

Solid Growth Driven by Tertiary Sector

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

- **The Brazil Central Bank's (BCB) activity indicator showed solid growth in February.** The IBC-Br posted a monthly gain of 1.7% MoM-sa (1.0% YoY), the tenth gain in a row and well above market expectations (0.9%).
- **February's figure placed the economy at levels 2.3% above the pre-crisis mark, according to this indicator.** This result is consistent with broad retail (4.1%) and services (3.7%) growth more than offsetting the decline in industrial production (-0.7%).
- **Looking ahead, today's result implies a solid carryover of 3.2% for 1Q21.** Given this figure, we understand that a sharp quarterly contraction in 1Q21 is unlikely, even with the expected deterioration in March. Our tracking for IBC-Br in March stands at -4.5% MoM-sa (3.8% YoY).
- **We forecast nearly stable 1Q21 GDP.** The pandemic's upsurge was more intense in March, which led to the adoption of tighter social-distancing measures on a national basis and hard-hitting segments of the tertiary sector. Even considering this scenario, we expect stable 1Q21 GDP (+0.2% QoQ-sa), but with a sequential deterioration in 2Q21 (-0.6% QoQ-sa).

Figure 1 – Economic Activity Breakdown

	% MoM			% YoY			% QoQ		
	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21
IBC-Br	0.8	1.3	1.7	1.6	-0.5	1.0	3.6	3.1	3.1
Industrial Production	0.8	0.4	-0.7	8.3	2.3	0.3	5.0	3.3	1.9
Core Retail Sales	-6.1	-0.2	0.6	1.3	-0.3	-3.9	0.0	-3.4	-5.8
Broad Retail Sales	-3.1	-2.2	4.1	2.8	-3.1	-1.9	3.2	-0.8	-2.4
Services Sector	0.3	0.1	3.7	-3.1	-5.0	-2.0	6.1	4.5	3.8

Sources: IBGE, BCB, Santander.

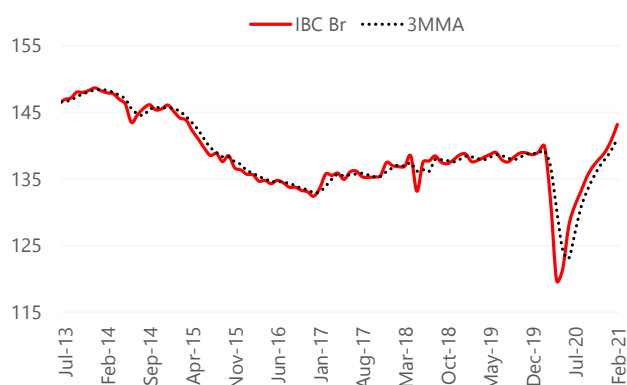
Data released today confirmed solid growth of economic activity in February. The BCB published its monthly activity indicator for February, capping the batch of activity index releases for the month. The IBC-Br posted a monthly gain of 1.7% MoM-sa (1.0% YoY), the tenth in a row and well above market expectations (0.9%). The first figures of 2021 painted a picture of some resilience in economic activity, particularly considering the materialization of the fiscal cliff, since 2H20 growth was boosted by government income transfers.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629 / (212) 350-918.
 * Employed by a non-US affiliate of Santander Investment Securities, Inc. and is not registered/qualified as a research analyst under FINRA rules.

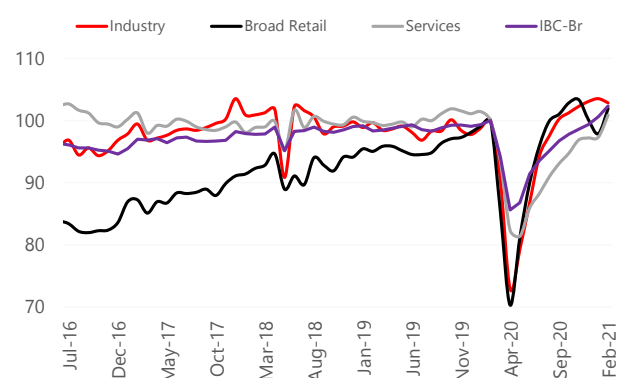


Figure 2.A – IBC-Br (sa, 2013=100)



Sources: BCB, Santander.

Figure 2.B – Economic Activity Indexes (sa, February 2020=100)



Sources: IBGE, BCB, Santander.

Figure 3 – Recovery Breakdown

	Feb-21	% MoM	% QoQ	% Feb-20 *	Carryover **
IBC-Br		1.7	3.1	2.3	3.2
Industrial Production		-0.7	1.9	2.8	0.8
Core Retail Sales		0.6	-5.8	0.4	-4.0
Broad Retail Sales		4.1	-2.4	1.9	-1.5
Services Sector		3.7	3.8	0.9	3.6

Sources: IBGE, BCB, Santander.

