

Industrial Production Ends 1Q21 with Quarterly Contraction

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- **In March, industrial production confirmed expectations of a steep decline, retreating at the margin by 2.4% MoM-sa (above the market's expectations of -3.0%).** March's drop was partially cushioned by the mining industry (+5.5%), while manufacturing fell sequentially (-3.2%), as expected.
- **This result brought the index to the pre-crisis reading, after six months above that level.** In quarterly terms, industrial production ended 1Q21 down by 0.4%, with a significant negative carryover (-2.0%) to 2Q21.
- **In the breakdown, Non-Durable Goods and Durable Goods stood out by falling 10.2% and 7.8%, respectively.** Capital Goods posted a weak figure (-6.9%), highlighting a loss of momentum after the recent sharp increases. In the details, these negative results stem mainly from the auto industry, with Vehicles posting decreases of 3.5% and 13.0% in the Capital Goods and Durable Goods categories, respectively.
- **Looking ahead, soft data points to a weak start in 2Q21.** FGV confidence data points to a loss of steam in April, with industrial confidence declining at the margin and with the perception of excessive inventories rising.

Figure 1 – Industrial Production Breakdown

	% MoM			% YoY			% QoQ		
	Jan-21	Feb-21	Mar-21	Jan-21	Feb-21	Mar-21	Jan-21	Feb-21	Mar-21
Total Industry	0.3	-1.0	-2.4	2.4	0.3	10.4	3.0	1.5	-0.4
Mining	1.4	-5.2	5.5	0.2	-6.6	0.0	-4.6	-0.7	0.8
Manufacturing	-0.4	-0.7	-3.2	2.7	1.1	11.9	4.3	2.2	-0.6
Capital Goods	4.8	-3.7	-6.9	16.8	14.7	29.5	18.3	11.5	3.9
Intermediate Goods	-0.9	0.4	0.2	3.1	0.4	10.1	0.9	1.0	0.5
Consumer goods	0.8	-1.1	-11.0	-1.4	-3.1	7.4	4.3	2.0	-2.8
Durable	-1.6	-3.4	-7.8	-3.8	-8.2	12.0	8.6	2.0	-4.5
Non-Durable	1.7	-0.2	-10.2	-0.7	-1.6	6.2	2.6	1.5	-1.7
Construction Supplies	-0.2	0.9	-1.8	12.7	11.3	22.4	5.8	3.7	1.4

Sources: IBGE, Santander.

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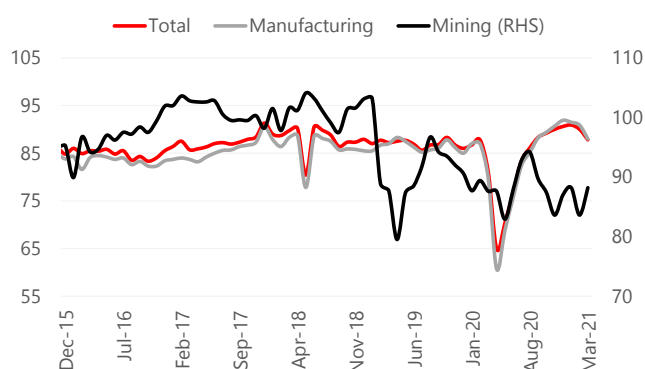
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Industrial production loses steam, retreating to the pre-crisis mark. In March, industrial production confirmed expectations of a substantial decline, retreating at the margin by 2.4% MoM-sa (greater than the market's expectations of -3.0%) and returning to the readings seen in February 2020. This drop was partially cushioned by the mining industry (up 5.5%), while the manufacturing industry fell sequentially (down 3.2%), as expected. In quarterly terms, industrial production ended 1Q21 down by 0.4% (+4.7% in 4Q20), confirming the expectations of a lower impact on production from the resurgence of the pandemic in comparison to the first wave of contagion last year. Looking ahead, March's negative figure left a significant carryover of -2.0% for 2Q21.

