Santander
Macroeconomic Research

BRAZIL MACRO

March 2, 2021

DATA ANALYSIS – ECONOMIC ACTIVITY

Some gains at the margin, but widespread contraction

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- The industrial category of the Brazil macro confidence survey (Fig. 1) indicated a second MoM decrease in a row, reflecting a further decline in optimism. Although the index is currently still far above the pre-crisis mark, the data continues to show a deceleration at the margin, with a negative trend being recorded for the first time since June 2020.
- For the consumer confidence category, the headline index posted the first MoM gain after four consecutive declines, though not enough to offset the cumulative losses in recent months or to reverse the downward trend. Details of the survey point to employment headwinds in the job market adversely impacting sentiment.
- The business category of the confidence index posted yet another decrease of 1.9% MoM, the fifth decline in a row. Details of the survey showed a worsening of expected demand and employment, reflecting the uncertainty regarding the direction of the economy in the coming months.

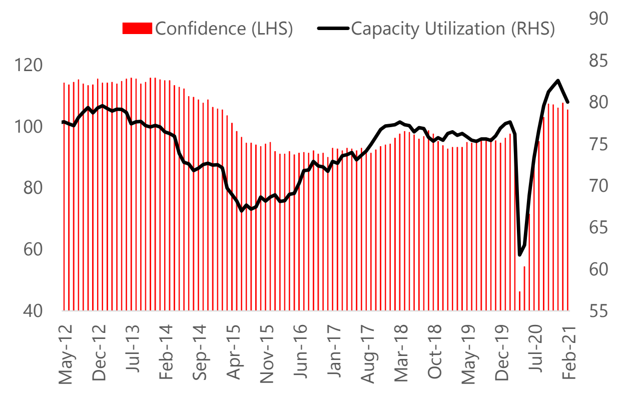
Figure 1 - Confidence Breakdown (seasonally adjusted)

	MoM %			3MMA %			Feb-20 % Chg		
	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21
Business	-0.4	-2.3	-1.9	-0.8	-1.5	-1.6	-0.7	-3.0	-4.9
Industry	1.6	-3.1	-3.1	2.5	0.0	-1.5	13.3	9.8	6.4
Consumer	-3.9	-3.4	2.9	-2.0	-2.7	-1.6	-10.6	-13.7	-11.2
Retail	-1.9	-1.0	0.2	-2.7	-1.8	-0.9	-8.1	-9.0	-8.8
Building	0.1	-1.5	-0.5	0.9	-1.0	-0.6	1.2	-0.3	-0.9
Services	0.9	-0.8	-2.7	-0.7	-0.8	-0.9	-8.7	-9.4	-11.9

Sources: FGV, Santander.

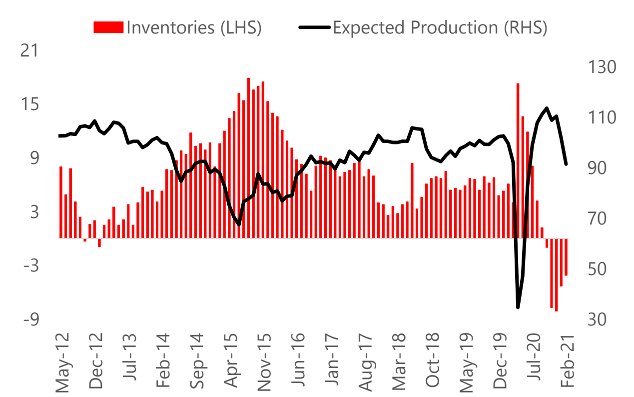
Continuing, confidence for the Industry category declined 3.1% MoM, the second decrease in a row, pointing to a deceleration at the margin, with the 3MMA falling 1.5% as well, the first decrease in seven months. The decrease in the headline index stems both from the current component (-1.2%) and the expectations component (-5.1%), with capacity utilization rising to 79.1% (from 79.9%), which is close to its historical average. Despite the decreases, the headline index remains above the neutral mark of 100. Hence, overall satisfaction remains positive with the current situation and optimism regarding the coming months. In comparison to the pre-crisis period, manufacturing confidence has risen 6.4% since February 2020 (pre-crisis mark). The details of the survey show sharp declines in expected demand (-8.1%) and expected production (-10.2%), fully giving back the gains dating back to December. The survey also indicates the inventory surplus (i.e., the percentage of respondents seeing inventories as excessive minus respondents seeing inventories as insufficient) increased to -4.1 points from -5.1, but it remains at historically low levels. In our view, although this data signals the start of a softening in industrial activity ahead, high confidence, high capacity utilization and low Inventories, remain strong tailwinds for production in the coming months.

