

Solid growth but only partial recovery

Lucas Maynard*
lucas.maynard.da.silva@santander.com.br
+5511 3553 7495

- **Following last quarter's strong rebound, 4Q20 GDP grew 3.2% QoQ-sa (versus consensus of 2.8%),** which though solid, was not enough to offset the pandemic's impact, with GDP reaching levels still 1.1% below the pre-crisis mark (4Q19). Regarding full-year figures, the 2020 contraction was 4.1% (in line with our estimate).
- **The composition of 4Q20 growth shows a solid performance by non-farm sectors (supply),** with services posting sequential gains (+2.7%), but still far from fully recovering to pre-crisis levels; industry (+1.9%) consolidated the recovery, sharply increasing in 2H20. **On the demand side, we highlight strong investment growth (+20%)** — though this could be contaminated by accounting effects on oil platform imports — and household consumption (+3.4%) — subsequent to the payment of the emergency aid and the economy's gradual reopening.
- **In terms of outlook, the 4Q20 results imply a carryover of 3.6% for 2021 that could be partially mitigated by deteriorating economic activity in 1Q21** (our current estimate is -0.4%), mainly in the tertiary sector, given the materialization of the fiscal cliff and the setback of the economy's reopening process following the pandemic's resurgence.

GDP solidly expanded in 4Q20, though not enough to offset the pandemic's impact. The growth of 3.2% QoQ-sa was above consensus and our call (2.8%), positioning the economy at levels 1.1 below the pre-pandemic level (4Q19). Regarding the full-year figure, 2020 recorded a contraction of 4.1%, the sharpest decline in recent decades, but a still much better than expected result for economic activity than what was anticipated at the outset of the pandemic (median expectations reached ~-6%).

Among sectors, there was a well-diffused increase at the margin, with solid growth in the non-farm sectors. On the supply-side, the services sector solidly increased (2.7% QoQ-sa) on the heels of the advances in the economy's reopening process throughout the quarter, but with the YoY variation of -2.2%, reflecting the fact that this sector has been a laggard in the economic recovery. In the details, transports and retail, the two sectors mainly affected by lockdown measures, posted QoQ growth of 6.2% and 2.7%, respectively, with the former still recording a sharp YoY variation of 4.3%. Less affected services — like financial and rent services — were virtually stable, in our opinion, with quarterly results of -0.3% and 0.8%, respectively. Regarding industry, the solid growth (1.9% QoQ-sa) consolidated 2H20's full-recovery, with **this result stemming mainly from the manufacturing industry (4.9%),** in the wake of solid demand for goods and inventory replenishment.

On the demand side, a sharp contribution from domestic absorption. Household consumption posted solid growth (3.4% QoQ-sa), subsequent to the payment of the emergency aid and the economy's gradual reopening. **The large (and temporary) government transfers boosted the real wage bill, sustaining goods demand, while the economy's reopening supported increased consumption of services provided to families.** With respect to investments, the strong growth (20% QoQ-sa, an all-time high gain) was driven by increased net consumption of capital goods and the construction sector, in an environment of easier financial conditions, boost in house market and rise in commodity prices, **but it may be contaminated by the account**

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U.S. investors' inquiries should be directed to Santander Investment at (212) 350-0707.

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effects of oil platform imports. Indeed, filtering this issue, we estimate a quarterly growth of 10.7% (+7.5% YoY). Net exports, have contributed negatively to GDP, as imports (+22.0% QoQ s-a.) sharply increased following the plummet seen in the previous quarter (9.6% fall in 3Q20) and given the partial recovery of domestic demand. Exports fell 1.4%.

Savings and Investments end 2020 at higher rates than 2019. As expected throughout the year, amid an environment with precautionary savings but also with easier financial conditions, there was an increase in savings (15.0% over 12.6% in 2019) and in investments (16.4% over 15.4% in 2019).