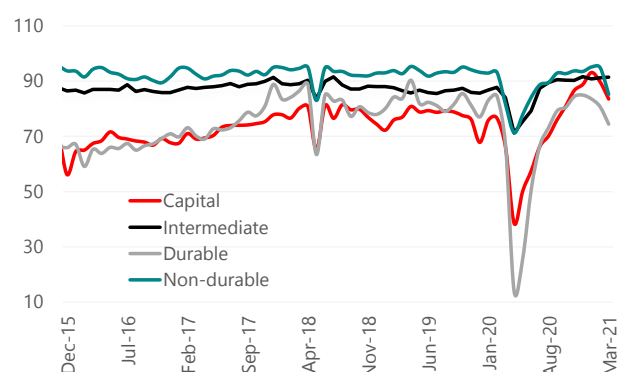
Among economic categories, March's negative figure was relatively widespread. In the breakdown, Non-Durable Goods stood out by falling 10.2%, reflecting the decline in Clothing (-15%), Pharmaceuticals (-10%), and Textile Products (-8.0%). Durable Goods' steep decline (-7.8%) stems mainly from vehicle production (-8.0%), such as the drop for Capital Goods, whose vehicles component posted a weak figure (-3.5%). The latter figure highlights the loss of momentum of Capital Goods after a sharp rebound through January, albeit still well above the pre-crisis mark. Intermediate Goods were again the exception, posting a resilient figure (+0.2%), the second gain in a row. This category tends to be highly inertial, which helps to mitigate sharp drops in production.

Figure 2.A. – Industrial Production Index (sa, 2012=100)



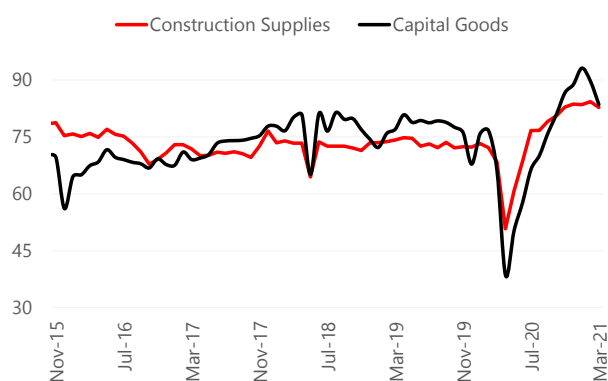
Sources: IBGE, Santander.

Figure 2.B. – Economic Categories Index (sa, 2012=100)



Sources: IBGE, Santander.

Figure 3.A. – Industrial Production Related to Investment Indexes (sa, 2012=100)



Sources: IBGE, Santander.

Figure 3.B. – Recovery Breakdown

	Mar-21	MoM %	QoQ%	Feb-20 % *	Carryover **
Total Industry		-2.4	-0.4	0.0	-2.0
Mining		5.5	0.8	-1.3	1.8
Manufacturing		-3.2	-0.6	1.1	-2.4
Capital Goods		-6.9	3.9	9.0	-5.9
Intermediate Goods		0.2	0.5	4.2	0.3
Consumer goods		-11.0	-2.8	-10.5	-8.0
Durable		-7.8	-4.5	-12.1	-6.5
Non-Durable		-10.2	-1.7	-8.6	-7.1
Construction Supplies		-1.8	1.4	16.8	0.3

Sources: IBGE, Santander.

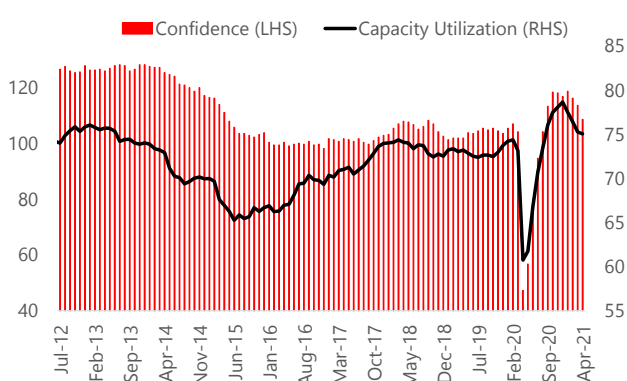
* Variation relative to February's reading

