Widespread Drop in November

Lucas Maynard*
lucas.maynard.da.silva@santander.com.br
+5511 3553 8487

- **Industrial confidence continued to weaken in November, marking a 2.9% MoM-sa retreat.** This result was the fourth decline in a row, and the index reached its lowest reading since August 2020. However, industrial confidence still stands 0.7% above the pre-pandemic mark (February 2020) and above the 100-point neutral threshold. Moreover, the details indicate retreats in current (-1.1%) and expected (-3.1%) demands, while inventory surplus rose to 3.6 points, the highest reading since August 2020.
- **Consumer confidence retreated 1.8% MoM-sa, marking the second weak figure in three months.** Following the expansion seen in October (+1.3%), November's tepid figure reinforced the downward trend seen since September's decline (-7.9%) and placed household confidence 14.7% below the pre-pandemic mark. The details indicate that the labor differential was up again, which may suggest existing headwinds in the job market. Moreover, the intention to purchase durable goods retreated again, while median expected inflation rose to 10% (from 9.0%).
- **Weak figures in the tertiary sector.** Retail confidence also saw a steep decline (-6.6% MoM-sa), the second sharp tumble in three months and widening the gap to the pre-crisis mark. Services confidence also posted a tepid figure (-2.3% MoM-sa), though still standing above its pre-crisis reading, highlighting a softening of the recovery pace.
- **Construction confidence retreated 0.8% MoM-sa, its second consecutive drop.** This figure highlights a clear softening of the recovery pace following 3Q21's rebound. The index still stands 2.7% above the pre-pandemic mark, but the percentage of respondents pointing to raw material costs as the major obstacle to activities remains high (33.6%).
- **All in all, the aggregated business index reflects this widespread drop of economic confidence by retreating 3.3%.** This result marked the second drop in three months, still placing the index 1.3% above the pre-pandemic mark but bringing the index back to levels below the 100-point neutral threshold.

Industrial confidence continued to weaken in November (-2.9%), marking the fourth decline in a row. The headline index extended its negative trend to mid-4Q21, posting the eighth negative figure in 2021 but still standing 0.7% above the pre-pandemic mark. The index reached 102.1 points, above the 100-point neutral threshold and still signaling optimism among industrial businessmen. Looking at the breakdown, November's fall stems both from decreases in the current situation component (-4.2%) and in the expectation component (-1.6%).

The survey details indicated retreats in demand and expected production. Actual demand retreated 1.1%, reflecting both decreases in domestic (-0.5%) and external demand (-8.5%), with expected demand also retreating (-3.1%), stemming both from decreases in domestic (-0.7%) and external demand (-14.9%). Expected production surprised to the upside and expanded 1.5%, still standing close to 2019 average. The demand gap (the difference between expected and current demand) continued to wide, reaching -8.1 points and suggesting further decreases in output ahead.

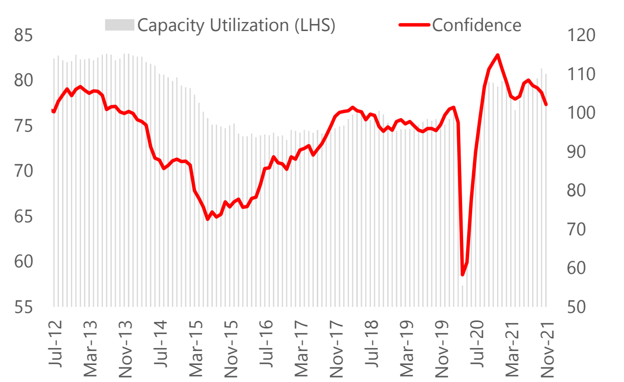
Capacity utilization was down by 0.6 p.p to 80.7% (81.3% in October), still well above the pre-pandemic average (~76%). The survey details also indicate that inventories surplus (i.e., the percentage of respondents seeing inventories are excessive minus respondents seeing inventories are insufficient) was up to 3.3 points, reaching the highest reading since August-2020 but still considerably below the historical average. In usual cycles, low inventory levels use to be a tailwind for production growth ahead. This time around, however, amid important supply hurdles seen worldwide in the wake of the pandemic, low inventories likely mean that local industry is having a hard time overcoming high costs and widespread input shortages.

