

Solid growth but with a partial recovery

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- Following the strong rebound seen in the previous quarter, the releases of activity indicators suggest solid economic growth in 4Q20. In our view, these figures are coherent with our projection of 4Q20 GDP growth of 2.8% QoQ-sa, implying a full-year contraction of 4.2% in 2020.
- On the supply side, we expect the services sector to post solid growth, on the heels of advances in the economy's reopening process throughout the quarter. Regarding industry, we expect a consolidation of the recovery in 2H20, following the support in goods demand and the inventory replenishment.
- On the demand side, we highlight investments, which we expect to show strong growth, stemming mainly from the increase in capital goods net consumption and from the improvement in the building sector. We also expect household consumption to contribute positively, reflecting the effects of the emergency aid and the increase in mobility.
- Therefore, we expect economic activity to show solid growth in 2H20, though not enough to offset the pandemic's impact, with GDP reaching levels still 1.6% below the pre-crisis mark (4Q19). In terms of outlook, the fourth quarter's result implies a carryover of 3.2% for 2021, which should be partially offset by the deterioration in economic activity expected for 1Q21 (our estimate is -0.4%), given the materialization of the fiscal cliff and the setback of the economy's reopening process following the resurgence of the pandemic.

After the worst quarterly result in the historical series, registered in 2Q20, monthly indicators of economic activity have pointed to a consistent recovery in the last six months. Industrial production and retail sales reached readings far above the pre-crisis mark, in the aftermath of large (and temporary) government cash transfers; while the services sector, despite being the biggest laggard in the economic recovery, pointed to sequential growth in the wake of the economy's reopening. This sequential resumption of activity seen in key sector-based indicators was consistent with the strong rebound seen in 3Q20 (7.7% QoQ-sa), and the releases of activity indicators in the final quarter of 2020 suggest solid economic growth in 4Q20. In our view, these figures are coherent with our projection of 4Q20 GDP of 2.8% QoQ-sa, which implies a full-year contraction of 4.2% in 2020.

Among the sectors, we expect a well-diffused increase at the margin. On the supply side, industry should show a sharp recovery in 2H20, pointing to solid growth of 1.8% QoQ-sa, especially due to manufacturing (3.0% QoQ-sa), which has fully recovered from the crisis, and to construction (2.8% QoQ-sa), boosted by an environment of easier financial conditions. Regarding the services sector, we expect a solid increase of 2.6% on the heels of advances in the economy's reopening, but with the YoY variation of -2.4% reflecting the fact that this sector has been a laggard in the economic recovery. In the details, transports and retail, two sectors mainly affected by lockdown measures, should post QoQ growth of 5.5% and 1.5%, respectively, with the former still recording a sharp YoY variation of -5.0%. Less affected services—like financial and rent services—should post slight increases, with quarterly growth rates of 0.9% and 0.6%, respectively.

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On the demand side, we expect a sharp contribution of domestic absorption in the quarterly gain. Household consumption should post solid growth (3.2% QoQ-sa), subsequent to the payment of the emergency aid and the economy's gradual reopening. The large (and temporary) government transfers boosted the real wage bill, sustaining goods demand, while the economy's reopening supported increased consumption of services provided to families. With respect to investments, we expect strong growth (18.6% QoQ-sa, an all-time high gain) driven by the strong increase in net consumption of capital goods and the construction sector, in an environment of easier financial conditions. Net exports, in our opinion, should contribute negatively to GDP, as imports (+25.5% QoQ s-a.) should sharply increase over a depressed comparison base (-9.6% fall in 3Q20) and given the partial recovery of domestic demand. Exports should fall 3.0% QoQ s.a..

Therefore, we expect economic activity to show solid growth in 2H20, though not enough to offset the pandemic's impact, with GDP reaching levels still 1.6% below the pre-crisis mark (4Q19) and with a sharp full-year contraction of 4.2%. In terms of outlook, the fourth quarter's figure implies a carryover of 3.2% for 2021, but this should be partially offset by the deterioration in economic activity expected for 1Q21 (our estimate is -0.4%), given the materialization of the fiscal cliff¹ and the setback of economy's reopening process following the resurgence of the pandemic.

