

## A Positive Surprise at the Start of 1Q21 to Give Way to a Drop Off in Feb and Mar

Lucas Maynard\*  
 lucas.maynard.da.silva@santander.com.br  
 +5511 3553 7495

- **The Brazil Central Bank’s (BCB) activity indicator for January surprised positively at the start of 2021.** The IBC-Br posted an increase of 1.0% MoM-sa (-0.5% YoY), the ninth consecutive, and also above market expectations (0.4%).
- **According to this indicator, the January figure placed the economy 0.2% above the pre-pandemic period (February 2020).** This result is consistent with the underlying data showing growth in industrial production and services more than offsetting declines in broad retail sales.
- **Despite the upbeat January data, we still expect 1Q21 GDP to contract by 0.4% QoQ-sa** due to the approaching fiscal cliff and the adverse economic impact of the pandemic’s resurgence.

Figure 1 – Economic Activity Breakdown

	% MoM			% YoY			% QoQ		
	Nov-20	Dec-20	Jan-21	Nov-20	Dec-20	Jan-21	Nov-20	Dec-20	Jan-21
<b>IBC-Br</b>	<b>0.7</b>	<b>0.7</b>	<b>1.0</b>	<b>-0.6</b>	<b>1.6</b>	<b>-0.5</b>	<b>4.6</b>	<b>3.4</b>	<b>2.8</b>
Industrial Production	1.1	0.8	0.4	2.6	8.3	2.0	9.1	5.0	3.4
Core Retail Sales	-0.1	-6.2	-0.2	3.5	1.3	-0.3	4.0	-0.1	-3.6
Broad Retail Sales	0.5	-3.1	-2.1	4.1	2.8	-2.9	7.3	3.0	-0.9
Services Sector	2.4	0.0	0.6	-5.0	-3.1	-4.8	7.2	5.9	4.5

Sources: IBGE, BCB, Santander.

**A positive surprise of economic activity at the start of 1Q21.** Today, the BCB published its monthly activity indicator for January, capping a batch of activity indices released for the month. The IBC-Br posted a gain of 1.0% MoM-sa (-0.5% YoY), considerably above market expectations (0.4%). This growth was also impressive coming off a high year ago base (with an upward revision in the series), and an acceleration of growth in December 2020 (+0.7%). We calculate a carryover of 1.8% on a quarterly basis for 1Q21 into 4Q20, but it should be mitigated by sequential declines in February and March, contributing to a likely fall in 1Q21 GDP (-0.4% QoQ-sa).

**The January figure places the economy at levels above the pre-pandemic period.** The strong showing follows nine MoM expansions in a row from the pandemic induced contraction in April. In comparison to the pre-crisis mark, the index is now 0.2% above the pre-pandemic reading in February 2020, reflecting a nearly full recovery from the losses during the crisis. January’s above consensus result obscures some sluggish to

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

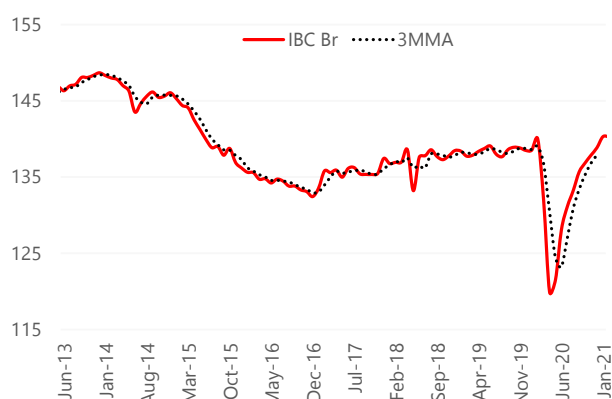
U.S. investors’ inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629 / (212) 350-918.  
 \* Employed by a non-US affiliate of Santander Investment Securities, Inc. and is not registered/qualified as a research analyst under FINRA rules.



negative growth in the coincident indicators for key sectors: industrial production<sup>1</sup> (+0.4%), services<sup>2</sup> (+0.6%), while monthly retail sales<sup>3</sup> posted a steep decline (-2.1%).

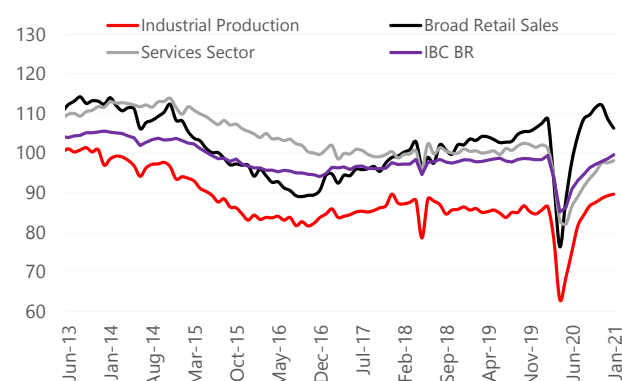
**We continue to forecast a GDP contraction of -0.4% QoQ-sa in 1Q21 as growth weakens in February and March.** The key reasons are: the fiscal cliff and the adverse impact of the resurgent pandemic on the reopening of the economy, which we believe should hit hard the tertiary sector in particular. We expect industrial production to be supported in 1Q21 by inventory replenishment despite lower demand for industrial goods. A serious downside risk to this scenario is the widespread shortage of inputs to manufacturing (also a worldwide issue), which may compromise supply capacity of the domestic industry. This could contribute to a likely fall of GDP in 1Q21. **(For more details regarding our economic activity scenario, see link below<sup>4</sup>).**

