

3Q21 Not as Strong as Previously Thought

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- **The Brazil Central Bank's (BCB) broad activity indicator (IBC-Br) retreated in September (-0.27%), leading to a 3Q21 that was not as strong as previously thought.** This result was in line with market consensus (-0.3%) and below our estimate (0%), and the series was revised to -0.29% MoM-sa (from -0.15%) in August and to +0.13% MoM-sa (from +0.23%) in July.
- **This result also places the economy 0.7% below the pre-pandemic mark (February-2020), according to this indicator.** Moreover, the index stands 1.9% below the recent spike reached in February 2021. Among the key sectors, September's figure stems mainly from weak figures seen in goods-related sectors like industry (-0.4%) and broad retail sales (-1.1%), reinforced by the first drop in six months seen in the services sector (-0.6%).
- **In quarterly terms, the IBC-Br ended 3Q21 with a slight decline (-0.14%), the second in a row (-0.35% in 2Q21).** This result implies a -0.28% carryover for 4Q21 for broad activity, in line with the key sectors: according to our calculations, September's figures implied carryovers of -0.5% for industry, -1.8% for broad retail sales and -0.3% for the services sector to 4Q21. These results impart some downside risks to our current 4Q21 GDP growth projection (+0.4% QoQ-sa).
- **Regarding our 3Q21 GDP growth, we are lowering our tracking to +0.1% QoQ-sa (from +0.2%).** Our expectations of a 3Q21 positive figure stems mainly from expectations of good growth contribution coming from services segments that still show strong idleness compared to the pre-crisis period (e.g., Other Services and Public Services) and that are not well captured by timely activity indexes.

Figure 1 – Economic Activity Breakdown

	% MoM			% YoY			% QoQ			% Carry*
	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21	4Q21
IBC-Br	0.1	-0.3	-0.3	5.5	4.7	1.5	-0.5	0.1	-0.1	-0.3
Industrial Production	-1.2	-0.7	-0.4	1.2	-0.6	-3.9	-1.4	-1.2	-1.7	-0.5
Core Retail Sales	3.1	-4.3	-1.3	5.8	-4.1	-5.4	3.3	1.5	-0.4	-2.4
Broad Retail Sales	1.4	-3.0	-1.1	7.1	-0.1	-4.1	2.6	0.6	-1.7	-1.8
Services Sector	1.1	0.4	-0.6	17.8	16.5	11.4	3.1	4.3	3.0	-0.3

Sources: IBGE, BCB, Santander. * Carryover for 4Q21 calculated with September's figures.

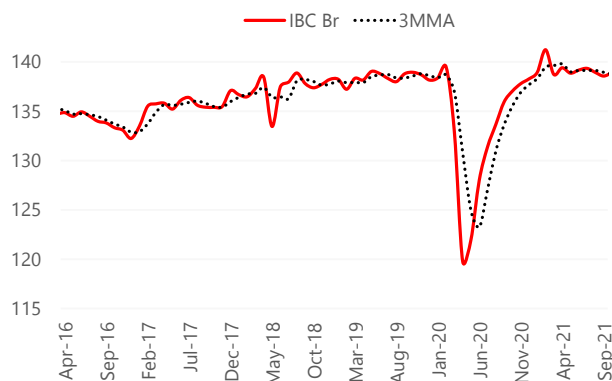


September's figure for IBC-Br point to a widespread decline among key sectors. The index retreated (-0.27%), leading to a 3Q21 that was not as strong as previously thought and coming in line with market consensus (-0.3%). The seasonally adjusted series was revised to -0.29% MoM-sa (from -0.15%) in August and to +0.13% MoM-sa (from +0.23%) in July, while the non-adjusted series (% YoY) showed no significant revisions. Among the key sectors, September's figure stems mainly from weak figures seen in goods-related sectors like industry¹ (-0.4%) and broad retail sales² (-1.1%), reinforced by the first drop in six months seen in the services sector³ (-0.6%).

