BRAZIL MACRO

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DATA ANALYSIS – ECONOMIC ACTIVITY

A Widespread Drop in January

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- January's headline manufacturing industry showed the first fall (-3.1%) since April's tumble, but in comparison to February 2020 (pre-crisis mark), the index is up by 9.8% and still reflecting optimism. In our view, despite signaling the start of softening in industrial activity ahead, high confidence, high capacity utilization and inventories still below the desirable level are to remain an important tailwind for production in coming months.
- For consumer confidence, January's negative result confirmed the downward trend seen in recent months, with the detailed figures highlighting headwinds in the job market. In our view, this result reflects the withdrawal of the emergency aid, the price hike in essential goods (e.g., Foods) and the bad outlook for employment.
- The aggregate business confidence posted a decrease (2.3%), with the details showing a worsening in expected demand and the perception of the business situation, thereby reflecting the uncertainty regarding the direction of the economy in the coming months.

Figure 1 - Confidence Breakdown

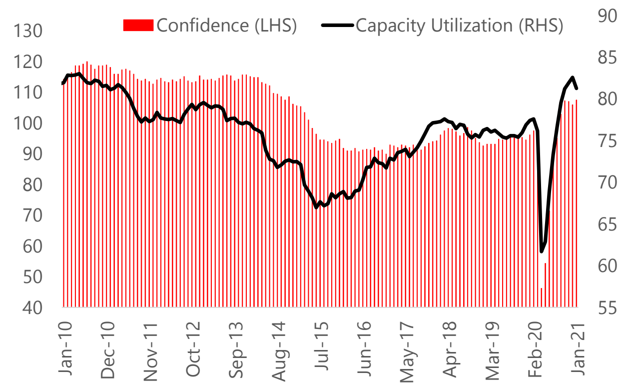
	MoM %			3MMA %			Feb-20 % Chg		
	Nov-20	Dec-20	Jan-21	Nov-20	Dec-20	Jan-21	Nov-20	Dec-20	Jan-21
Business	-1.5	-0.4	-2.3	0.4	-0.8	-1.4	-0.4	-0.8	-3.1
Industry	1.7	1.6	-3.1	4.5	2.5	0.0	11.5	13.3	9.8
Consumer	-0.8	-3.9	-3.4	0.6	-2.0	-2.7	-6.9	-10.6	-13.7
Retail Sales	-2.4	-1.9	-1.0	-1.1	-2.7	-1.8	-6.3	-8.1	-9.0
Building	-1.5	0.1	-1.5	2.2	0.9	-1.0	1.1	1.2	-0.3
Services	-2.4	0.9	-0.8	0.2	-0.7	-0.8	-9.5	-8.7	-9.4

Sources: FGV, Santander.

According to FGV's industrial survey, headline manufacturing confidence showed a 3.1% MoM-sa down, the first fall since April's tumble, consolidating a deceleration seen in the last months, with the 3mma (less-volatile) registering a stable result (0%). Despite this negative result at the margin, the index is at high levels, still reflecting optimism in the sector (above the 100-point neutral mark), and in comparison to the pre-crisis period, manufacturing confidence has risen 9.8% since February 2020 (pre-crisis mark). January's negative figure stems both from the current component (-3%) and the expectations components (-3%), with capacity utilization going up to 79.9% (from 79.3) and running close to its historical average.

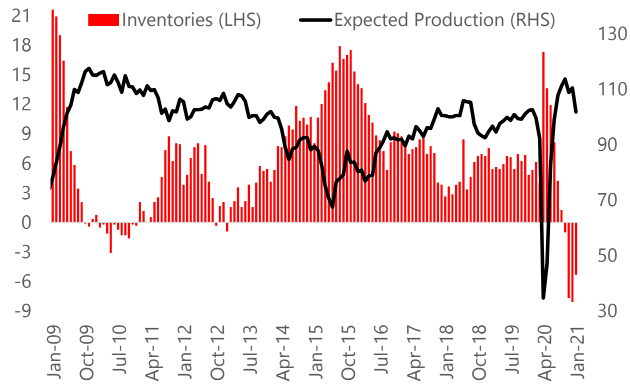
The details show sharp declines in expected demand (-12%) and expected production (-7.8%), almost fully giving back the gains seen until December, with the former standing now well below the current demand and sharply narrowing the demand gap, which may decelerate production ahead. The survey also indicates that inventory surplus (i.e., the percentage of respondents seeing inventories as excessive minus respondents seeing inventories as insufficient) was up, reaching -5.3 points (from -8.1), but still at low levels. In our view, despite signaling the start of softening in industrial activity ahead, high confidence, high capacity utilization and inventories still below the desirable level are to remain an important tailwind for production in coming months.

