

IBC-Br Retreated in August

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- **The Brazil Central Bank's (BCB) broad activity indicator (IBC-Br) showed a slight decline in August.** The index retreated slightly (-0.15% MoM-sa), in line with market consensus and our estimate (both at -0.1%) but with a downward revision in July's figure (to +0.2% from +0.6% monthly growth). The non-seasonally adjusted series was also revised in July: to 5.4% YoY from 5.5% YoY. According to this indicator, August's result places the economy slightly below the pre-pandemic mark (down 0.2% since February-2020) and roughly 1.4% below February-2021 levels (i.e., before the pandemic's resurgence seen earlier this year).
- **This monthly result highlights a clear heterogeneity in the composition of economic activity in August.** The services sector continued to strengthen amid a shift of spending into services as the economy reopens. Conversely, the goods-related sector dragged down activity, also reflecting persistent global supply constraints and the impact of inflation on household income.
- **In quarterly terms, August's result implies a 0.2% carryover for 3Q21 (2Q21: -0.4%), which reinforces our expectation of sequential growth in GDP.** Based on the data available up to now, we are maintaining our 3Q21 GDP tracking at +0.3% QoQ-sa, which imparts downside risks to our current 2021 and 3Q21 GDP estimates (+5.1% and +0.7%, respectively).

Figure 1 – Economic Activity Breakdown

| | % MoM | | | % YoY | | | % QoQ | | | % Carry* |
|------------------------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|
| | Jun-21 | Jul-21 | Aug-21 | Jun-21 | Jul-21 | Aug-21 | Jun-21 | Jul-21 | Aug-21 | 3Q21 |
| IBC-Br | 0.2 | 0.2 | -0.2 | 8.8 | 5.4 | 4.7 | -0.4 | -0.5 | 0.2 | 0.1 |
| Industrial Production | -0.5 | -1.2 | -0.7 | 12.0 | 1.2 | -0.6 | -3.0 | -1.4 | -1.2 | -1.5 |
| Core Retail Sales | -1.1 | 2.7 | -3.1 | 6.3 | 5.8 | -4.2 | 2.7 | 3.6 | 1.9 | 0.6 |
| Broad Retail Sales | -2.4 | 1.1 | -2.5 | 11.5 | 7.1 | 0.0 | 2.8 | 2.7 | 0.8 | -1.1 |
| Services Sector | 1.8 | 1.1 | 0.5 | 21.2 | 17.8 | 16.6 | 2.2 | 3.1 | 4.3 | 3.3 |

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

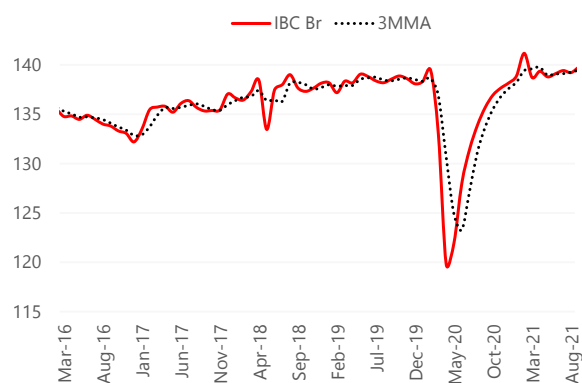
The IBC-Br showed a slight decline in August, adding to previous disappointing activity data releases. The BCB published its monthly activity indicator for August, capping the batch of activity index releases for the month. The slight retreat at the margin (-0.15%) came along with revisions in the historical series, mainly for recent months (both on a seasonal and non-seasonal basis): July's monthly growth was revised to +0.2% from +0.6% monthly growth, while in the interannual metric, July's growth was revised to +5.4% from +5.5% YoY. According to this indicator, August's weak figure brought the economy to levels below the pre-pandemic mark (down by 0.2% since February 2020) and widened the gap versus February 2021 (i.e., before the pandemic resurgence seen earlier this year) to roughly 1.4%.



August's activity data highlight heterogeneity in the composition of economic activity. The services sector continued to strengthen¹, expanding (up 0.5%) for the fifth month in a row. This growth was spread wide among the subsectors, but mainly driven by the Services to Families segment. This segment still shows wide idleness compared to the pre-pandemic mark (down 17.4%) and this gap leaves room for positive contributions from the services sector to overall activity, amid a shift of spending into services as the economy reopens. Conversely, the goods-related sector dragged down activity (broad retail sales and industry fell 2.5% and 0.7%, respectively²³), also reflecting persistent global supply constraints and the impact of inflation on household income. Moreover, excluding farm output, August's result may also reflect tepid 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.

