

Broad Activity's Negative May Surprise

Gabriel Couto*
 gabriel.couto@santander.com.br
 +5511 3553 8487

- **The Brazil Central Bank's (BCB) activity indicator (IBC-Br) surprised negatively in May.** The headline index was down by 0.4% MoM-sa (14.2% YoY), well below market consensus and our call (both at +1.1% MoM-sa). March and April results have been revised in the seasonally adjusted series (-2.0% and +0.9% respectively, from -1.6% and +0.4%), but with little implications for quarterly growth and May's result.
- **May's figure placed the economy at levels 0.2% below the pre-crisis mark, according to this indicator.** The monthly contraction happened despite the positive figures seen both in the tertiary sector, with services and broad retail sales climbing 1.2% and 3.8% respectively, and in industrial production (+1.4%). In our view, the agricultural sector and those segments not captured in the IBGE's services survey may have had a negative impact on the IBC-Br.
- **The result implies a carryover of -0.3% to 2Q21.** We believe this result reinforces the likelihood of a weak 2Q21 GDP figures, in line with our tracking (0.0% QoQ-sa). In our view, the agricultural sector will partially give back 1Q21's strong positive contribution, which, along with the weak outcome expected for the industrial sector, should drag down the economic recovery in 2Q21.

Figure 1 – Economic Activity Breakdown

	% MoM			% YoY			% QoQ		
	Mar-21	Apr-21	May-21	Mar-21	Apr-21	May-21	Mar-21	Apr-21	May-21
IBC-Br	-2.0	0.9	-0.4	5.3	15.9	14.2	1.6	1.2	-0.3
Industrial Production	-2.3	-1.5	1.4	10.5	34.7	24.1	-0.4	-2.6	-3.4
Core Retail Sales	-3.0	4.9	1.4	2.2	23.6	15.9	-3.7	-1.1	1.4
Broad Retail Sales	-9.1	5.4	3.8	9.8	40.9	26.1	-4.1	-2.4	-2.3
Services Sector	-3.4	1.3	1.2	4.5	20.1	23.1	2.6	2.3	0.4

Sources: IBGE, BCB, Santander.

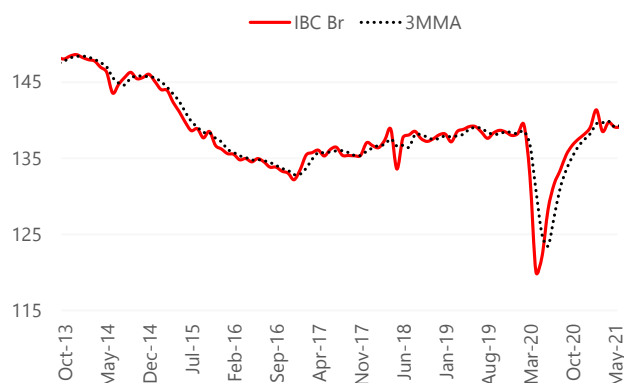
The IBC-Br disappointed in May, despite positive figures in industry, retail, and services. The BCB published its monthly activity indicator for May, capping the batch of activity index releases for the month. The headline index had an unexpected contraction, down 0.4% MoM-sa (14.2% YoY), considerably below market consensus and our call (both at +1.1% MoM-sa). Regarding the impact of the pandemic, May's figure placed the economy at a level 0.2% below the pre-crisis mark, according to this indicator. It is worth highlighting that the March and April results have been revised in the seasonally adjusted series (-2.0% and +0.9% respectively, from -1.6% and +0.4%), but with little implications for quarterly growth and May's result.



The agricultural sector and those segments not captured in the IBGE’s services survey may have had a negative impact on the IBC-Br. The drop in BCB’s broad activity index happened despite positive figures in the three main IBGE’s economic activity surveys for May. The tertiary sector expanded considerably (services and broad retail sales up by 1.2% and 3.8%, respectively), along with industrial production (+1.4%). In our view, the agricultural sector may have affected the IBC-Br, as recent reviews have weakened the outlook for the 2021 crop, following the drought’s impacts on important winter crops, such as the corn *safrinha*. We further note that the IBGE’s services survey does not capture some important segments within the sector, such as health and education, which could be experiencing the economic reopening impacts at magnitudes that vary from the rest of the sector.