* Variation relative to February 2020 (seasonally adjusted basis)

** Carryover for 1Q21.

February's figure placed the economy at levels 2.3% above the pre-crisis mark, according to this indicator. The index is running at the highest reading since March 2015. This monthly figure reflects nearly a full recovery from the losses wrought by the crisis, with all the three key-sector already surpassing the pre-crisis mark. Looking at the data from a sectorial perspective, February's figure is consistent with growth of tertiary activity indicators more than offsetting the decline in industry. Broad retail sales¹ and services real revenue² showed solid growth of 4.1% and 3.7%, respectively, while industrial production³ retreated by 0.7%.

Looking ahead, today's figure implies a solid carryover of 3.2% for 1Q21. Given this figure, we understand that a sharp quarterly contraction in 1Q21 is unlikely, even with the expected deterioration in March. Economic activity coincident indicators for March are already available, and we can see sharp declines in car sales, car production, retail sales, flow of light vehicles on roads and real revenue of services provided to families. However, we do not expect the magnitude of the drop to be comparable with the steep declines seen in last year's March and April figures. Our tracking of IBC-Br in March stands at -4.5% MoM-sa (3.8% YoY), far from -6% and -9% seen in 2020 March and April, respectively.

¹ Santander Brazil Economic Activity - "A Strong February Precedes a Worrisome March" – April 13, 2021 - Available on: <http://bit.ly/STD-retail-feb21>

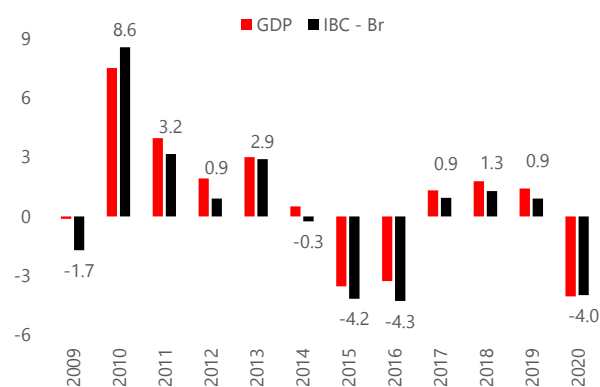
² Santander Brazil Economic Activity - "Strong Growth in February" – April 15, 2021- Available on: <http://bit.ly/Std-pms-feb21>

³ Santander Brazil Economic Activity - "A Surprising Decline in February" – April 01, 2021 - Available on: <https://bit.ly/Std-Indprod-feb21>



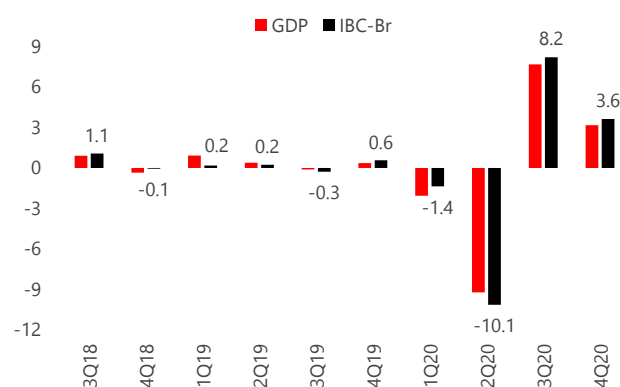
We forecast nearly stable 1Q21 GDP. The pandemic's upsurge was more intense in March, which led to the adoption of tighter social-distancing measures on a national basis and hard-hitting segments of the tertiary sector. Moreover, in addition to the health crisis, the widespread shortage of inputs led to production stoppages in segments of the manufacturing domestic industry. Even considering this scenario, we expect stable 1Q21 GDP (+0.2% QoQ-sa), but with sequential deterioration in 2Q21 (-0.6% QoQ-sa). **For more details regarding our economic activity scenario, see link below⁴.**

Figure 4.A – GDP vs IBC-Br (Full-Year %)



Sources: IBGE, BCB, Santander.

Figure 4.B – GDP vs IBC-Br (sa, QoQ%)



Sources: IBGE, BCB, Santander.