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



Sources: FGV, Santander.

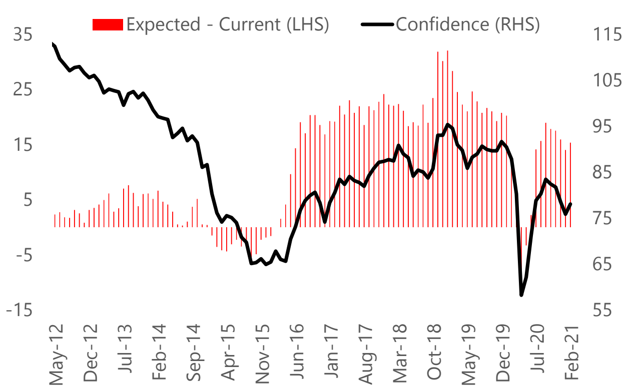
Figure 2.B – Inventories x Expected Production (points, sa)



Sources: FGV, Santander.

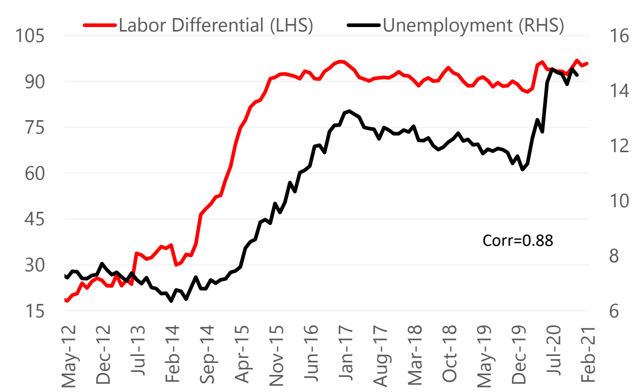
Regarding consumer confidence, the survey showed a positive result in February of 2.9% MoM, the first increase after four declines in a row. However, in the interannual variation (vs. the pre-crisis mark), the index is down by 11.2%. The positive February figure stems from both an increase in the expectation component (+3.3%), which still remains 9.0% below the reading seen before the pandemic, and from the current situation (+2.1%). Despite this positive result, the 3MMAstill reflects a downward trend (-1.6%). In the survey details, the intention to purchase durable goods points to a slight increase (0.5%), which is not enough to reverse the cumulative impact of the drops between December 2020 and January 2021—the index is still running 7.9% below the pre-crisis mark. Regarding employment figures, expected employment posted a sharp increase of 7.2%, but off a low base following four consecutive declines. Moreover, the labor differential (i.e., percentage of respondents finding jobs harder to find minus respondents finding jobs easy to find), which is highly correlated with the unemployment rate, increased to 95.9 from 95.2, a high level that underscores the existence of headwinds in the job market currently.

Figure 3.A – Consumer Confidence Breakdown (points, sa)



Sources: FGV, Santander.

Figure 3.B –Labor Differential (points, sa) x Unemployment (%, sa)



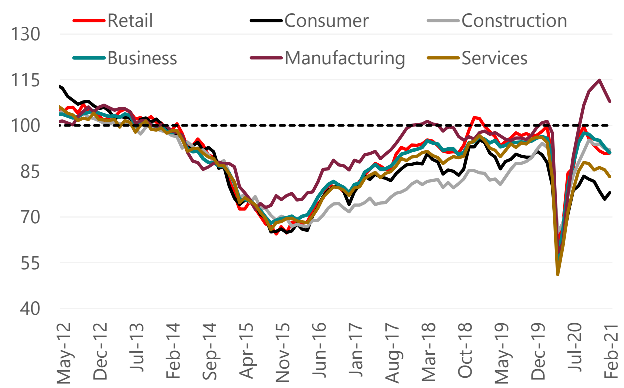
Sources: FGV, Santander.