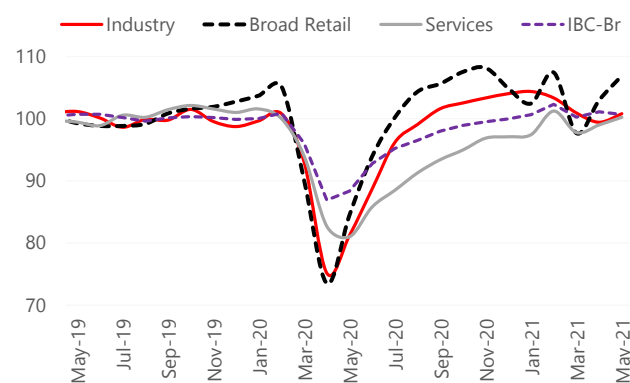
This result reinforces the likelihood of weak 2Q21 GDP figures, as our tracking stands at 0.0% QoQ (+12.6% YoY). For 2021, our tracking stands at 5.1%. We expect the agricultural sector to partially give back 1Q21’s strong positive contribution, which, along with the weak outcome expected for the industrial sector, should be a drag on the economic recovery in 2Q21. **For details on Santander’s economic activity scenario, please refer to our last chartbook¹.**

Figure 2.A – IBC-Br (sa, 2003=100)



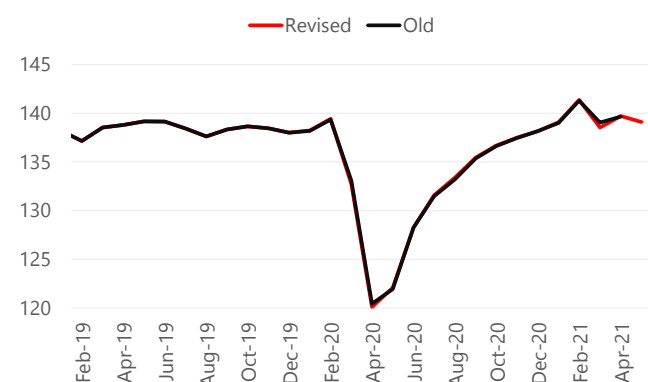
Sources: BCB, Santander.

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



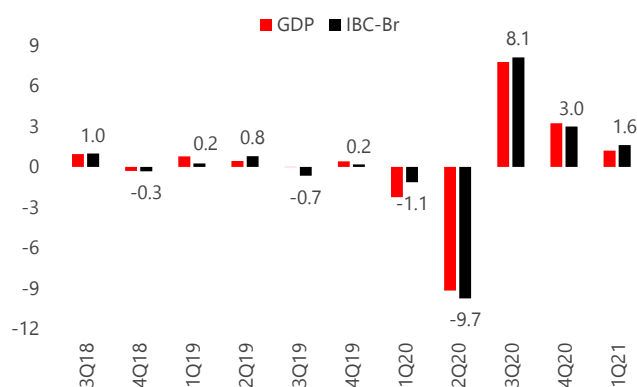
Sources: IBGE, BCB, Santander.

Figure 3.A – IBC-Br (sa, 2003=100)



Sources: BCB, Santander.

Figure 3.B – GDP vs IBC-Br (sa, QoQ%)



Sources: IBGE, BCB, Santander.

¹ Santander Brazil Economic Activity - “Chartbook – Better Outlook Due to Mobility and Commodities” – July 6, 2021 - Available on: <https://bit.ly/Std-chart-econact-jul21>



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Credit	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	jcerruti@santander.com.ar	54 11 4341 1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santander.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santander.com.ar	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511 3553 1684

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