Figure 2 – Confidence x Capacity Utilization (sa)



Sources: FGV, Santander.

Figure 3 – Inventories x Expected Production (sa)

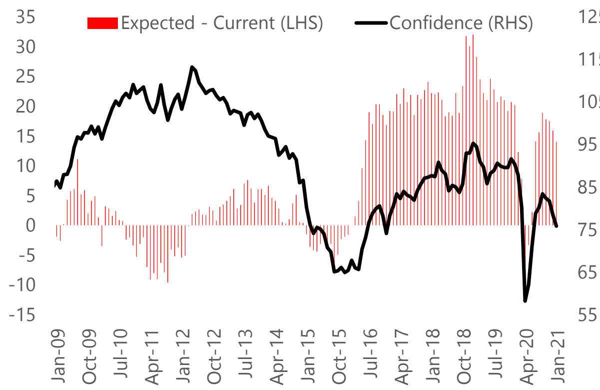


Sources: FGV, Santander.

Regarding consumer confidence, January's result pointed to another decline (-3.4%), the fourth in a row since September, reinforcing deterioration relative to the pre-crisis mark (down by 13.7%). This figure stems mainly from a fall of the expectation component (-4.1%), with the index remaining below (11.9%) the readings seen before the pandemic, while the current situation index pointed to a decline of 2.3%. In our view, this result reflects the withdrawal of the emergency aid, the price hike in essential goods (e.g., Foods) and the bad outlook for employment.

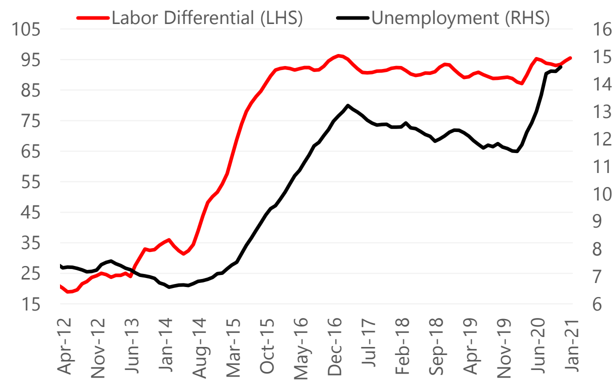
In the survey details, the intention to purchase durable goods points to another decline (-7.5%), after the sharp fall registered in December (-8.3%), fully giving back the gains seen until November and now running at levels 8.4% below the pre-crisis mark. Regarding employment figures, data reinforce the negative outlook, with expected employment down by 6.3%. Moreover, the labor differential (i.e., percentage of respondents seeing jobs hard to get minus respondents seeing jobs easy to get) was down, to 95.2 (from 96.9), but still at high levels. These figures highlight some existing headwind in the job market.

Figure 4 – Consumer Confidence Breakdown (sa)



Sources: FGV, Santander.

Figure 5 – 3mma-Labor Differential x Unemployment Rate (sa)



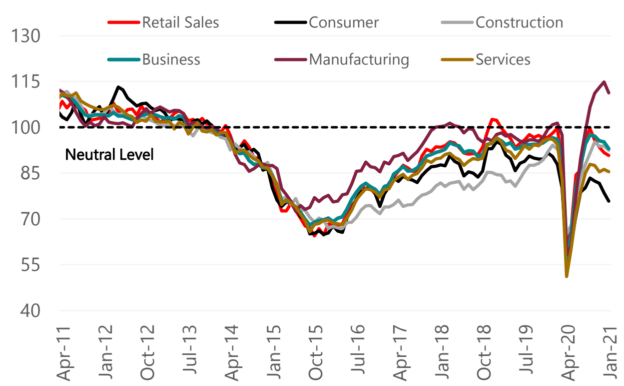
Sources: FGV, Santander.