** Carryover left for 2Q21



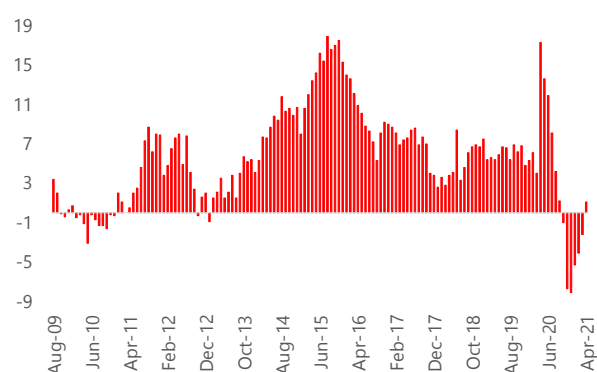
Looking ahead, soft data points to a weak start in 2Q21. FGV confidence data points to a loss of steam in April, with industrial confidence declining at the margin (but still above the neutral mark) and with the perception of excessive inventories rising. We anticipated that the level of inventories below what is considered desirable (see Figure 4.B), still-high confidence, and high capacity utilization (see Figure 4.A) to remain significant tailwinds for future production. However, we now believe that, following the resurgence of the pandemic, the widespread shortage of inputs and the continued spread of the virus will compromise the performance of domestic factories in the coming months. Regarding the auto industry, April is likely to have been affected by some factories still granting mandatory vacation to their employees and halting production, at the least up to the first half of the month. **For details on Santander's economic activity scenario, please refer to our latest chartbook¹.**

Figure 4.A. – Confidence (points, sa) x Capacity Utilization (% ,sa)



Sources: FGV, Santander.

Figure 4.B. – Inventories Perception: Excessive-Insufficient (points, sa)



Sources: FGV, Santander.

