

Weak Start of 2Q21 for Broad Activity

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- **The BCB's activity indicator surprised negatively in April.** The headline index was up by 0.4% MoM-sa (15.9% YoY), considerably below the market consensus (1.3%) and in line with our call (0.8%).
- **April's figure placed the economy at a level 0.2% above the pre-crisis mark, after it fell slightly below that with the retreat in March.** Regarding the key sectors, this monthly expansion reflects the positive surprises seen in the tertiary sector, with services and broad retail sales climbing 0.7% and 3.8%, respectively, but the result was dragged down by the tumble in industrial production (-1.3%). Agriculture's weak number may also have contributed negatively.
- **The monthly growth was not enough to offset March's retreat (-1.6%) and left a carryover of -0.1% to 2Q21.** We believe this result reinforces the likelihood of a weak figure for 2Q21 GDP, in line with our tracking of -0.3% QoQ-sa (+12% YoY) and +4.8% for 2021.

Figure 1 – Economic Activity Breakdown

	% MoM			% YoY			% QoQ		
	Feb-21	Mar-21	Apr-21	Feb-21	Mar-21	Apr-21	Feb-21	Mar-21	Apr-21
IBC-Br	1.7	-1.6	0.4	0.2	5.3	15.9	2.2	1.7	1.3
Industrial Production	-1.0	-2.2	-1.3	0.3	10.4	34.7	1.3	-0.5	-2.5
Core Retail Sales	0.7	-1.1	1.8	-3.9	2.2	23.7	-5.8	-4.2	-1.7
Broad Retail Sales	3.4	-5.0	3.8	-1.9	9.8	40.9	-2.7	-3.6	-1.4
Services Sector	3.9	-3.1	0.7	-1.8	4.5	19.8	3.6	2.8	2.4

Sources: IBGE, BCB, Santander.

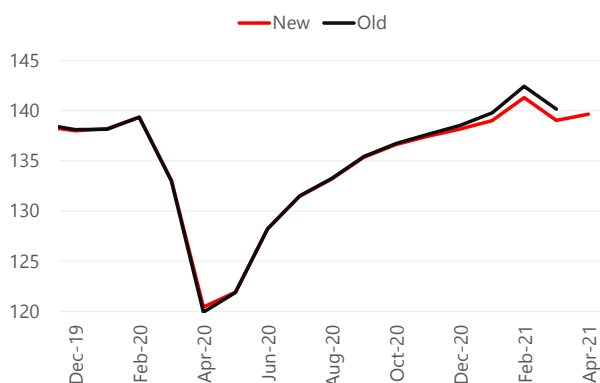
Following positive surprises in the tertiary sector, the IBC-Br disappointed in April. The BCB published its monthly activity indicator for April, capping the batch of activity index releases for the month. The headline index expanded slightly, up by 0.4% MoM-sa (15.9% YoY), considerably below the market consensus (1.3%), but in line with our call of 0.8%. Regarding the impact of the pandemic, April's figure placed the economy at a level 0.2% above the pre-crisis mark, according to this indicator. It is worth highlighting that the series has been revised downward considerably since September 2020, implying a lower 1Q21 level than was initially reported.



Among the key sectors, April's growth stemmed mainly from the tertiary sector, while industry and agro seem to have been the main factors causing a drag on the expansion. The positive surprises seen in the tertiary sector (services and broad retail sales up by 0.7% and 3.8%, respectively) likely motivated the market's upward estimate revisions, even considering the monthly tumble experienced by industrial production (-1.3%). In our view, the gap between actual data and estimates stems mainly from the agricultural sector, which was the main factor behind the positive surprises seen in 1Q21 but which we believe will partially give back its previous positive contribution during the current quarter.

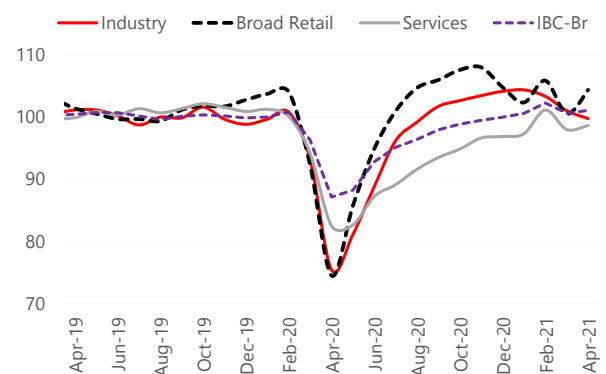
This result reinforces the likelihood of a weak figure for 2Q21 GDP. Our tracking stands at -0.3% QoQ (+12% YoY), but we recognize upside risks given the sequential growth of the tertiary sector already indicated by our proprietary index (IGet) this quarter, on the heels of the payment of the new round of emergency aid (see details in the link²). For 2021, our tracking stands at 4.8%. As described above, we expect the agricultural sector to partially give back the strong positive contribution seen in 1Q21, which, along with the weak outcome expected for the industrial sector, should be a drag on the economic recovery in 2Q21. For details on Santander's economic activity scenario, please refer to our last chartbook³.

Figure 2.A – IBC-Br (sa, 2003=100)



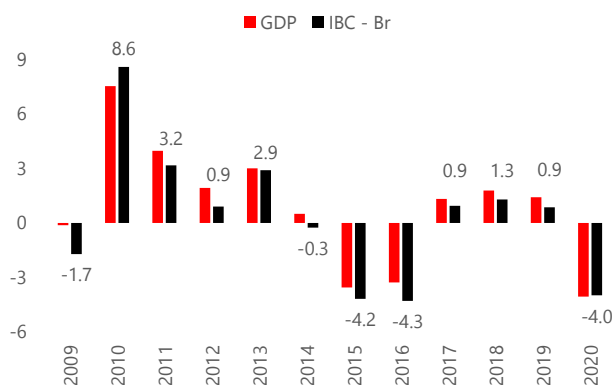
Sources: BCB, Santander.

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



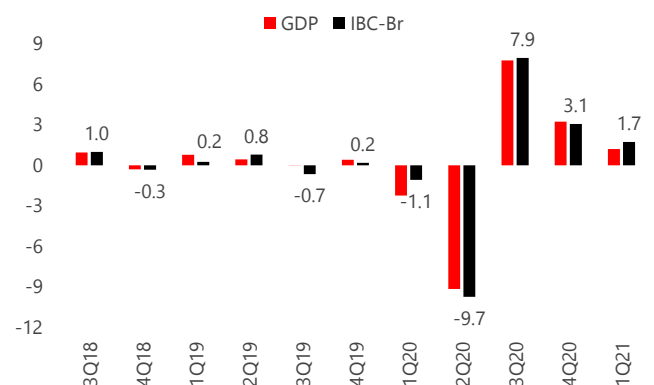
Sources: IBGE, BCB, Santander.

Figure 3.A – GDP vs IBC-Br (Full-Year %)



Sources: IBGE, BCB, Santander.

Figure 3.B – GDP vs IBC-Br (sa, QoQ%)



Sources: IBGE, BCB, Santander.

¹ Santander Brazil Economic Activity - "IGet Maio: Varejo Segue em Recuperação" – June 08, 2021 – Available (in Portuguese) on: <http://bit.ly/Std-IGET-may21>

² Santander Brazil Economic Activity - "IGet Maio: Serviços Seguem em Recuperação" – June 10, 2021 – Available (in Portuguese) on: <https://bit.ly/Std-IGETser-mai21>

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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