Figure 1. GDP Projections Breakdown

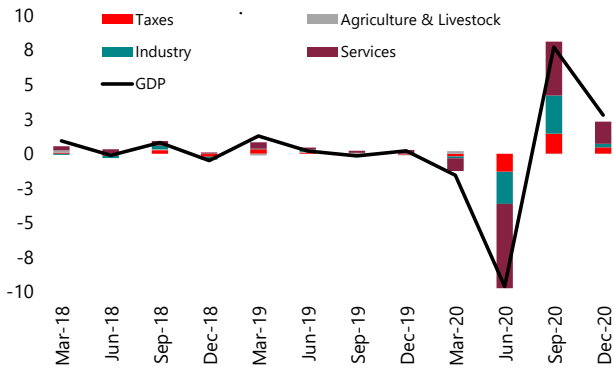
	3Q20		4Q20e		2020e	
	Weights	% YoY	% QoQ	% YoY	% QoQ	% Year
GDP	100%	-3.9	7.7	-1.6	2.8	-4.2
Supply						
Taxes	14%	-5.1	10.4	-1.8	3.3	-5.4
Agriculture	6%	0.4	-0.5	0.1	-0.2	2.0
Industry	19%	-0.9	14.8	0.8	1.4	-3.6
Mining	13%	1.0	2.5	-5.1	-3.3	1.7
Manufacturing	58%	-0.2	23.7	3.1	3.0	-4.7
Construction	15%	-7.9	5.6	-3.0	2.8	-6.6
Utilities	13%	3.8	8.5	0.1	-2.3	-0.7
Services	62%	-4.8	6.3	-2.4	2.6	-4.5
Retail	20%	-1.3	15.9	1.0	1.5	-3.4
Transports	6%	-10.4	12.5	-5.0	5.5	-9.4
Information	5%	-1.3	3.1	1.3	2.9	-0.5
Financial	9%	6.0	1.5	5.0	0.9	4.5
Other Services	22%	-14.4	7.8	-8.9	7.3	-12.0
Rents	14%	2.7	1.1	3.2	0.6	2.5
Public Services	24%	-5.4	2.5	-5.6	0.4	-5.1
Demand						
Consumption	62%	-6.0	7.6	-3.2	3.2	-5.5
Government	20%	-5.3	3.5	-3.8	1.3	-4.6
Investments	16%	-7.8	11.0	12.2	18.6	-1.1
Exports	18%	-1.1	-2.1	-7.2	-3.0	-2.5
Imports	-14%	-25.0	-9.6	0.2	25.5	-9.1

Sources: IBGE, Santander estimates.

¹ Santander Brazil Economic Activity - "Lingering Impacts to Slow the Recovery" – February 23, 2021- Available on: <http://bit.ly/Sant-econact-chart-fev21>

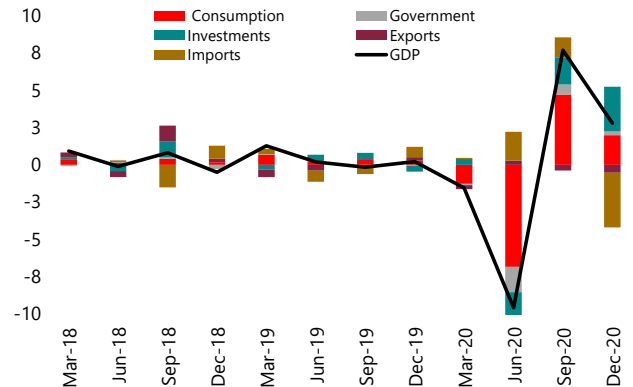


Figure 2.A – GDP Supply (% QoQ sa)



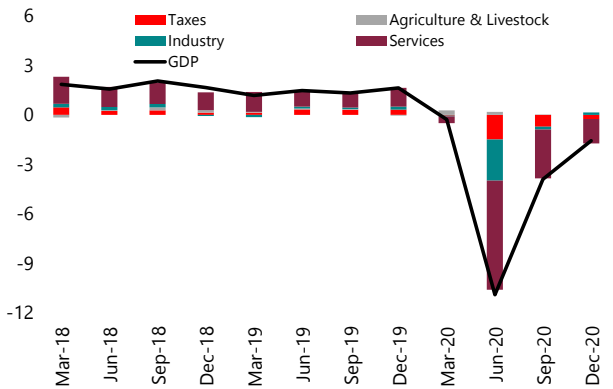
Sources: IBGE, Santander.

Figure 2.B – GDP Demand (% QoQ sa)



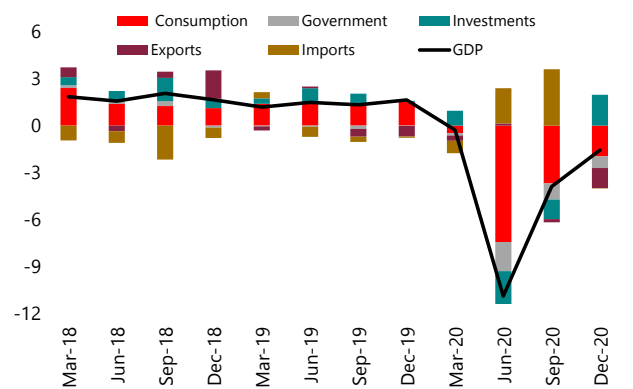
Sources: IBGE, Santander.