Regarding other sectors, retail confidence pointed to a monthly decline (1.0%), reinforcing the downward trend observed in the recent months. The current situation component, which in September reached the highest reading since 2013, is now falling (3.8%) for the fourth month in a row, returning to the same level seen in July 2019. On the other side, the expectation component posted its third consecutive gain (2.2%), reflecting reduced pessimism, and although it is still far from fully recovering from the pandemic's impact, we can see a positive trend being recorded. In our view, possible reasons for this negative pace are also the withdrawal of the emergency aid, the drop in consumer confidence and the negative outlook for employment.

The figures from construction survey also showed a decrease (-1.5%), with the headline index fully giving back the gains seen until the December on the heels of easing in financial conditions and real estate market improvement. The gap between expected and current components, historically high since 2016, is gradually closing, which may suggest that previously made large adjustments have been maintained in recent months. Moreover, capacity utilization level was up to 74.0% (from 72.9%), fully recovering from the crisis and already above February's reading (70.6%). In our view, these figures may suggest a beginning of a softening move in the recovery of the construction sector.

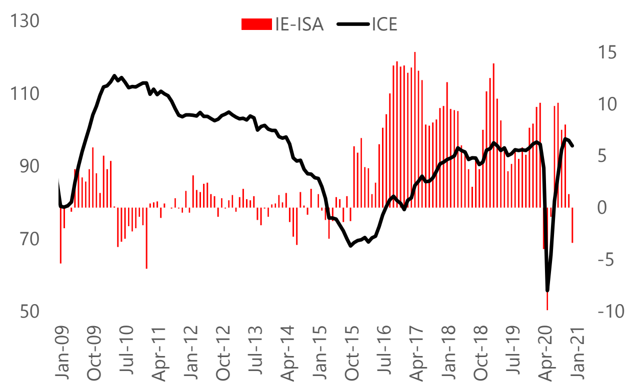
According to FGV, services confidence fell 0.8in January, giving back the gain recorded in December, which implies the headline index is down by 9.4% since February-2020. This figure was driven both by the current situation component (-0.9%) and the expectations component (-0.8%), which are standing further below the pre-pandemic readings. In the survey details, current business perception (-2.4%) and expected sales (-1.1%) were the lowlights, but expected employment pointed to a gain (2.5%), which may be positive for employment since the sector is labor-intensive. Among sectors, Services to Families surprised positively (9.3%), while Transport Services posted another sharp decline (-4.7%). Regarding the coming months, we expect the sector to maintain this negative pace given the pandemic's upsurge, as contagion evolves and with increased uncertainty regarding a massive vaccination campaign.

Figure 6 – Confidence Breakdown (sa)



Sources: FGV, Santander.

Figure 7 – Business Confidence Breakdown (sa)



Sources: FGV, Santander.

Finally, aggregate business confidence posted a decrease in January (-2.3%), reflecting the uncertainty regarding the direction of the economy in the coming months. In the breakdown, the current component fell by 2.8%, signaling a deceleration in economic activity, but it is still above the pre-crisis mark (2.8%), while the expectation index was down by 0.6%, the fourth consecutive decrease, therefore reflecting a pessimism regarding the first months of 2021. Indeed, the upsurge of the pandemic increasing contagion and the uncertainty regarding the rhythm of the massive vaccination campaign are reasons to reinforce this pessimism. The details show a worsening in current demand (-1.2%) and business situation perception (-3.4%), with expected demand (-4.1%) also contributing negatively. Expected employment, which rose in the last two months, was down by 1.8% in January, giving back the gains in December. All in all, the downward trend seen in the last months was reinforced in the beginning of 2021, and it's in line with our expectations of a sequential decrease in economic activity in 1Q221.

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