa)



Sources: FGV, Santander.

Figure 4.B. – Inventories Perception (Excessive-Insufficient) and Demand (points, sa)



Sources: FGV, Santander.

Figure 5 - Heatmap Showing Industrial Production by Activity

	By Activity (% MoM sa)											
	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
Food products	-0.58	1.65	-4.68	-2.81	-4.02	2.58	0.00	0.10	-3.56	2.61	-2.01	-1.84
Oil and biofuel coke	3.54	1.01	-1.39	-0.91	-1.33	-1.34	-0.63	2.53	-9.66	2.84	4.31	2.76
Vehicles	15.36	13.80	3.42	9.93	3.76	-0.48	-7.90	-9.50	1.17	-0.29	-3.61	-2.85
Metalurgy	3.70	4.34	2.93	1.66	20.91	-13.53	1.68	-0.44	0.33	2.53	0.86	-0.32
Other chemical products	-1.45	-0.11	-3.06	5.77	0.41	0.41	2.55	-3.48	0.62	2.77	-1.10	-1.21
Machines and equipments	0.81	12.70	2.25	3.71	6.15	-2.21	2.69	-0.84	2.22	-1.86	2.74	-4.00
Metalic products except machines and equipments	4.00	2.11	1.82	2.15	5.14	-2.56	-4.33	-1.07	-4.46	1.01	-2.62	-0.77
Non-mentalic minerals	4.01	4.56	1.90	0.66	0.87	0.86	-0.54	-2.48	1.99	-0.54	-0.54	-1.64
Rubber and plastic products	4.69	2.46	1.97	1.61	3.16	-1.12	-0.10	-3.73	-3.33	-4.12	-1.04	-1.64
Beverages	-2.74	0.19	-1.88	3.06	7.34	-0.70	-1.31	-5.62	4.77	4.65	1.88	-10.18
Cellulose,paper and paper-based products	0.57	3.61	-0.82	0.18	-2.49	5.11	0.63	0.27	-2.94	-0.28	-3.50	0.29
Machines, equipments and eletric material	0.13	5.59	0.00	2.65	0.00	1.06	-1.39	-2.47	-3.74	-0.13	-2.38	-1.41
Computer equipments, eletronics and optical products	0.90	4.69	-0.61	-2.07	5.97	-10.33	1.18	-0.65	-3.65	0.81	2.28	-3.41
Pharmaceuticals	-7.73	6.19	4.23	-9.98	8.53	-0.45	-2.14	-7.49	-0.12	7.36	0.81	3.80
Manufacture of clothing and accessories	12.68	12.56	5.36	8.67	9.11	1.28	-4.47	-23.26	-1.72	7.00	-0.89	2.70
Leather, travel items and footwears	13.44	16.25	4.86	5.76	-3.21	1.55	-6.85	-14.12	-4.62	6.41	5.35	-1.65
Textile products	9.38	5.30	2.28	1.76	15.07	-2.60	-9.55	-6.36	-5.82	-2.32	0.53	-0.92
Other transport equipments, except motor vehicles	-7.32	0.90	-4.03	14.22	-6.94	-16.67	6.84	34.98	-0.36	-2.93	11.13	-15.62
Repair of Machines and equipments	-3.38	3.50	-0.15	1.47	1.31	-6.30	1.99	5.40	-0.71	-3.15	-3.25	2.29
Furniture	3.19	0.48	-1.42	-2.16	1.10	2.55	-0.95	-9.32	-8.17	5.45	-4.76	-0.86
Personal Care	-7.24	2.38	-4.28	-0.58	0.29	3.80	-3.56	0.00	-2.72	1.20	-0.99	2.20
Wood products	-0.60	5.13	3.44	0.28	-0.92	-2.61	-1.34	4.65	2.69	-5.41	1.24	-1.41
Printing and playback of recordings	-12.70	5.22	22.34	23.77	-2.81	4.34	8.55	19.15	-32.86	-2.39	3.00	11.38
Miscellaneous	5.90	-1.70	4.39	1.55	-0.22	14.32	-8.80	0.21	-3.77	-0.33	-3.47	-2.36
Tobacco products	0.58	20.59	-16.79	-2.96	9.52	-13.41	13.01	3.40	-5.73	-1.12	-3.98	-6.04

Sources: IBGE, Santander.

