

## IBC-Br Marks a Healthy Start to 3Q21

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- **The Brazil Central Bank's (BCB) activity indicator (IBC-Br) surprised to the upside in July.** The index was up 0.6% MoM-sa, slightly above the market consensus (+0.35%), but with June's figure being revised downward. Despite the sequential growth, July's figure was not enough to fully erase March's losses (-1.77%).
- **According to this indicator, July's result places the economy at a level 1.0% above the pre-pandemic mark (February 2020).** In our view, this positive figure reflects the healthy performance of the tertiary sector, more than offsetting the drag from industrial and farm output. Moreover, we believe it may reflect positive performance by less cyclical services like health and educational services.
- **In quarterly terms, July's solid figure implies a 1.0% QoQ-sa carryover for 3Q21** (but with 2Q21 revised to -0.2% from +0.1%) and a 5.3% carryover for 2021, which reinforces our view of sequential GDP growth during this period. Indeed, our tracking for 3Q21 GDP stands at +0.7% QoQ-sa (+5.1% YoY).

Figure 1 – Economic Activity Breakdown

	% MoM			% YoY			% QoQ			% Carry*
	May-21	Jun-21	Jul-21	May-21	Jun-21	Jul-21	May-21	Jun-21	Jul-21	3Q21
<b>IBC-Br</b>	<b>-0.6</b>	<b>0.9</b>	<b>0.6</b>	<b>14.3</b>	<b>9.0</b>	<b>5.5</b>	<b>-0.4</b>	<b>-0.2</b>	<b>0.0</b>	<b>1.0</b>
Industrial Production	1.2	-0.2	-1.3	24.1	12.0	1.1	-3.8	-3.0	-1.4	-1.0
Core Retail Sales	1.3	0.9	1.2	15.9	6.3	5.7	1.4	4.2	4.4	2.2
Broad Retail Sales	3.0	-2.1	1.1	26.2	11.5	7.0	0.0	3.0	2.9	0.7
Services Sector	1.9	1.8	1.1	23.3	21.2	17.8	1.1	2.1	3.1	2.9

Sources: IBGE, BCB, Santander. \* Carryover for 3Q21 calculated with July's figure.

**The IBC-Br surprised to the upside in July, marking a healthy start to 3Q21.** The BCB published its monthly activity indicator for July, capping the batch of activity index releases for the month. The index was up 0.6% on a sequential basis, slightly above market consensus (+0.35%), but with June's figure being revised downward (to +0.9% from +1.1% MoM and to +9.0% from +9.1% YoY). This result was the second gain in a row, but was insufficient to fully erase March's losses (-1.77%). Regarding the pandemic's impact, July's figure places the economy at a level 1.0% above the pre-pandemic mark, according to this indicator.

**July's positive figure reflects healthy performance by the tertiary sector.** The services sector's real revenue and broad retail sales both climbed 1.1% in July, albeit more concentrated in a few segments and highlighting that growth was far less widespread than expected. In our view, this positive figure for the tertiary sector more than offset the drag from industrial and farm output. Moreover, it may also reflect positive performance by less cyclical sectors like health and education services, which are still depressed but which we expect to play an important role in the recovery in 2H21 and in 2022.

**IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.**

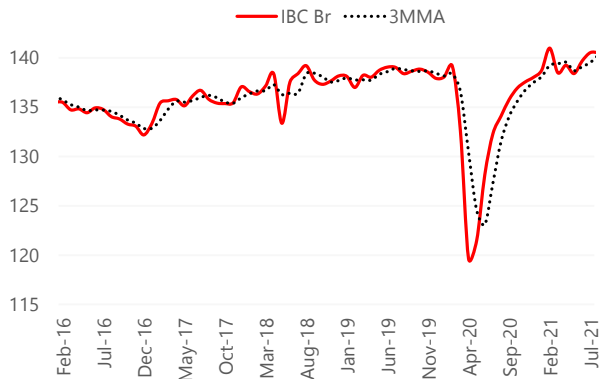
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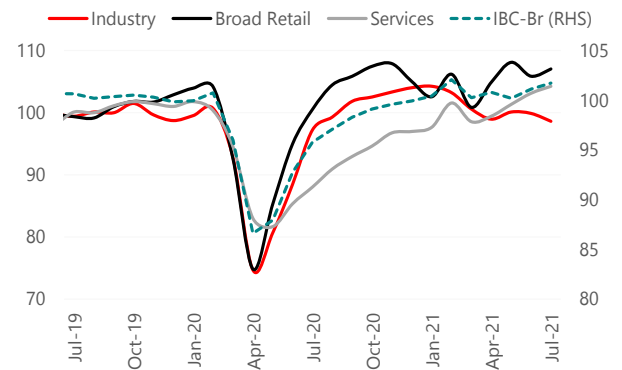
Looking ahead, July’s figure implies a 1.0% carryover for 3Q21 and a 5.3% carryover for 2021. Even considering the 2Q21 revision to -0.2% QoQ-sa from +0.1%, we believe this figure reinforces our view of sequential GDP growth in 3Q21, and our tracking stands at +0.7% QoQ-sa (+5.1% YoY). For August, our tracking of industrial production points to a -0.2% MoM-sa decline (0% YoY); for September, the economic confidence data (FGV) preview points to a widespread decline among sectors, with aggregated business and consumer confidence retreating 3.0% and 8.8%, respectively. **For details on Santander’s activity outlook, please refer to our last chartbook (to be updated soon)**<sup>1</sup>.

Figure 2.A – IBC-Br (sa, 2003=100)



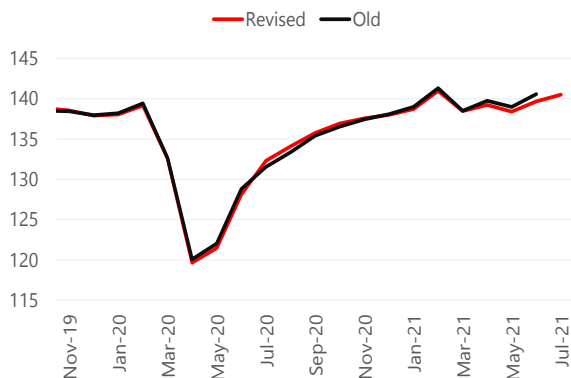
Sources: BCB, Santander.

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



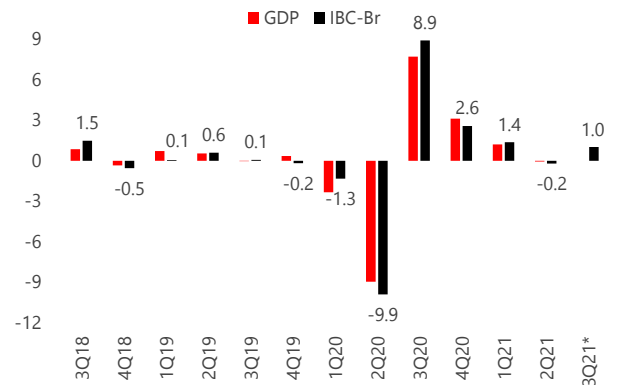
Sources: IBGE, BCB, Santander.

Figure 3.A – IBC-Br (sa, 2003=100)



Sources: BCB, Santander.

Figure 3.B – GDP vs IBC-Br (sa, QoQ%)\*



Sources: IBGE, BCB, Santander. \*3Q21 is the calculated carryover for IBC-Br.

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



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