

Broad Activity Surprised to Upside in June

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- **The Brazil Central Bank's (BCB) activity indicator (IBC-Br) surprised to the upside in June.** The headline index leapt 1.1% MoM-sa, above market consensus and our call (0.5% and 0.8%, respectively), but with May's figure being downward revised in the seasonally adjusted series (to -0.6% from -0.4%). Notwithstanding the positive surprise, June's figure was not enough to fully erase March's losses (-2.0%).
- **June's result brought the economy back to levels above the pre-pandemic mark (up by 0.8% since February-2020), according to this indicator.** This monthly growth likely stems mainly from the services output, since industry and retail sales posted weak figures. Less cyclical activity sectors like agriculture and health services also could have contributed positively.
- **Despite solid growth at the margin, it was not enough to avoid a virtually flat quarterly figure in 2Q21 (up by 0.1%).** While in qualitative terms this is still in line with our expectations of a modest GDP figure in 2Q21, the result imparts a little upside risk to our current projection (0.0% QoQ-sa).

Figure 1 – Economic Activity Breakdown

	% MoM			% YoY			% QoQ		
	Apr-21	May-21	Jun-21	Apr-21	May-21	Jun-21	Apr-21	May-21	Jun-21
IBC-Br	0.9	-0.6	1.1	16.5	14.2	9.1	1.2	-0.3	0.1
Industrial Production	-1.5	1.4	0.0	34.7	24.1	12.0	-2.6	-3.5	-2.5
Core Retail Sales	2.5	2.7	-1.7	23.6	15.9	6.2	-1.8	1.5	3.0
Broad Retail Sales	4.0	3.2	-2.3	40.9	26.2	11.5	-1.2	0.1	3.0
Services Sector	1.0	1.7	1.7	20.1	23.3	21.2	2.7	0.9	2.0

Sources: IBGE, BCB, Santander.

The IBC-Br surprised to upside in June, despite negative figures in industry and retail sales. The BCB published its monthly activity indicator for June, capping the batch of activity index releases for the month. The headline index leapt 1.1% on a sequential basis, considerably above market consensus (0.5%), likely reflecting the strong services output seen in June (up by 1.7%, well above the 0.6% market consensus), since the goods sector (industry and retail sales) dragged down activity this period. May's figure was downward revised from -0.4% to -0.6%, but, despite the lower basis of comparison, this revision was not enough to fully explain the gap between actual and estimate values.

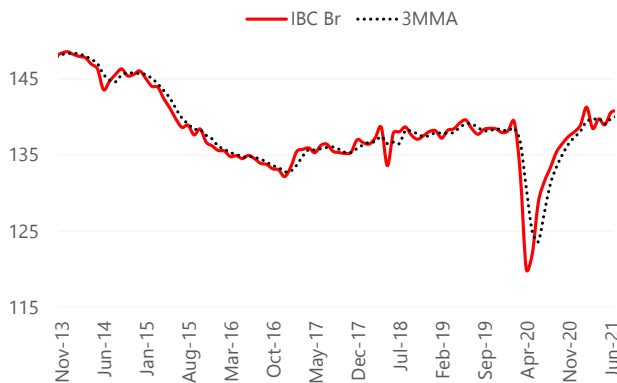


Less cyclical activity sectors could have played an important role in June’s positive surprise. The IBC-Br is compounded not only by economic cyclical sectors indexes like industry, retail sales and cyclical services but also by less cyclical activities like agriculture, health and education services. Indeed, livestock slaughter data, along with the increase in the provisions for health and educational services (public and private ones), could have boosted activity in June.

June’s figure was not enough to avoid a virtually flat quarterly figure in 2Q21. Despite solid growth at the margin, the IBC-Br slightly increased 0.1% in 2Q21. While in qualitative terms it is still in line with our expectation of a modest GDP figure for the second quarter, the result implies a little upside risk to our current projection (0% QoQ-sa). We expect the agricultural sector to partially give back 1Q21’s strong positive contribution (almost 0.6 p.p), which, along with the weak outcome expected for the industrial sector, should be a drag on the economic recovery in 2Q21, partially offsetting tertiary sector’s outcome.

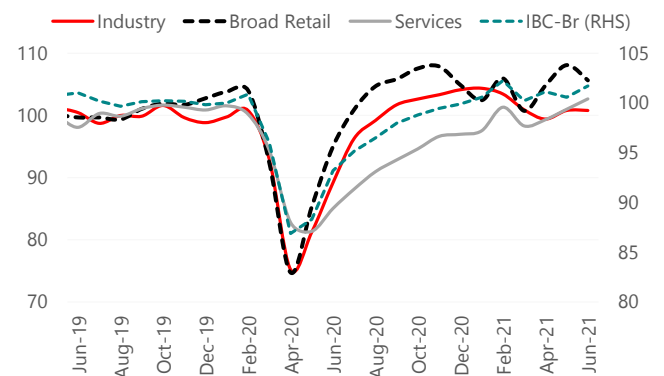
Looking ahead, June’s figure implies a 0.6% carryover for 3Q21. This result put some upside risks to our 2H21 scenario, at least for 3Q21. In our view, the services sector should be the main driver of economic activity resumption, while the goods sectors (mainly manufacturing) should continue to weigh on activity this semester.

Figure 2.A – IBC-Br (sa, 2003=100)



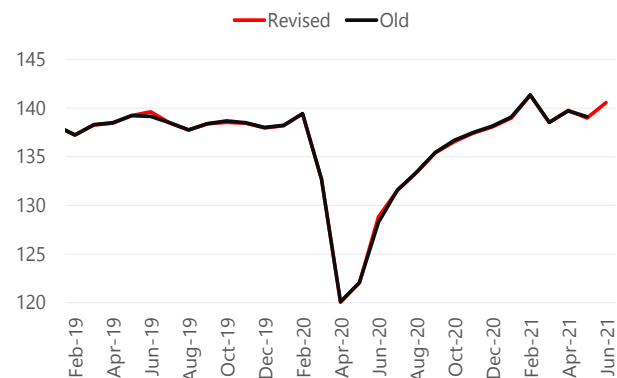
Sources: BCB, Santander.

Figure 2.B – Activity Indexes (sa, January 2019=100)



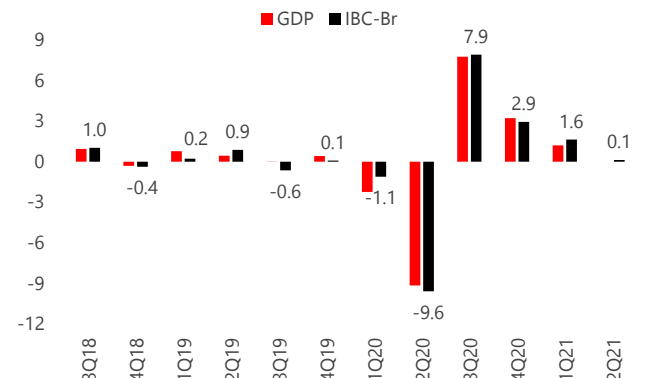
Sources: IBGE, BCB, Santander.

Figure 3.A – IBC-Br (sa, 2003=100)



Sources: BCB, Santander.

Figure 3.B – GDP vs IBC-Br (sa, QoQ%)



Sources: IBGE, BCB, Santander.



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