Figure 5 – “Heatmap” Showing Economic Activity by Coincident Indexes

		By Index (% MoM sa)											
		abr/20	mai/20	jun/20	jul/20	ago/20	set/20	out/20	nov/20	dez/20	jan/21	fev/21	mar/21
Industry	Light Vehicles Production	-99.4%	3306.8%	153.1%	59.8%	19.3%	10.1%	1.8%	8.4%	3.6%	-2.6%	-13.1%	-
	Heavy Vehicles Production	-92.6%	575.5%	32.3%	12.6%	11.9%	20.6%	7.4%	17.5%	1.3%	-0.5%	5.7%	0.9%
	Steel Production	-26.0%	19.5%	-1.4%	12.3%	7.2%	-2.6%	0.6%	8.5%	4.1%	-3.0%	3.2%	-
	Corrugated Fiberboard Production	-5.9%	-8.0%	11.2%	4.1%	3.1%	2.9%	-2.4%	-0.3%	2.1%	0.6%	5.1%	-3.5%
	Heavy Vehicles Road Flow	-18.5%	10.3%	9.6%	4.2%	2.1%	2.8%	0.7%	1.5%	-0.5%	0.7%	1.0%	0.1%
	Energy	-9.5%	3.8%	4.0%	3.5%	1.4%	3.2%	0.5%	-1.3%	1.7%	-0.3%	0.9%	1.2%
	Capacity Utilization (FGV)*	-23.9%	5.2%	10.4%	8.6%	4.1%	3.9%	2.0%	-0.1%	-0.5%	0.8%	-1.0%	-1.0%
	Capacity Utilization (CNI)*	-12.8%	6.0%	3.8%	3.8%	2.2%	1.8%	0.9%	0.0%	1.0%	0.0%	-0.5%	-
	Intermediate Goods Imports	-7.3%	-2.4%	-21.5%	6.0%	9.8%	3.8%	3.2%	22.5%	0.3%	3.2%	1.7%	-
	Motorcycles Production	-98.4%	878.0%	486.5%	6.5%	1.5%	6.3%	-14.0%	23.5%	1.6%	-46.6%	1.4%	82.4%
	Oil Production	-1.0%	-9.0%	9.1%	1.9%	2.0%	-6.5%	-2.4%	-3.4%	-3.3%	5.3%	6.8%	-
	Cement Consumption	6.2%	11.8%	8.3%	0.4%	0.7%	-0.3%	2.2%	-1.8%	-3.9%	6.2%	1.5%	-3.2%
	Retail	Autovehicles Sales	-65.9%	16.9%	111.8%	15.9%	8.6%	4.8%	2.1%	3.6%	-3.8%	-0.8%	5.4%
Light Commercial Sales		-45.0%	1.6%	55.9%	20.5%	17.2%	7.5%	0.9%	3.1%	-12.8%	17.9%	5.8%	-8.3%
Motorcycles Sales		-57.7%	3.5%	63.0%	59.3%	15.0%	-5.7%	-3.7%	-4.3%	-4.7%	-1.3%	-13.0%	-11.9%
Light Vehicles Road Flow		-38.9%	29.7%	20.2%	-1.1%	19.3%	6.0%	4.4%	-0.7%	-5.2%	-3.6%	4.7%	-17.4%
Broad IGet		-23.1%	14.7%	9.9%	4.6%	1.9%	1.0%	-2.3%	-7.1%	-1.4%	-3.2%	2.3%	-3.4%
Credit to Households		-15.0%	0.6%	12.1%	3.2%	5.9%	6.2%	1.6%	1.7%	-6.6%	-4.0%	5.8%	-
ACSP SPC		-32.9%	4.4%	16.6%	26.2%	16.2%	7.2%	2.0%	1.1%	-0.7%	-10.7%	13.5%	-29.0%
ACSP Usecheque		-51.0%	-18.1%	64.9%	8.3%	4.3%	14.2%	5.6%	2.7%	-7.7%	8.7%	8.4%	-34.5%
Serasa		-20.5%	4.6%	14.4%	4.3%	5.1%	3.1%	2.8%	3.4%	0.8%	-1.1%	0.1%	-7.3%
Consumer Confidence (current)		-13.8%	-0.9%	8.6%	0.6%	0.7%	1.5%	-0.3%	-0.8%	-2.9%	-2.3%	2.1%	-7.9%
Retail Confidence (current)	-15.7%	-1.2%	7.0%	1.9%	1.4%	1.8%	0.7%	-0.1%	-0.3%	-1.2%	-1.0%	-8.0%	
Services	Capacity Utilization (FGV)*	-3.4%	-1.8%	-1.4%	-4.4%	1.7%	-0.1%	-0.2%	1.8%	-0.6%	0.8%	-1.2%	-1.5%
	Services Confidence (current)	-34.9%	2.7%	12.3%	10.9%	8.2%	0.1%	3.4%	0.4%	1.1%	-0.9%	-1.8%	-5.3%
	IGet Services	-47.7%	25.6%	8.7%	7.6%	17.9%	13.0%	14.3%	-5.7%	-7.6%	-2.9%	-1.2%	-32.3%
	ANAC Flights	-92.5%	34.1%	70.5%	45.8%	49.7%	40.5%	27.0%	20.8%	8.8%	3.0%	-13.4%	-
	Heavy Vehicles Road Flow	-18.5%	10.3%	9.6%	4.2%	2.1%	2.8%	0.7%	1.5%	-0.5%	0.7%	1.0%	0.1%

Sources: Anfavea, Fenabrave, IBS, ABCR, Abraciclo, Funcex, ANP, BCB, ACSP, Serasa, FGV, ANAC, Santander

⁴ 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>



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
Henrique Navarro*	Head, Brazil	havieira@santander.com.br	5511-3012-5756

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Lucas Maynard*.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2021 by Santander Investment Securities Inc. All Rights Reserved.