Figure 5 - “Heatmap” Showing Industrial Production by Activities

	By Activity (% MoM sa)											
	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
Food products	3.18	0.60	-1.19	2.10	0.29	1.85	-4.31	-2.70	-4.11	2.79	0.52	0.21
Oil and biofuel coke	-18.35	16.48	-1.61	5.58	3.32	0.90	-1.19	-0.70	-1.42	-1.34	-0.62	1.68
Vehicles	-89.16	250.00	70.97	41.73	16.83	13.91	4.17	9.93	4.14	-0.36	-7.74	-8.39
Metalurgy	-29.27	10.69	-1.09	18.68	3.70	4.08	3.19	1.54	18.71	-11.63	1.45	-0.66
Other chemical products	-7.57	-0.96	7.66	5.83	0.42	0.00	-2.53	5.30	0.21	0.51	2.76	-4.27
Machines and equipments	-31.42	13.15	11.44	15.34	1.36	12.72	2.26	3.72	6.05	-2.53	2.28	-0.74
Metalic products except machines and equipments	-25.82	17.80	13.92	13.63	3.00	3.04	2.83	3.23	4.86	-0.66	-3.89	-1.04
Non-metalic minerals	-26.20	20.80	16.75	11.89	4.27	4.68	1.90	0.55	1.09	0.43	-0.54	-2.49
Rubber and plastic products	-27.23	12.77	17.45	11.55	5.71	2.70	2.19	2.15	3.99	-1.21	0.10	-4.49
Beverages	-37.32	70.73	23.93	2.84	-2.11	-0.19	-2.45	3.57	-8.38	-1.02	-0.51	-3.41
Cellulose,paper and paper-based products	-1.30	-6.47	0.50	3.60	1.25	4.10	-1.01	0.37	-2.30	5.38	0.90	0.27
Machines, equipments and electric material	-33.91	20.83	26.86	10.09	2.36	5.75	0.48	3.13	0.23	1.28	-1.03	-2.09
Computer equipments, electronics and optical products	-33.69	29.06	20.57	15.24	1.03	5.08	-0.36	-1.46	6.03	-10.10	0.39	0.64
Pharmaceuticals	7.15	5.04	0.89	-0.44	-8.74	6.06	4.11	-10.10	8.79	-0.67	-2.15	-9.35
Manufacture of clothing and accessories	-41.18	19.33	7.26	31.01	13.94	11.11	4.49	8.32	9.60	0.35	-6.87	-14.13
Leather, travel items and footwears	-49.66	51.34	16.19	12.36	17.15	17.27	5.06	7.29	-3.76	1.74	-6.72	-11.21
Textile products	-40.13	9.95	35.48	26.35	9.81	5.53	2.38	1.98	14.95	-2.48	-9.16	-6.39
Other transport equipments, except motor vehicles	-76.19	56.52	133.33	6.12	-5.34	1.13	-4.24	13.99	-6.54	-16.85	6.84	34.98
Repair of Machines and equipments	-8.22	-3.18	-0.30	1.34	-3.53	3.66	-0.15	1.77	1.45	-5.85	1.67	5.37
Furniture	-36.80	48.01	29.37	17.74	3.61	1.08	-1.19	-1.56	1.34	2.90	-0.35	-9.29
Personal Care	1.20	-5.02	3.17	5.39	-7.14	2.28	-4.18	-0.58	0.39	3.30	-3.01	0.10
Wood products	-7.82	1.88	19.29	11.51	-0.60	5.24	3.54	0.37	-0.83	-2.51	-1.33	3.86
Printing and playback of recordings	0.00	0.00	0.00	-42.86	0.35	-5.61	30.48	30.48	-7.42	-0.24	13.24	16.08
Miscellaneous	-30.91	-15.25	29.00	29.51	8.73	-1.28	5.42	2.91	0.87	15.09	-8.33	-0.61
Tobacco products	-9.79	20.13	1.05	7.60	0.93	21.10	-17.23	-3.09	9.09	-12.01	9.59	3.48

Sources: IBGE, Santander

¹ Santander Brazil Economic Activity - “Chartbook - Lingering Impacts to Keep Recovery at a Slow Pace” – April 13, 2021- Available on: <http://bit.ly/STD-chartbook-Act-apr21>