Figure 1 – Confidence Breakdown

	MoM %			QoQ %			Feb-20 % Chg *		
	Sep-21	Oct-21	Nov-21	Sep-21	Oct-21	Nov-21	Sep-21	Oct-21	Nov-21
Business	-2.4	0.4	-3.3	7.7	2.5	-1.9	4.3	4.7	1.3
Current	-1.2	0.2	-2.5	7.1	2.6	-0.8	7.4	7.6	4.9
Expectations	-3.7	0.4	-4.5	6.1	0.9	-4.1	-1.4	-1.0	-5.4
Industry	-0.6	-1.1	-2.9	2.1	-0.5	-2.9	4.9	3.7	0.7
Current	-0.2	-0.8	-4.2	-0.1	-1.7	-3.4	8.2	7.3	2.8
Expectations	-1.0	-1.6	-1.6	4.4	0.7	-2.5	1.8	0.1	-1.5
Consumer	-7.9	1.3	-1.8	4.2	-2.5	-7.5	-14.2	-13.1	-14.7
Current	-1.4	0.3	-3.0	2.3	-1.7	-3.6	-15.0	-14.7	-17.3
Expectations	-10.8	1.6	-1.2	5.2	-2.7	-9.3	-13.0	-11.6	-12.7
Retail	-6.7	0.1	-6.6	8.1	-0.6	-7.2	-5.7	-5.6	-11.8
Current	-5.6	-3.8	-7.3	11.4	-2.7	-11.1	7.0	2.9	-4.6
Expectations	-7.5	4.4	-5.5	4.2	2.0	-2.4	-16.4	-12.8	-17.6
Services	-2.0	1.8	-2.3	11.8	5.6	0.7	3.1	5.0	2.5
Current	-0.8	2.5	-1.9	11.4	6.4	2.8	2.3	4.9	2.9
Expectations	-3.2	1.3	-2.6	11.9	4.9	-1.2	3.4	4.8	2.0
Construction	0.1	-0.3	-0.8	9.0	4.9	1.2	3.9	3.6	2.7
Current	0.9	-0.8	0.0	5.7	4.6	2.2	6.9	6.1	6.1
Expectations	-0.7	0.1	-1.6	12.2	5.2	0.2	1.2	1.3	-0.3

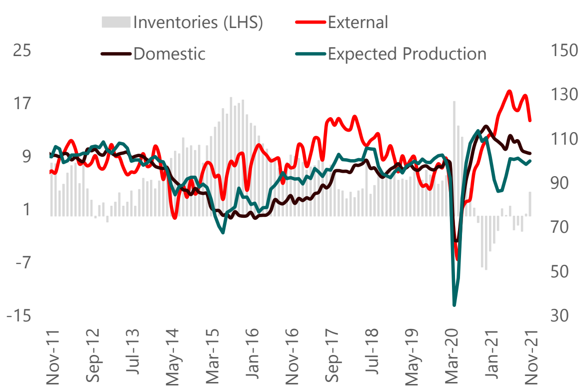
Sources: FGV, Santander. * Variation relative to February's reading.

Figure 2.A – Capacity Utilization (%) x Industrial Confidence (points, sa)



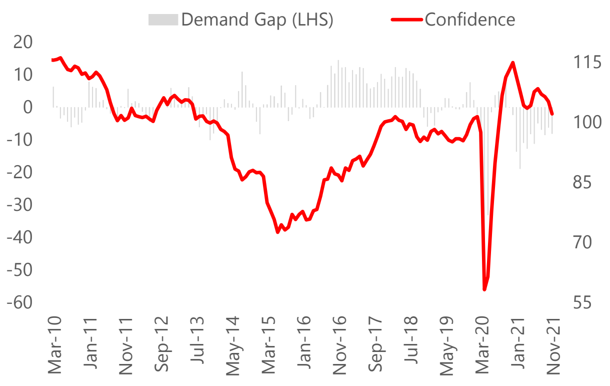
Sources: FGV, Santander.