A strong carryover for 2021, but partially mitigated by a likely deterioration in activity expected for the coming quarter. In terms of outlook, the fourth quarter's result implies a strong carryover of 3.6% for 2021, which should be partially mitigated by the deterioration in economic activity expected for 1Q21 (our current estimate is -0.4%), **especially in the tertiary sector, given the materialization of the fiscal cliff and the setback of the economy's reopening process following the pandemic's resurgence.** Indeed, our proprietary coincident indicators of retail sales and services already point in this direction^{1 2}. We expect industrial production to be supported in 1H21 by an inventory replenishment process, but a downside risk to this scenario is the widespread shortage inputs seen in manufacturing sectors (also a worldwide issue), that may compromise supply capacity of domestic industry. **For more details regarding our economic activity scenario, see link below³.**

Figure 1. GDP Projections Breakdown

		3Q20		4Q20e		4Q20		2020
	Weights	% YoY	% QoQ	% YoY	% QoQ	% YoY	% QoQ	% Year
GDP	100%	-3.9	7.7	-1.6	2.8	-1.1	3.2	-4.1
Supply								
Taxes	15%	-5.1	11.3	-1.8	3.3	0.2	5.2	-4.9
Agriculture	4%	0.4	-0.6	0.1	-0.2	-0.4	-0.5	2.0
Industry	17%	-0.9	15.4	0.8	1.4	1.2	1.9	-3.5
Mining	16%	1.0	2.1	-5.1	-3.3	-6.7	-4.7	1.3
Manufacturing	55%	-0.2	24.4	3.1	3.0	5.0	4.9	-4.3
Construction	15%	-7.9	6.0	-3.0	2.8	-4.8	-0.4	-7.0
Utilities	14%	3.8	8.4	0.1	-2.3	1.5	-1.2	-0.4
Services	63%	-4.8	6.4	-2.4	2.6	-2.2	2.7	-4.5
Retail	20%	-1.3	16.2	1.0	1.5	2.5	2.7	-3.1
Transports	6%	-10.4	12.9	-5.0	5.5	-4.3	6.2	-9.2
Information	5%	-1.3	3.1	1.3	2.9	2.4	3.8	-0.2
Financial	8%	6.0	1.4	5.0	3.6	3.1	-0.3	4.0
Other Services	22%	-14.4	7.8	-8.9	7.3	-9.4	6.8	-12.1
Rents	13%	2.7	1.1	3.2	0.6	3.5	0.8	2.5
Public Services	25%	-5.4	3.2	-5.6	0.4	-3.8	1.8	-4.7
Demand								
Consumption	64%	-6.0	7.7	-3.2	3.2	-3.0	3.4	-5.5
Government	21%	-5.3	3.5	-3.8	1.3	-4.1	1.1	-4.7
Investments	18%	-7.8	10.7	12.2	18.6	13.5	20.0	-0.8
Exports	17%	-1.1	-2.0	-7.2	-3.0	-4.3	-1.4	-1.8
Imports	-17%	-25.0	-9.6	0.2	25.5	-3.1	22.0	-10.0

Sources: IBGE, Santander.

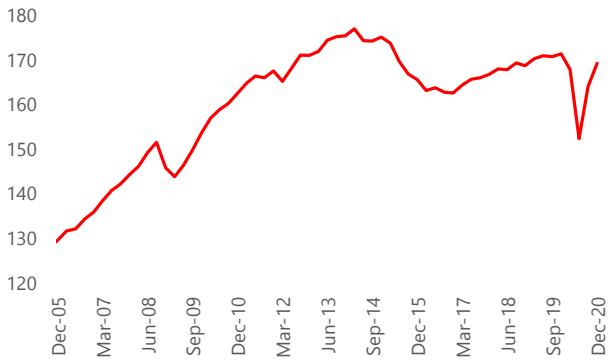
¹ Santander Brazil Economic Activity - "IGET Fevereiro (Prévia): Varejo devolve parte das perdas" – February 19, 2021- Available (in Portuguese) on: <http://bit.ly/Sant-iget-previa-fev21>