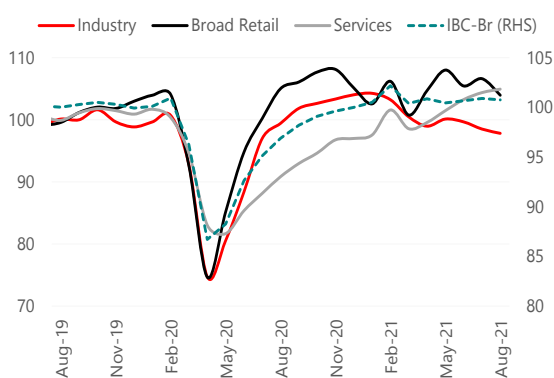
Looking ahead, August's figure implies a 0.2% carryover for 3Q21 and a 4.8% carryover for 2021. Considering the 2Q21 revision to -0.4% QoQ-sa from -0.2%, we believe this figure supports our estimate of sequential GDP growth in 3Q21. Based on the data available up to now, we are maintaining our 3Q21 GDP tracking at +0.3% QoQ-sa, which imparts downside risks to our current 2021 and 3Q21 GDP estimates (+5.1% and +0.7%, respectively). **It is worth noting that IBGE usually publishes important revisions in the historical GDP series in its 3Q21 release.** It is not an easy task to anticipate such movements, so we do not assume any previous hypothesis about these revisions. **For details on Santander's activity outlook, please refer to our last chartbooks⁴.**

Figure 2.A – IBC-Br (sa, 2003=100)



Sources: BCB, Santander.

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



Sources: IBGE, BCB, Santander.

¹Santander Brazil Economic Activity - "A Positive Figure for Services in August" – October 14, 2021 - Available on: <https://bit.ly/Std-Econact-101421>

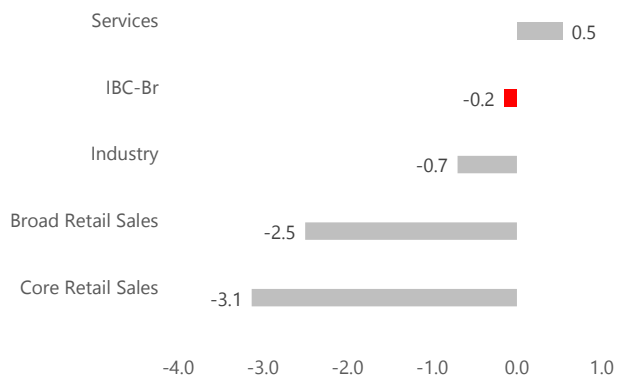
² Santander Brazil Economic Activity - "Other Retail Segment Plummets in August" – October 06, 2021 - Available on: <https://bit.ly/Std-Econact-100621>

³ Santander Brazil Economic Activity - "New Weak Figure for Industrial Output" – October 05, 2021 - Available on: <https://bit.ly/Std-Econact-100521>

⁴ Santander Brazil Economic Activity - "Chartbook – Downgrading the Estimate for 2022" – September 20, 2021 – Available on: <https://bit.ly/Std-chart-econact-set21>

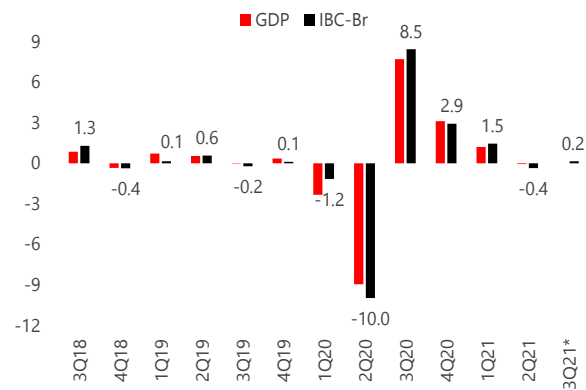


Figure 3.A – Activity Indexes (sa, MoM %)



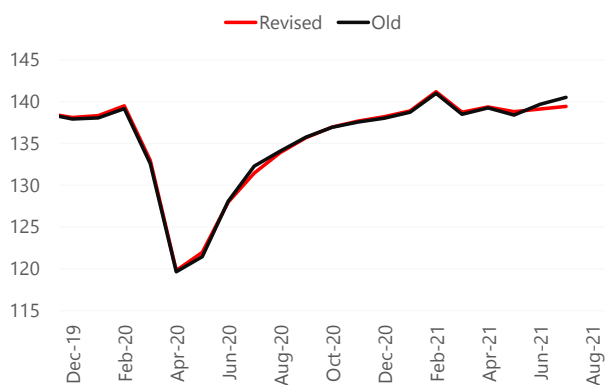
Sources: BCB, IBGE, Santander.

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



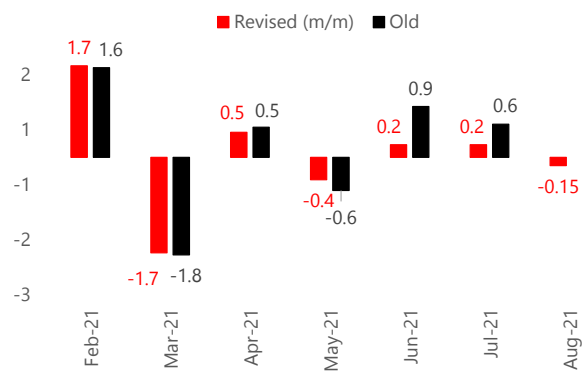
Sources: IBGE, BCB, Santander. *3Q21 is the calculated carryover for IBC-Br.

Figure 4.A – IBC-Br (sa, 2003=100)



Sources: BCB, Santander.

Figure 4.B – IBC-Br (sa, MoM%)



Sources: BCB, Santander.



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