Figure 2.B – Inventories Perception*, Current Demand and Expected Production (points, sa)**



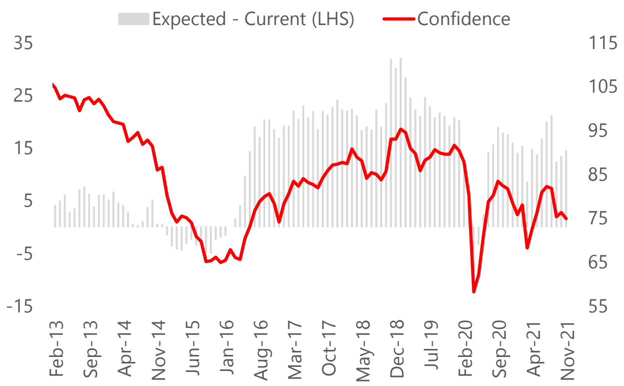
Sources: FGV, Santander. *Excessive – Insufficient, ** domestic and external demand

Figure 3.A – Demand Gap x Industrial Confidence (points, sa)



Sources: FGV, Santander.

Figure 3.B – Consumer Confidence (sa, points)



Sources: FGV, Santander.

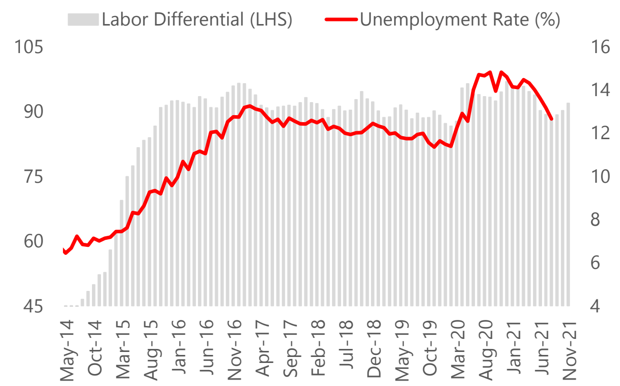
November's tepid figure pointed to a downward trend for consumer confidence. The index retreated 1.8%, giving back the previous gain (+1.3% in October), reinforcing the downward trend seen since September's decline (-7.9%). Moreover, November's figure placed the headline index still 14.7% below the pre-pandemic mark. This result stems mainly from a decrease seen in the current situation component (-3.0%), with the expectations component also contributing negatively (-1.2%).

The survey details indicated that the intention to purchase durable goods decreased 1.6%, marking a string of three declines. This segment still shows wide idleness regarding the pre-pandemic period, standing almost 20% below the 2019 average. Median expected inflation rose to 10% (from 9.0%). Regarding employment figures, expected employment expanded 1.3%, the second gain in a row but far from offsetting September's decline (-10.4%). Moreover, the labor differential (i.e., percentage of respondents seeing jobs hard to get minus respondents seeing jobs easy to get) was up to 91.9 (from 90.2), the third increase in a row, which may suggest some headwinds to the job market ahead.

Weak figures in the tertiary sector. Retail confidence retreated 6.6%, following +0.1% and -6.7% figures seen in October and September, respectively. In the breakdown, November's figure stems both from decreases in the current situation (-7.3%) and in the expectations component (-5.5%), widening the gap in comparison to the pre-crisis mark (-11.8%). The survey details also indicate widespread drop among the components, with current (-6.6%) and expected (-9.5%) sales were the lowlights. Among the sectors, also a widespread drop: supermarkets (-10%) and furniture (13.3%) were the lowlights, while clothing was up 7.2%. The outlook remains negative, with consumer confidence continuing to weaken, rising interest rates and inflation eroding household income. Services confidence also posted a weak result, retreating 2.3%. This was the second decline in three months, but still places the index 2.5% above its pre-pandemic mark. Among the subsectors, also a widespread drop: transports (-4.0%) and professional services (-3.1%) were the lowlights, with services to families also contributing negatively (-2.3%).