² Santander Brazil Economic Activity - "IGET Fevereiro (Prévia): Serviços mostram alta na margem" – February 19, 2021- Available (in Portuguese) on: <http://bit.ly/Sant-iget-serv-fev21>

³ Santander Brazil Economic Activity - "Economic Activity Chartbook - Lingering impacts to slow the recovery" – February 23, 2021- Available on: <http://bit.ly/Sant-econact-chart-fev21>

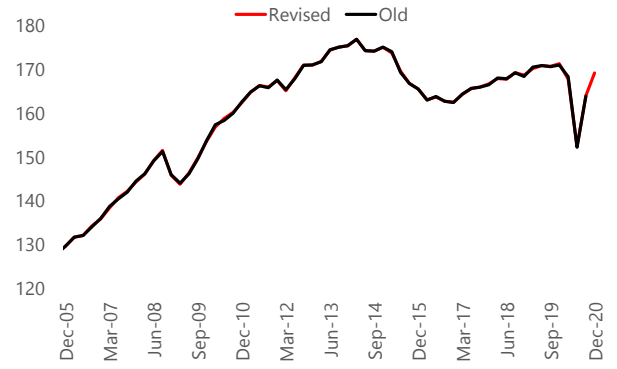


Figure 2.A – Real GDP (points, sa)



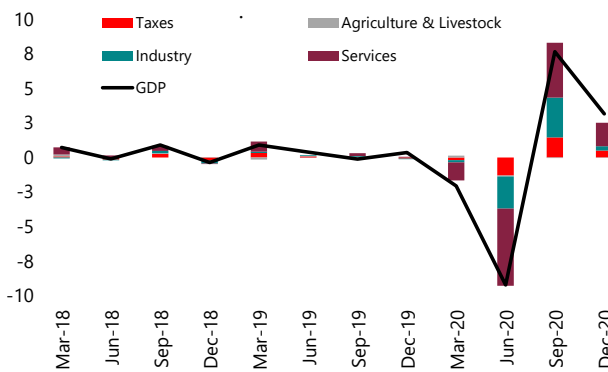
Sources: IBGE, Santander.

Figure 2.B – Real GDP (points, sa)



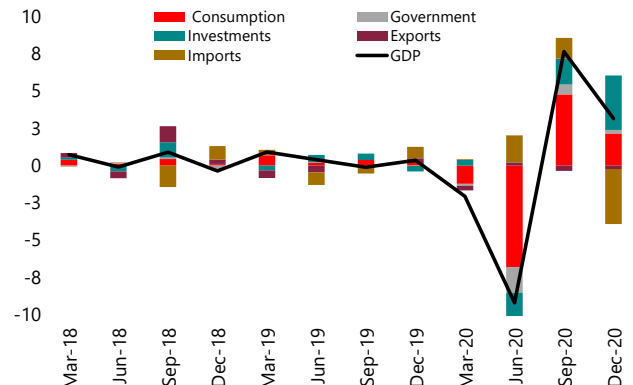
Sources: IBGE, Santander.

Figure 3.A – GDP Supply (% QoQ sa)



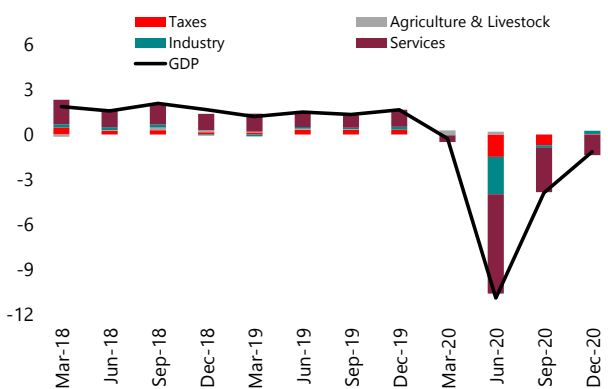
Sources: IBGE, Santander.