Figure 3.A – GDP Supply (% YoY)



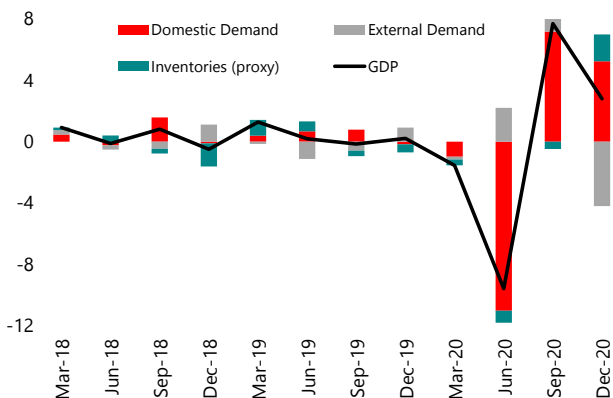
Sources: IBGE, Santander.

Figure 3.B – GDP Demand (% YoY)



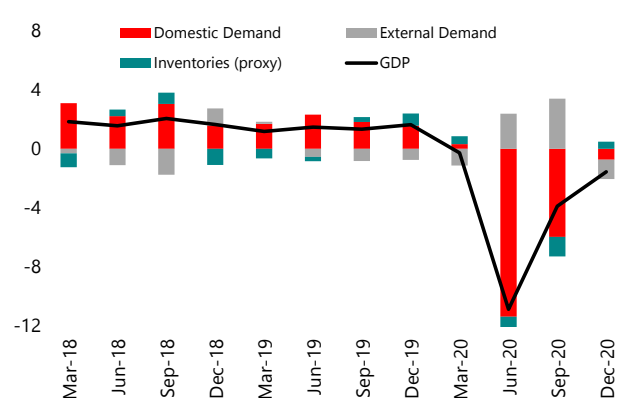
Sources: IBGE, Santander.

Figure 4.A – GDP Contributions (% QoQ sa)



Sources: IBGE, Santander.

Figure 4.B – GDP Contributions (% YoY)



Sources: IBGE, Santander.



Figure 5 – Yearly Changes and Contributions

	Weights		% YoY					Yearly Contributions (p.p)					
	3Q20	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4e	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4e
GDP	100%	1.3	1.6	-0.3	-10.9	-3.9	-1.6	1.3	1.6	-0.3	-10.9	-3.9	-1.6
Supply													
Taxes	14%	2.2	2.2	-0.3	-14.5	-5.1	-1.8	0.3	0.3	0.0	-1.5	-0.7	-0.3
Agriculture	6%	1.1	-1.4	4.0	2.5	0.4	0.1	0.0	0.0	0.3	0.2	0.0	0.0
Industry	19%	0.5	1.0	-0.3	-14.1	-0.9	0.8	0.1	0.2	-0.1	-2.5	-0.2	0.1
Mining	13%	4.2	4.1	5.5	7.1	1.0	-5.1	0.6	0.6	0.8	0.9	0.1	-0.7
Manufacturing	58%	-1.5	0.8	-1.1	-20.9	-0.2	3.1	-0.8	0.4	-0.6	-11.6	-0.1	1.8
Construction	15%	4.3	0.0	-1.6	-13.6	-7.9	-3.0	0.7	0.0	-0.3	-2.3	-1.2	-0.5
Utilities	13%	1.7	-1.0	-1.1	-5.5	3.8	0.1	0.2	-0.1	-0.2	-0.8	0.5	0.0
Services	62%	1.3	1.8	-0.7	-10.2	-4.8	-2.4	0.8	1.1	-0.4	-6.6	-3.0	-1.5
Retail	20%	2.4	2.1	0.7	-14.4	-1.3	1.0	0.4	0.4	0.1	-2.4	-0.3	0.2
Transports	6%	-0.1	0.8	-1.5	-20.7	-10.4	-5.0	0.0	0.0	-0.1	-1.2	-0.6	-0.3
Information	5%	5.5	5.3	1.3	-3.4	-1.3	1.3	0.3	0.3	0.1	-0.2	-0.1	0.1
Financial	9%	1.5	3.2	1.1	5.7	6.0	5.0	0.2	0.3	0.1	0.6	0.6	0.5
Other Services	22%	1.6	2.2	-3.6	-20.8	-14.4	-8.9	0.4	0.5	-0.9	-4.6	-3.1	-1.9
Rents	14%	2.0	1.3	2.0	1.8	2.7	3.2	0.3	0.2	0.3	0.3	0.4	0.5
Public Services	24%	-0.7	0.2	-1.1	-8.4	-5.4	-5.6	-0.2	0.1	-0.2	-2.2	-1.3	-1.3
Demand													
Consumption	62%	2.1	2.3	-0.7	-12.2	-6.0	-3.2	1.4	1.5	-0.5	-7.4	-3.7	-2.0
Government	20%	-1.1	-0.1	-0.8	-8.5	-5.3	-3.8	-0.2	0.0	-0.1	-1.9	-1.0	-0.7
Investments	16%	4.1	0.5	6.0	-13.9	-7.8	12.2	0.7	0.1	0.9	-2.1	-1.3	2.0
Exports	18%	-3.3	-4.8	-2.4	0.7	-1.1	-7.2	-0.5	-0.7	-0.3	0.1	-0.2	-1.3
Imports	-14%	2.2	0.6	5.2	-14.6	-25.0	0.2	-0.3	-0.1	-0.8	2.3	3.6	0.0