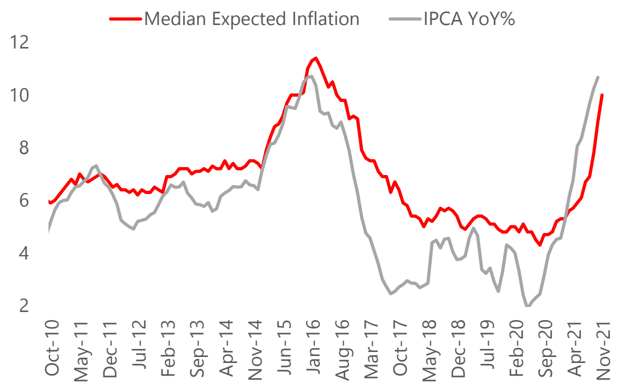
It is worth noting that we have seen an ambiguity between solid services spending and weak demand for goods in recent months. In our view, it reflects the gradual normalization of health and mobility conditions, favoring the reopening of services and implying a more normal balance between spending in services and goods. The effect of inflation eating into household income and the supply-chain disruptions are additional explanations for the weak figures seen in goods-related sectors.

Figure 4.A – Labor Differential (points, sa) x Unemployment Rate (%, sa)



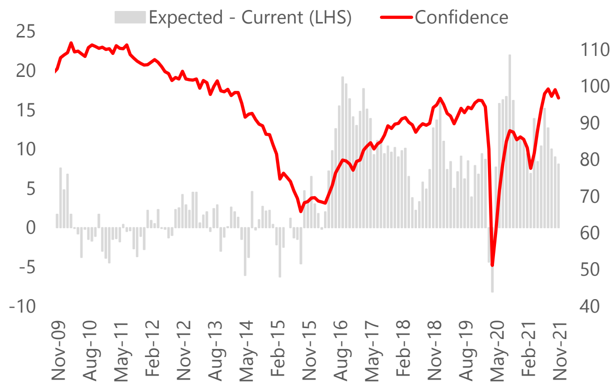
Sources: FGV, Santander

Figure 4.B – Median Expected Inflation 12-months Ahead (%, sa)



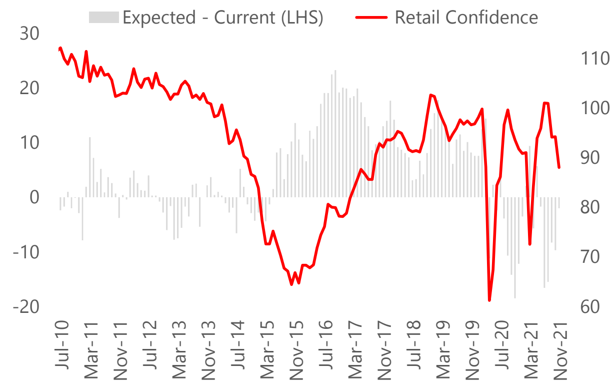
Sources: FGV, IBGE, Santander

Figure 5.A – Services Confidence (points, sa)



Sources: FGV, Santander

Figure 5.B – Retail Confidence (points, sa)



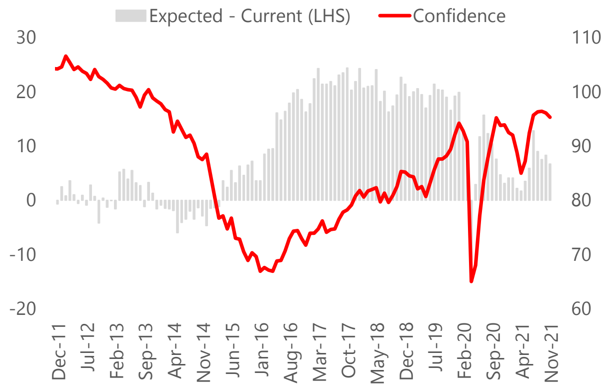
Sources: FGV, Santander

Construction confidence pointed to softening in 4Q21. The headline index dropped 0.8%, the second weak figure in three months and stemming mainly from a decrease in the expectations component (-1.6%), while the current situation component pointed to stability (0%). The outlook details point to retreat in expected demand (-1.0%) and six-month ahead business trend (-2.3%), bringing the component to levels below the 100-point neutral mark for the first time in five months. Conversely, capacity utilization rose 1.7 p.p., to 77.3%. The survey details indicate that the percentage of respondents seeing raw material costs as the major obstacle to activities was down to 33.6% (from 34.9%), the fourth decline in a row but still standing at historically high levels. Despite the high costs, the percentage of respondents expecting demand to increase slightly rose, to 33.8% (from 33.4%) and considerably above the 2019 average (26.6%).