Figure 3.B – GDP Demand (% QoQ sa)



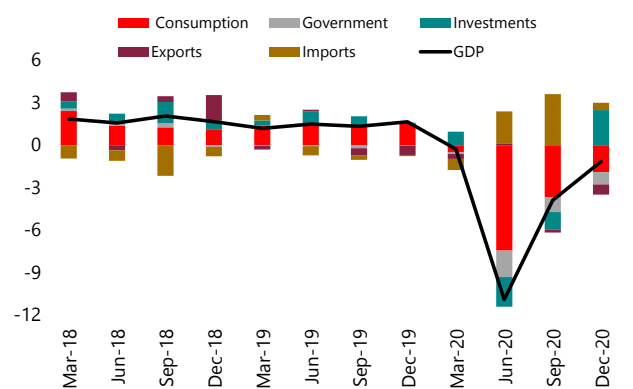
Sources: IBGE, Santander.

Figure 4.A – GDP Supply (% YoY)



Sources: IBGE, Santander.

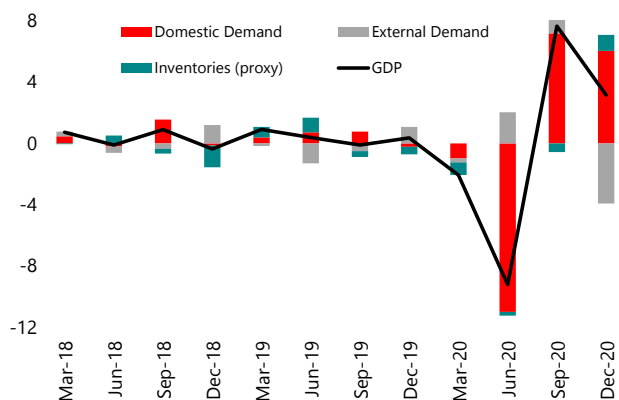
Figure 4.B – GDP Demand (% YoY)



Sources: IBGE, Santander.

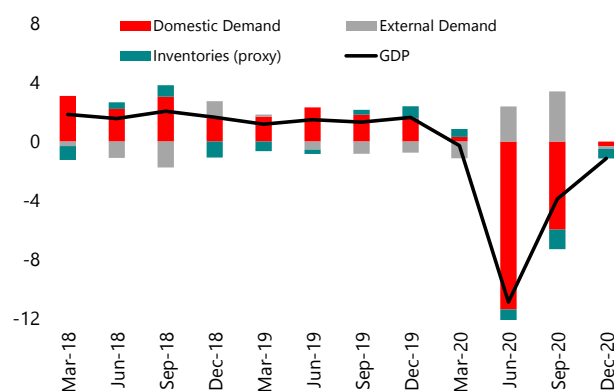


Figure 5.A – GDP Contributions (% QoQ sa)



Sources: IBGE, Santander.

Figure 5.B – GDP Contributions (% YoY)



Sources: IBGE, Santander.