In quarterly terms, the IBC-Br ended 3Q21 with a slight decline (-0.14%), the result of tepid and heterogenic economic activity output seen this period. The goods-related sectors (industry and broad retail sales) retreated 1.7%, while the more cyclical services expanded 3.0%. The latter accelerated over 2Q21 (up 2.1%), which reinforces our expectations of solid positive contributions to come from these segments despite September's sequential decline. Moreover, September's figure of IBC-Br implies a negative carryover of -0.28% for 4Q21, in line with the negative carryovers calculated to the key-sectors: -0.5% for industry, -1.8% for broad retail sales and -0.3% for the services sector to 4Q21, imparting downside risks to our current projection of +0.4% GDP growth in 4Q21 (and consequently to our estimate of 4.9% in 2021).

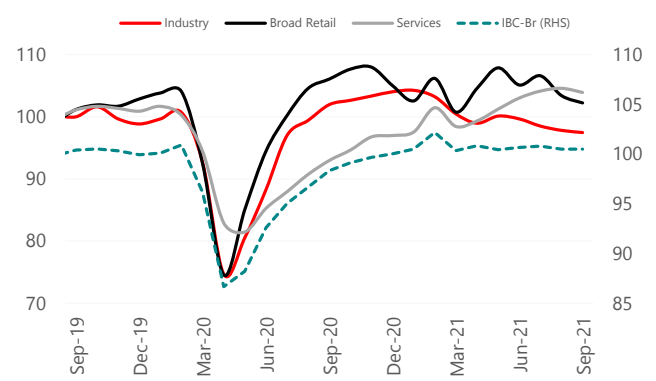
Regarding our 3Q21 GDP growth forecast, we are lowering our tracking to +0.1% QoQ-sa (from +0.2%). Our expectations of a 3Q21 positive figure stems mainly from expectations of good growth contribution coming from services segments that still show wide idleness compared to the pre-crisis period (e.g., Other Services and Public Services, that accounts for 30% of total GDP) and that are not well captured by timely activity indexes. Indeed, the Services to Families segment of IBGE's services monthly services (which captures bar, restaurants, leisure activities and other mobility-related services segments) highly correlates with these idled segments, and it expanded 17.2% in 3Q21 (+4.2% in 2Q21). **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.

¹ Santander Brazil Economic Activity - "Weak Figure (Again) for Industrial Output" – November 4, 2021 – Available on: <https://bit.ly/Std-Econact-110421>

² Santander Brazil Economic Activity - "Widespread Decline in Retail Activity in September" – November 11, 2021 – Available on: <https://bit.ly/Std-Econact-111121>

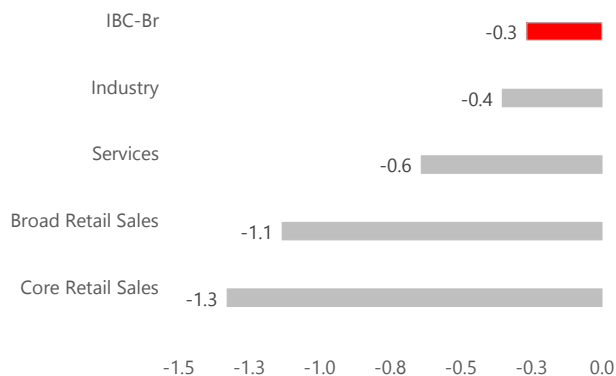
³ Santander Brazil Economic Activity - "Services Retreated at the end of 3Q21" – November 12, 2021 – Available on: <https://bit.ly/Std-Econact-111221>

⁴ Santander Brazil Economic Activity - "Chartbook – Downgrading the Estimate for 2022 and 2023" – November 05, 2021 – Available on: <https://bit.ly/Std-chart-econact-nov21>

Santander Brazil Economic Activity - "Chartbook – Household Indebtedness Expected to Slow Lending in 2022" – November 09, 2021 – Available on: <https://bit.ly/Std-chart-credit-nov21>

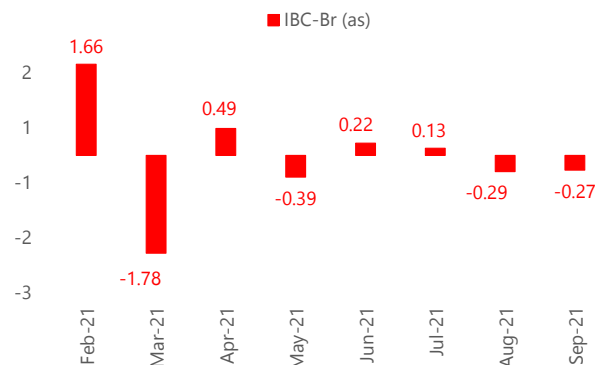


Figure 3.A – Activity Indexes (sa, MoM %)