Retail confidence posted a slight increase: the headline index was up 0.2% and is running at levels close to the readings seen in September 2018. Regarding the impact of the pandemic, the headline index is down 8.8% since February (pre-crisis mark). In the breakdown, the component data provided mixed signals. The current situation component, which in September reached the highest reading since 2013, was down 3.9% in February 2021, the fifth decline in a row. On the positive side, the expectation component posted the fourth consecutive gain (+4.1%), reflecting a decline in pessimism. In the survey details, the negative highlights were current demand (down by 1.6%) and the current business situation (down by 6.1%), while expected demand (+5.0%) and expected sales (4.9%) contributed positively to February's figure. In terms of the outlook, we expect a weak start for retail sales in 2021, reflecting the materialization of the fiscal cliff and the weak employment situation. Expectations of a new (smaller) round of emergency aid, an increase in consumer confidence, and progress in the massive vaccination campaign may contribute positively to a recovery in retail sales from 2Q21 onward, in our view.

The figures from FGV's construction survey for February showed a decrease (-0.5% MoM), with the headline index fully giving back the gains seen through December; the index for construction is now running 0.9% below the pre-crisis mark (February 2020). In the breakdown, this figure stems from a decrease in both the current situation index (-0.6%) and the expectations index (-0.5%). In comparison to the pre-crisis mark, the current situation component is still 3.8% above the level in February 2020, reflecting the easy financial conditions and the improvement in the real estate market, but it is now recording a negative trend, with the 3mma (less volatile) pointing to a 0.5% decrease at the margin. Capacity utilization was down to 73.3% (from 74.0%), but still above the pre-crisis mark (70.6% in February 2020). All in all, this report may suggest a softening pace in the recovery of the construction sector, in our view.

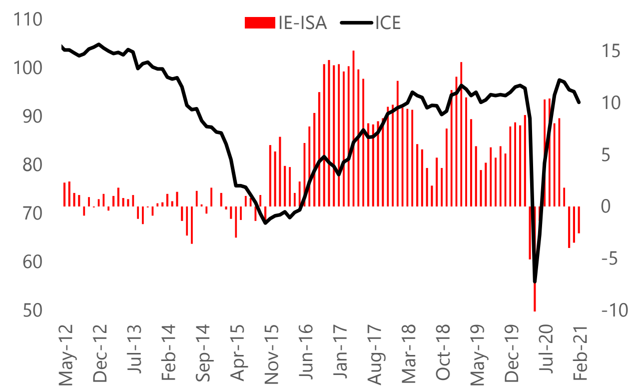
Services confidence fell 2.7 in February, which implies the index is down by 9.4% since February 2020. This figure is the result of both by the current situation component (-1.7%) and the expectations component (-3.6%), which are further below the pre-pandemic readings. In the survey details, current demand (-2.5%) and expected sales (-2.6%) were the weak points, and regarding employment figures, expected employment posted a sharp decrease (-4.5%), which may suggest some headwinds in the job market since the sector is labor-intensive. In terms of the outlook, we expect the sector to maintain a negative trend given a resurgence in the pandemic.

Figure 4.A – Confidence Breakdown (points, sa)



Sources: FGV, Santander.

Figure 4.B – Business Confidence Breakdown (points, sa)



Sources: FGV, Santander.

Finally, aggregate business confidence posted a decrease in February (-1.9%), reflecting uncertainty regarding the direction of the economy in the coming months. In comparison to the pre-crisis mark, the recorded YoY variation was -4.9%. In the breakdown, the current component fell by 2.0%, signaling a deceleration in economic activity, but it is still above the pre-crisis mark (up by 1.0% since February 2020), while the expectation index was down 1.0%, the fifth consecutive decrease reflecting pessimism regarding the first months of 2021. Indeed, the upsurge of the pandemic, with an increased rate of infection and uncertainty regarding the progress of the massive vaccination campaign suggest there is reason for pessimism, in our view. The details show a worsening in current demand (-2.4%) and expected employment (-4.2%). Business situation perceptions posted the third decline in a row (-1.6%), fully giving back the gains seen through December. All in all, the downward trend seen in the last few months continued at the beginning of 2021, and it is in line with our expectations of a sequential decrease in economic activity in 1Q21 (our estimate is -0.4%). For more details regarding our economic activity scenario (see link below)[1].

[1] **Santander Brazil Economic Activity - *"Lingering Impacts to Slow the Recovery"* –** February 23, 2021- Available on: http://bit.ly/Sant-econact-chart-fev21

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