Figure 6 – Yearly Changes and Contributions

	Weights		% YoY				Yearly Contributions (p.p)						
	4Q20	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
GDP	100%	1.3	1.6	-0.3	-10.9	-3.9	-1.1	1.3	1.6	-0.3	-10.9	-3.9	-1.1
Supply													
Taxes	15%	2.2	2.2	-0.3	-14.5	-5.1	0.2	0.3	0.3	0.0	-1.5	-0.7	0.0
Agriculture	4%	1.1	-1.4	4.0	2.5	0.4	-0.4	0.0	0.0	0.3	0.2	0.0	0.0
Industry	17%	0.5	1.0	-0.3	-14.1	-0.9	1.2	0.1	0.2	-0.1	-2.5	-0.2	0.2
Mining	16%	4.2	4.1	5.5	7.1	1.0	-6.7	0.1	0.1	0.1	0.2	0.0	-0.2
Manufacturing	55%	-1.5	0.8	-1.1	-20.9	-0.2	5.0	-0.2	0.1	-0.1	-2.1	0.0	0.5
Construction	15%	4.3	0.0	-1.6	-13.6	-7.9	-4.8	0.1	0.0	0.0	-0.4	-0.2	-0.1
Utilities	14%	1.7	-1.0	-1.1	-5.5	3.8	1.5	0.0	0.0	0.0	-0.1	0.1	0.0
Services	63%	1.3	1.8	-0.7	-10.2	-4.8	-2.2	0.8	1.1	-0.4	-6.6	-3.0	-1.4
Retail	20%	2.4	2.1	0.7	-14.4	-1.3	2.5	0.3	0.2	0.1	-1.5	-0.2	0.3
Transports	6%	-0.1	0.8	-1.5	-20.7	-10.4	-4.3	0.0	0.0	-0.1	-0.8	-0.4	-0.2
Information	5%	5.5	5.3	1.3	-3.4	-1.3	2.4	0.2	0.2	0.0	-0.1	0.0	0.1
Financial	8%	1.5	3.2	1.1	5.7	6.0	3.1	0.1	0.2	0.1	0.4	0.4	0.2
Other Services	22%	1.6	2.2	-3.6	-20.8	-14.4	-9.4	0.2	0.3	-0.5	-2.9	-1.9	-1.3
Rents	13%	2.0	1.3	2.0	1.8	2.7	3.5	0.2	0.1	0.2	0.2	0.2	0.3
Public Services	25%	-0.7	0.3	-1.1	-8.4	-5.4	-3.8	-0.1	0.0	-0.2	-1.4	-0.8	-0.6
Demand													
Consumption	64%	2.1	2.3	-0.7	-12.2	-6.0	-3.0	1.4	1.5	-0.5	-7.4	-3.7	-1.9
Government	21%	-1.1	-0.1	-0.8	-8.5	-5.3	-4.1	-0.2	0.0	-0.1	-1.9	-1.0	-0.9
Investments	18%	4.1	0.5	6.0	-13.9	-7.8	13.5	0.7	0.1	0.9	-2.1	-1.3	2.5
Exports	17%	-3.3	-4.8	-2.4	0.7	-1.1	-4.3	-0.5	-0.7	-0.3	0.1	-0.2	-0.7
Imports	-17%	2.2	0.6	5.2	-14.6	-25.0	-3.1	-0.3	-0.1	-0.8	2.3	3.6	0.5

Sources: IBGE, Santander.