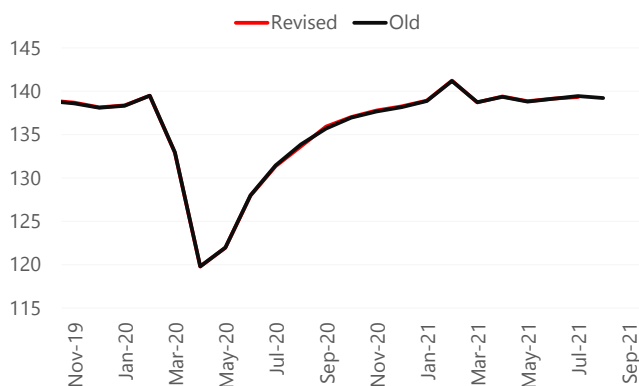
Sources: BCB, IBGE, Santander.

Figure 3.B – IBC-Br (sa, MoM%)



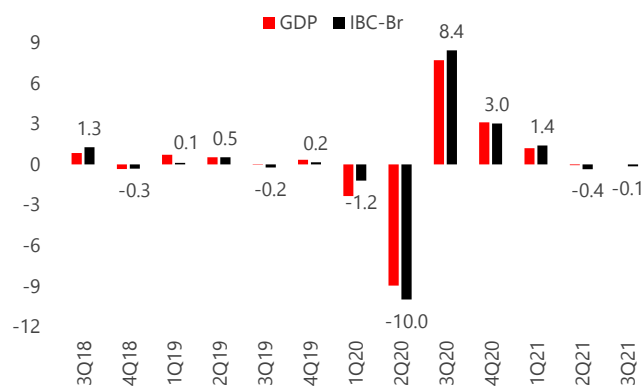
Sources: IBGE, BCB, Santander.

Figure 4.A – IBC-Br (sa, 2003=100)



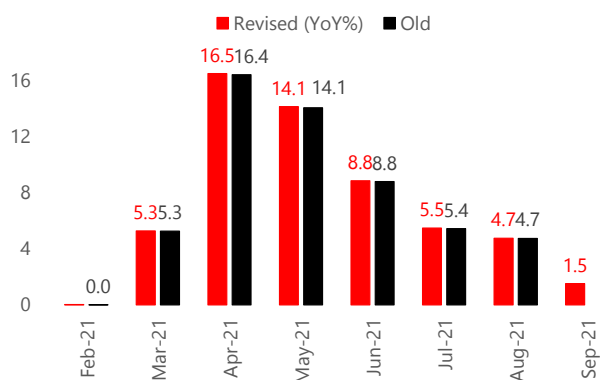
Sources: BCB, Santander.

Figure 4.B – GDP vs IBC-Br (sa, QoQ%)



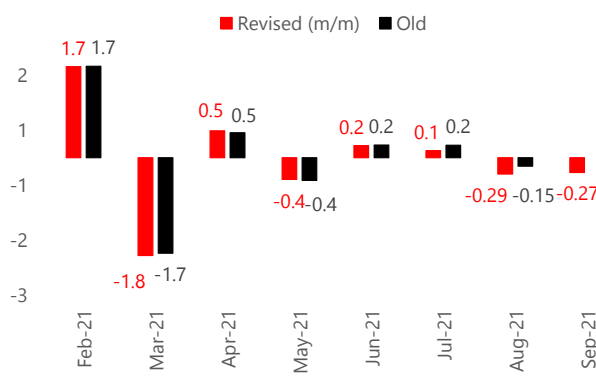
Sources: BCB, Santander.

Figure 5.B – IBC-Br (nsa, YoY%)



Sources: BCB, Santander.

Figure 5.B – IBC-Br (sa, MoM%)



Sources: BCB, Santander.



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