All in all, the aggregated business confidence marked the second weak figure in 4Q21. Following October's apathetic growth (+0.4%), the headline index continued to weaken by retreating 3.3%, marking the second decline in three months and reinforcing September's tumble (-2.4%). This result still places the index 1.3% above the pre-pandemic mark; however, it also brought the index back to levels below the 100-point neutral mark (97.0 points). Looking at the breakdown, November's figure stems both from decreases in the current situation component (-2.5%) and in the expectation component (-4.5%). The gap between the expectation and current situation components was down to -1.2%, the first negative print since March 2021, which may suggest negative figures for aggregated business confidence ahead. Despite this weakening in the economic confidence, we still expect GDP growth in 4Q21 (current estimate at +0.2%), with the services sector as the main driver amid the consolidation in the economy's reopening, especially those segments that still show wide idleness compared to the pre-crisis period (e.g., Other Services, Public Services and Transports, that accounts for 30% of total GDP) [1].

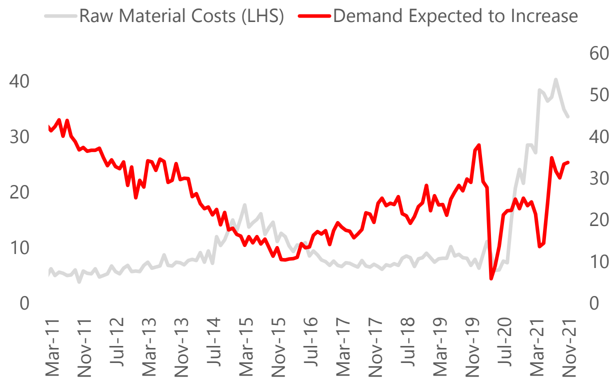
[1] For details on Santander's activity outlook, please refer to our last chartbooks: ***"Downgrading the Estimate for 2022 and 2023" –*** November 05, 2021 – Available on: https://bit.ly/Std-chart-econact-nov21 and ***"Household Indebtedness Expected to Slow Lending in 2022" –*** November 09, 2021 – Available on: https://bit.ly/Std-chart-credit-nov21

Figure 6.A – Construction Confidence (points, sa)



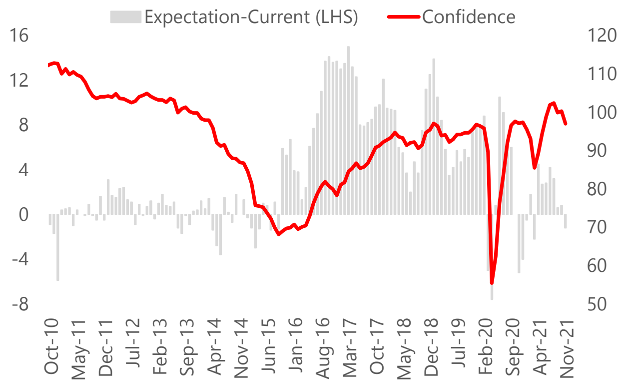
Sources: FGV, Santander.

Figure 6.B – Construction Survey Details (sa, points)



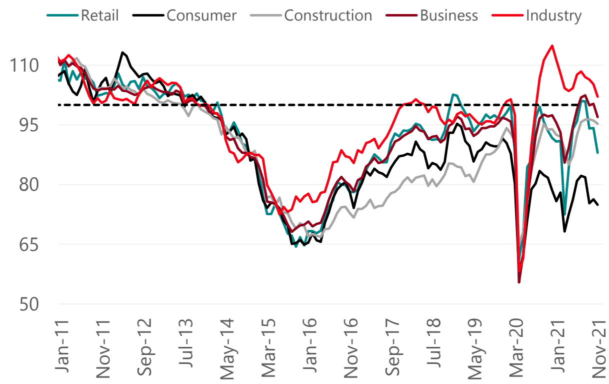
Sources: FGV, Santander.

Figure 7.A – Business Confidence (points, sa)



Sources: FGV, Santander.

Figure 7.B – Economic Confidence Data (sa, points)



Sources: FGV, 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 – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
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
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684
Electronic			
Bloomberg		SIEQ <GO>	
Reuters		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.