Figure 6 - "Heatmap" Showing Industrial Production by Economic Category

		By Activity (% MoM sa)											
		Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
Capital Goods	Computer equipments, electronics and optical products	-22.0	9.8	10.1	9.9	4.9	4.3	-1.2	4.7	30.9	-17.4	2.5	-0.5
	Machines, equipments and electric material	-11.1	1.6	10.6	1.8	-1.5	9.4	2.1	3.2	2.1	-3.5	-5.9	2.2
	Machines and equipments	-26.6	15.1	3.6	16.5	4.4	8.3	3.2	10.4	-3.1	1.8	0.9	-3.8
	Vehicles	-83.2	181.0	60.1	20.7	-6.4	41.1	4.5	11.1	11.7	-2.3	2.6	-3.5
	Other transport equipments, except motor vehicles	-41.2	22.9	20.3	29.4	-36.2	9.0	-10.6	10.2	21.7	-20.8	19.8	-3.0
	Miscellaneous	-7.0	12.2	0.3	5.4	1.4	-2.1	-0.7	0.8	2.6	1.0	-1.5	1.2
Intermediate Goods	Mining	-0.9	-3.6	3.2	6.0	1.1	-5.4	-2.3	-2.4	1.7	2.8	-1.0	0.0
	Food products	17.5	-6.3	-3.4	0.7	-0.1	3.0	-4.7	-6.1	-3.0	0.6	2.6	2.1
	Textile products	-33.3	-2.9	34.8	21.4	12.4	7.4	3.8	2.7	10.9	-2.0	-5.6	-3.3
	Cellulose,paper and paper-based products	-0.5	-5.4	0.1	2.9	1.7	3.4	-0.3	-0.6	-1.2	4.7	1.0	-1.0
	Oil and biofuel coke	-19.0	19.8	-3.1	6.3	3.8	-2.1	-0.4	-0.2	-1.0	-3.4	0.6	2.5
	Other chemical products	-12.8	2.1	7.1	7.3	0.4	0.4	-3.2	6.0	0.5	1.1	1.8	-2.3
	Rubber and plastic products	-24.9	11.2	15.9	12.2	3.6	3.4	1.7	1.5	5.2	-2.3	-0.7	-1.5
	Non-mentalic minerals	-24.7	15.9	22.3	10.9	2.4	6.9	0.1	-0.1	1.8	-0.5	-0.5	-1.1
	Metalurgy	-30.0	11.0	1.6	17.1	3.1	5.1	2.1	1.2	17.4	-10.5	2.7	-0.1
	Metalic products except machines and equipments	-30.1	21.8	11.3	12.3	4.8	1.5	4.2	2.6	3.1	0.3	-4.2	1.4
	Machines and equipments	-38.1	16.8	13.4	17.4	6.0	10.5	1.8	0.2	7.7	-4.5	0.4	3.8
	Vehicles	-81.6	133.0	59.1	37.4	16.8	10.1	0.2	11.4	6.3	-6.5	-5.0	-6.5
	Miscellaneous	-22.7	7.7	24.1	11.1	3.9	6.4	2.9	4.9	-3.2	-0.6	-2.9	-0.1
	Durable Goods	Computer equipments, electronics and optical products	-43.5	45.2	29.2	22.5	-2.3	5.8	-1.9	-2.7	-8.4	-19.9	-0.2
Machines, equipments and electric material		-65.5	55.9	104.5	15.5	0.0	9.2	-3.8	-2.0	2.2	-3.4	2.0	-0.5
Vehicles		-104.2	-521.0	227.1	44.4	14.7	20.9	1.5	4.5	6.4	-3.9	-8.0	-13.0
Other transport equipments, except motor vehicles		-97.3	459.9	604.0	-1.4	-8.8	29.6	-29.7	22.4	-4.1	-36.6	10.0	63.3
Furniture		-44.2	86.3	27.5	19.2	3.5	-3.3	-0.1	-2.6	-0.1	4.1	0.1	-1.5
Miscellaneous		-50.2	0.9	14.0	57.2	-1.8	20.6	2.0	1.9	-4.1	6.8	5.6	11.6
Non Durable Goods	Food products	-1.7	0.4	2.0	2.1	-0.7	0.9	-1.5	0.1	-2.2	0.6	-0.1	-1.4
	Beverages	-21.5	1.4	29.7	8.0	1.3	0.0	-0.5	0.6	-0.4	-0.8	-0.3	-0.2
	Textile products	-57.3	48.7	52.7	23.2	5.3	6.8	-1.4	-0.2	8.0	0.0	-3.2	-8.0
	Manufacture of clothing and accessories	-40.8	0.5	11.2	46.0	17.2	11.2	9.8	9.6	8.5	-0.3	-4.3	-15.1
	Leather, travel items and footwears	-54.3	61.3	12.7	19.4	13.0	18.3	4.2	9.6	-4.4	0.6	-6.8	-7.4
	Printing and playback of recordings	-1.7	-44.3	167.5	-55.6	-31.1	-17.8	49.1	91.4	-12.9	8.8	-36.7	15.5
	Oil and biofuel coke	-9.0	7.2	-0.2	2.9	2.8	5.2	-5.4	0.5	-2.7	4.6	-3.0	-5.7
	Personal Care	1.5	-4.4	3.3	6.2	-6.6	1.7	-4.3	-0.9	0.2	2.0	-1.8	1.8
	Pharmaceuticals	7.8	-0.8	8.4	-3.0	-10.7	10.0	3.3	-13.8	16.4	-5.1	2.0	-10.4
	Miscellaneous	-21.5	1.4	29.7	8.0	1.3	0.0	-0.5	0.6	-0.4	-0.8	-0.3	-0.2

Sources: IBGE, Santander.



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