Sources: IBGE, Santander.

Figure 6 – Quarterly Changes and Contributions

	Weights		% QoQ-sa					Quarterly Contributions (p.p)					
	3Q20	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4e	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4e
GDP	100%	-0.2	0.2	-1.5	-9.6	7.7	2.8	-0.2	0.2	-1.5	-9.6	7.7	2.8
Supply													
Taxes	14%	-0.3	-0.5	-1.3	-12.7	10.4	3.3	0.0	-0.1	-0.2	-1.3	1.5	0.5
Agriculture	6%	1.6	-1.7	2.9	-0.2	-0.5	-0.2	0.1	-0.1	0.2	0.0	0.0	0.0
Industry	19%	-0.2	0.1	-0.9	-13.0	14.8	1.4	0.0	0.0	-0.1	-2.3	2.8	0.3
Mining	13%	9.5	1.2	-2.5	-0.3	2.5	-3.3	1.4	0.2	-0.4	0.0	0.3	-0.4
Manufacturing	58%	-1.9	0.9	-1.1	-19.1	23.7	3.0	-1.0	0.5	-0.6	-10.6	13.7	1.7
Construction	15%	-0.4	-3.8	-1.7	-8.1	5.6	2.8	-0.1	-0.7	-0.3	-1.4	0.9	0.4
Utilities	13%	-1.2	0.5	0.3	-5.1	8.5	-2.3	-0.2	0.1	0.0	-0.8	1.1	-0.3
Services	62%	0.2	0.4	-1.5	-9.4	6.3	2.6	0.1	0.3	-0.9	-6.1	3.9	1.6
Retail	20%	0.5	-0.2	-1.1	-13.7	15.9	1.5	0.1	0.0	-0.2	-2.3	3.2	0.3
Transports	6%	0.4	0.0	-2.0	-19.0	12.5	5.5	0.0	0.0	-0.1	-1.1	0.8	0.3
Information	5%	1.0	1.1	-2.2	-3.2	3.1	2.9	0.0	0.1	-0.1	-0.2	0.1	0.1
Financial	9%	1.5	1.4	0.2	2.6	1.5	0.9	0.1	0.1	0.0	0.3	0.1	0.1
Other Services	22%	-0.3	0.8	-5.1	-16.9	7.8	7.3	-0.1	0.2	-1.2	-3.7	1.7	1.6
Rents	14%	0.2	0.1	0.8	0.8	1.1	0.6	0.0	0.0	0.1	0.1	0.2	0.1
Public Services	24%	-0.7	0.8	-1.6	-7.0	2.5	0.4	-0.2	0.2	-0.4	-1.8	0.6	0.1
Demand													
Consumption	62%	0.5	0.4	-2.0	-11.3	7.6	3.2	0.3	0.3	-1.3	-6.9	4.7	2.0
Government	20%	-0.1	-0.3	-0.5	-7.7	3.5	1.3	0.0	-0.1	-0.1	-1.7	0.7	0.3
Investments	16%	3.0	-2.7	2.4	-16.5	11.0	18.6	0.5	-0.4	0.4	-2.5	1.8	3.0
Exports	18%	-0.7	1.7	-1.9	1.6	-2.1	-3.0	-0.1	0.2	-0.3	0.3	-0.4	-0.5
Imports	-14%	3.1	-4.7	-0.5	-12.4	-9.6	25.5	-0.5	0.7	0.1	1.9	1.4	-3.7

Sources: IBGE, Santander.



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