Figure 2.A – IBC-Br (sa, 2013=100)



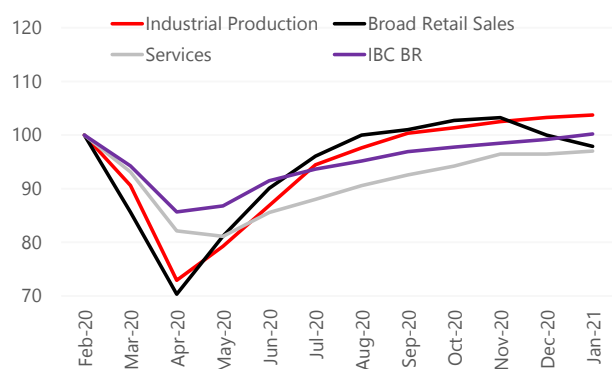
Sources: IBGE, Santander.

Figure 2.B – Economic Activity Indexes (sa, 2011=100)



Sources: IBGE, BCB, Santander.

Figure 3.A – Recovery Stage (sa, Feb-20=100)



Sources: IBGE, Santander.

Figure 3.B – Recovery Breakdown

	Jan-21	% MoM	% Feb-20 * Carryover**
<b>IBC-Br</b>		<b>1.0</b>	<b>0.2</b>
Industrial Production		0.4	3.7
Core Retail Sales		-0.2	-4.5
Broad Retail Sales		-2.1	-4.0
Services Sector		0.6	1.4

Sources: IBGE, BCB, Santander. \*Variation relative to February 2020 reading. \*\*Carryover for 1Q21 (%).

<sup>1</sup> Santander Brazil Economic Activity - "Sequential Increase at the Start of 2021" – March 5, 2021- Available on: <http://bit.ly/Sant-econact-050321>

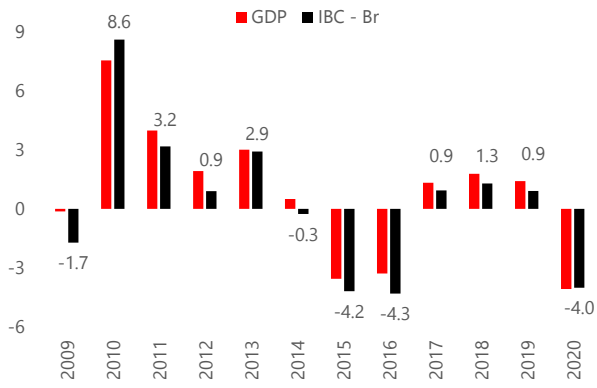
<sup>2</sup> Santander Brazil Economic Activity - "Sequential Increase at the Start of 2021, but Still the Laggard" – March 9, 2021- Available on: <http://bit.ly/Sant-econact-090321>

<sup>3</sup> Santander Brazil Economic Activity - "Sharp Decline at the Start of 1Q21" – March 12, 2021- Available on: <http://bit.ly/Sant-econact-120321>

<sup>4</sup> Santander Brazil Economic Activity - "Economic Activity Chartbook - Lingering impacts to slow the recovery" – February 23, 2021- Available on: <http://bit.ly/Sant-econact-chart-fev21>

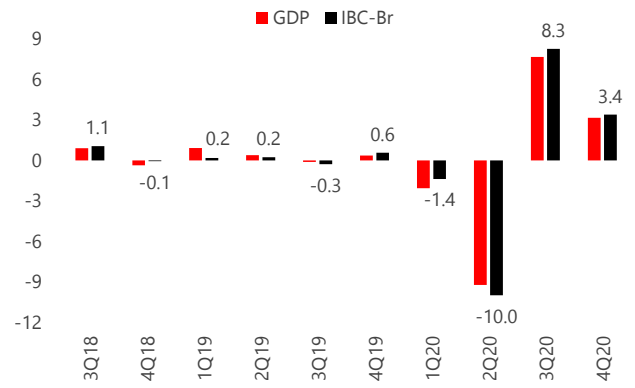


**Figure 4.A – GDP vs IBC-Br (Full-Year %)**



Sources: IBGE, Santander.

**Figure 4.B – GDP vs IBC-Br (sa, QoQ%)**



Sources: IBGE, BCB, Santander.



## 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	gjaboumrad@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@santanderrio.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@santanderrio.com.ar	5411-4341-1564
Daniel Gewehr*	Head, Brazil	dhgewehr@santander.com.br	5511-3012-5787

### Electronic

Bloomberg  
Reuters

SIEQ <GO>  
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

**ANALYST CERTIFICATION:** The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Lucas Maynard\*.

\*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2021 by Santander Investment Securities Inc. All Rights Reserved.