Figure 7 – Quarterly Changes and Contributions

	Weights		% QoQ-sa					Quarterly Contributions (p.p)					
	4Q20	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
GDP	100%	-0.1	0.4	-2.1	-9.2	7.7	3.2	-0.1	0.4	-2.1	-9.2	7.7	3.2
Supply													
Taxes	15%	-0.3	-0.5	-1.3	-12.7	10.4	3.3	0.0	-0.1	-0.2	-1.3	1.5	0.5
Agriculture	4%	1.4	-0.2	2.0	-0.9	-0.6	-0.5	0.1	0.0	0.1	-0.1	0.0	0.0
Industry	17%	0.3	-0.2	-0.9	-13.1	15.4	1.9	0.1	0.0	-0.2	-2.3	2.9	0.3
Mining	16%	9.0	2.9	-3.1	-1.2	2.1	-4.7	0.3	0.1	-0.1	0.0	0.1	-0.1
Manufacturing	55%	-1.4	0.0	-0.9	-18.9	24.4	4.9	-0.1	0.0	-0.1	-1.9	2.7	0.5
Construction	15%	0.0	-3.8	-2.4	-7.7	6.0	-0.4	0.0	-0.1	-0.1	-0.2	0.2	0.0
Utilities	14%	-1.3	1.0	0.2	-5.5	8.4	-1.2	0.0	0.0	0.0	-0.1	0.2	0.0
Services	63%	0.3	0.1	-2.1	-8.6	6.4	2.7	0.2	0.1	-1.3	-5.6	4.0	1.7
Retail	20%	0.7	-0.7	-1.2	-13.3	16.2	2.7	0.1	-0.1	-0.1	-1.4	2.0	0.3
Transports	6%	0.5	-0.3	-1.7	-19.1	12.9	6.2	0.0	0.0	-0.1	-0.7	0.5	0.2
Information	5%	1.1	0.1	-1.7	-2.8	3.1	3.8	0.0	0.0	0.0	-0.1	0.1	0.1
Financial	8%	1.3	1.9	0.2	2.1	1.4	-0.3	0.1	0.1	0.0	0.1	0.1	0.0
Other Services	22%	-0.3	1.0	-5.4	-16.8	7.8	6.8	0.0	0.2	-0.8	-2.4	1.0	1.0
Rents	13%	0.2	0.0	0.8	0.8	1.1	0.8	0.0	0.0	0.1	0.1	0.1	0.1
Public Services	25%	-0.1	0.3	-1.9	-6.7	3.2	1.8	0.0	0.0	-0.3	-1.1	0.5	0.3
Demand													
Consumption	64%	0.6	0.3	-1.9	-11.3	7.7	3.4	0.4	0.2	-1.2	-6.8	4.8	2.2
Government	21%	-0.2	-0.1	-0.7	-7.7	3.5	1.1	0.0	0.0	-0.1	-1.7	0.7	0.2
Investments	18%	2.6	-2.5	2.4	-16.3	10.7	20.0	0.4	-0.4	0.4	-2.5	1.7	3.7
Exports	17%	-0.5	2.2	-2.2	1.1	-2.0	-1.4	-0.1	0.3	-0.3	0.2	-0.4	-0.2
Imports	-17%	2.8	-5.3	-0.3	-11.8	-9.6	22.0	-0.4	0.8	0.1	1.8	1.4	-3.7

Sources: IBGE, Santander.

Figure 8 – Revisions

	4Q19		1Q20		2Q20	
	%QoQ		%QoQ		%QoQ	
	Old	Revised	Old	Revised	Old	Revised
GDP	0.2	0.4	-1.5	-2.1	-9.6	-9.2
Taxes	-0.5	-0.5	-1.3	-1.6	-12.7	-12.9
Agriculture	-1.7	-0.2	2.9	2.0	-0.2	-0.9
Industry	0.1	-0.2	-0.9	-0.9	-13.0	-13.1
Mining	1.2	2.9	-2.5	-3.1	-0.3	-1.2
Manufacturing	0.9	0.0	-1.1	-0.9	-19.1	-18.9
Construction	-3.8	-3.8	-1.7	-2.4	-8.1	-7.7
Utilities	0.5	1.0	0.3	0.2	-5.1	-5.5
Services	0.4	0.1	-1.5	-2.1	-9.4	-8.6
Retail	-0.2	-0.7	-1.1	-1.2	-13.7	-13.3
Transports	0.0	-0.3	-2.0	-1.7	-19.0	-19.1
Information	1.1	0.1	-2.2	-1.7	-3.2	-2.8
Financial	1.4	1.9	0.2	0.2	2.6	2.1
Other Services	0.8	1.0	-5.1	-5.4	-16.9	-16.8
Rents	0.1	0.0	0.8	0.8	0.8	0.8
Public Services	0.8	0.3	-1.6	-1.9	-7.0	-6.7
Consumption	0.4	0.3	-2.0	-1.9	-11.3	-11.3
Government	-0.3	-0.1	-0.5	-0.7	-7.7	-7.7
Investments	-2.7	-2.5	2.4	2.4	-16.5	-16.3
Exports	1.7	2.2	-1.9	-2.2	1.6	1.1
Imports	-4.7	-5.3	-0.5	-0.3	-12.4	-11.8

Sources: IBGE, 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 – Credit	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
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
Daniel Gewehr*	Head, Brazil	dhgewehr@santander.com.br	5511-3012-5787

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