Figure 6 - Heatmap Showing Industrial Production by Economic Category

		By Activity (% MoM sa)											
		Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
Capital Goods	Computer equipments, eletronics and optical products	4.0	3.2	-1.6	4.2	26.1	-14.3	5.4	-4.2	-5.8	10.9	5.2	-5.9
	Machines, equipments and eletric material	4.8	3.4	4.3	4.6	-1.7	0.4	-6.9	3.4	-1.4	-0.2	-5.9	-4.3
	Machines and equipments	6.5	7.6	3.7	10.0	-2.1	1.7	1.2	-2.5	-0.2	0.6	2.7	-1.7
	Vehicles	-4.0	40.6	4.1	10.9	11.8	-2.7	2.6	-3.4	1.3	4.4	4.4	3.0
	Other transport equipments, except motor vehicles	-35.2	8.5	-11.6	9.9	26.0	-23.8	20.9	-2.2	-6.5	23.5	0.2	4.4
	Miscellaneous	-3.4	1.4	-2.1	-1.0	3.6	-0.7	0.4	-4.3	2.8	-3.0	-4.8	-3.6
Intermediate Goods	Mining	0.7	-4.9	-2.6	-3.0	2.6	2.9	-1.3	0.3	3.0	0.5	-0.1	-1.9
	Food products	-0.5	3.2	-4.7	-6.6	-3.0	0.0	2.0	0.3	-3.1	0.6	-2.9	0.5
	Textile products	11.3	5.7	3.1	1.7	6.0	-0.4	-4.3	-1.5	-4.8	-2.8	-1.2	-6.6
	Cellulose,paper and paper-based products	0.0	3.5	-0.8	-0.1	-1.3	4.2	0.7	-1.3	-1.4	1.2	-3.2	-1.0
	Oil and biofuel coke	2.7	-1.7	-0.6	-0.4	-1.5	-3.5	0.9	4.2	-12.6	-1.3	9.4	4.6
	Other chemical products	0.0	0.3	-3.1	5.7	0.3	1.5	2.3	-3.5	-2.7	3.4	-0.8	-1.4
	Rubber and plastic products	3.0	2.9	1.8	1.2	4.8	-2.5	-0.8	-2.0	-2.3	-4.2	0.1	-3.3
	Non-mentalic minerals	2.0	6.8	0.1	0.2	1.7	-0.1	-0.3	-0.9	1.7	-1.5	1.7	-1.9
	Metalurgy	3.2	5.2	2.2	1.2	17.2	-10.5	2.6	-0.2	-0.7	4.7	0.2	-0.3
	Metalic products except machines and equipments	2.7	1.1	3.6	1.9	3.3	0.3	-4.0	-0.8	-1.6	-1.3	-2.7	-1.6
	Machines and equipments	4.5	10.9	2.1	-0.2	7.5	-4.2	0.9	3.4	-2.0	4.2	-1.2	-3.5
	Vehicles	7.8	17.7	-1.4	6.2	12.7	-12.6	-2.5	-4.8	-3.4	-0.3	3.9	-8.1
Durable Goods	Computer equipments, eletronics and optical products	0.8	5.2	3.0	5.0	-3.8	-9.3	-3.1	0.4	-1.4	-0.3	3.1	-4.0
	Machines, equipments and eletric material	-2.5	6.1	-1.3	-4.8	-8.1	-21.6	2.2	6.0	-1.9	-1.1	5.2	1.5
	Vehicles	-0.5	8.1	-2.8	-2.7	1.9	-4.1	1.6	-2.3	-4.4	-5.5	6.2	-4.2
	Other transport equipments, except motor vehicles	12.1	17.1	3.5	3.8	4.6	-2.4	-6.4	-16.3	-0.8	-8.8	1.3	-15.0
	Furniture	-8.3	24.8	-17.2	20.6	-2.9	-37.4	9.3	71.5	-7.5	-7.1	16.6	-18.7
	Miscellaneous	4.0	-4.7	0.1	-3.8	-0.2	3.2	-1.3	0.3	-10.3	4.4	-3.6	-1.4
Non Durable Goods	Miscellaneous	-3.8	20.1	1.9	1.6	-4.8	6.6	5.2	13.9	-11.0	0.5	-0.4	-1.6
	Food products	-1.8	0.9	-1.4	0.0	-2.1	-0.4	-2.1	0.4	-1.2	1.9	-0.2	-4.3
	Beverages	-0.6	-1.3	-0.5	0.3	-0.4	-1.3	-0.9	-0.2	-5.7	2.5	-2.9	-0.7
	Textile products	3.8	6.3	-2.1	-0.9	7.8	0.4	-3.9	-8.2	-5.0	2.2	1.8	-0.4
	Manufacture of clothing and accessories	11.2	11.8	3.6	9.0	9.8	0.2	-7.5	-13.4	-10.7	12.1	-0.8	1.6
	Leather, travel items and footwears	14.0	20.3	6.7	9.8	-6.1	3.1	-10.3	-16.1	-8.3	7.8	7.5	-3.7
	Printing and playback of recordings	-25.7	-10.8	35.5	32.6	-19.4	6.3	-33.9	19.4	-34.8	-17.7	-19.5	26.2
	Oil and biofuel coke	3.0	5.7	-5.8	0.7	-2.5	5.9	-2.8	-6.5	3.2	6.9	-2.7	0.9
	Personal Care	-6.9	1.9	-4.4	-1.2	0.1	-1.7	1.0	-3.8	2.2	-1.8	1.6	1.6
	Pharmaceuticals	-9.3	9.9	3.5	-13.8	16.6	-4.6	1.4	-8.5	-1.7	8.2	1.8	4.0
	Miscellaneous	-0.6	-1.3	-0.5	0.3	-0.4	-1.3	-0.9	-0.2	-5.7	2.5	-2.9	-0.7

Sources: IBGE, Santander.



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