

A Surprising Decline in February

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- **In February, industrial production surprised negatively, decreasing 0.7% MoM-sa, well below the market's expectations (+0.5%), breaking a string of nine gains in a row.** February's figure stems mainly from a sharp drop in the mining industry (-4.7%), while manufacturing posted a slight decrease (-0.2%). In comparison to the pre-crisis mark (February 2020), industrial production is up by 2.8%.
- **In the breakdown, Durable Goods stood out by falling 4.6%, while Capital Goods posted its first decrease (-1.5%) after nine gains in a row.** In the details, these negative results stem mainly from the auto industry, with Vehicles posting sharp decreases of 13.4% and 14.1% in the Capital Goods and Durable Goods categories, respectively.
- **We had expected industrial production to be supported in 1H21 by inventory replenishment, despite lower demand for industrial goods.** However, we now expect the widespread shortage of inputs and the resurgence of the pandemic to compromise the performance of domestic factories in the coming months.

Figure 1 – Industrial Production Breakdown

	% MoM			% YoY			% QoQ		
	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21
Total Industry	0.8	0.4	-0.7	8.3	2.3	0.3	5.0	3.3	1.9
Mining	3.8	1.0	-4.7	-3.9	0.2	-6.6	-6.9	-4.8	-1.0
Manufacturing	1.3	0.1	-0.2	10.3	2.7	1.3	6.9	4.9	2.9
Capital Goods	2.7	4.6	-1.5	35.2	17.3	0.0	21.9	19.3	12.9
Intermediate Goods	1.3	-1.0	0.6	8.4	2.8	0.0	1.7	0.7	0.7
Consumer goods	0.4	0.8	-1.1	4.2	-1.4	0.0	5.9	4.2	2.0
Durable	1.1	-1.0	-4.6	14.1	-4.0	0.0	15.8	10.1	2.9
Non-Durable	-0.2	1.7	-0.3	2.0	-0.6	0.0	3.2	2.6	1.4
Construction Supplies	1.5	-0.1	1.0	21.4	12.7	11.6	7.3	6.4	4.3

Sources: IBGE, Santander.

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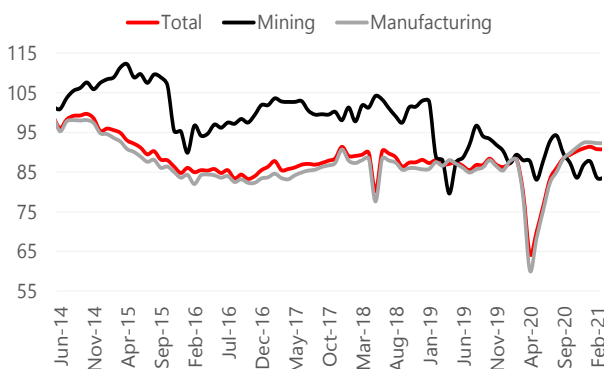
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Industrial production surprised negatively in February. The headline index declined sharply by 0.7% MoM-sa, well below the market's expectations (+0.5%), breaking a string of nine gains in a row. February's figure stems mainly from a sharp drop in the mining industry (-4.7%), mainly due to mineral mining, while manufacturing, which corresponds to more than half of industrial GDP, posted a slight decrease (-0.2%). Regarding the impact of the pandemic, the headline index is running at levels above the pre-pandemic period: in comparison to February 2020, industrial production is up by 2.8%.

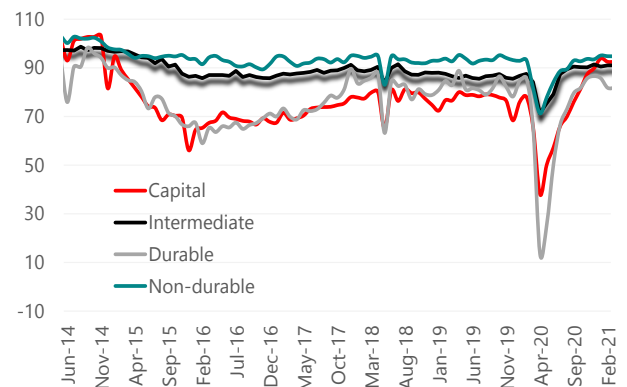
Among economic categories, February's negative figure stems mainly from the auto segments of Capital Goods and Durable Goods. Durable Goods stood out by falling 4.6%, reflecting the plummet in the Vehicles segment (-14.1%) in this category. Capital Goods posted its first decrease (-1.5%) after nine gains in a row, stemming mainly from the Vehicles segment (-13.4%). Construction supplies, related to investments as capital goods, expanded 1.0%. These categories are well above the pre-pandemic readings, and we believe their positive trends bode well for likely increases in investment spending ahead, especially in an environment with still loose financial conditions. However, we acknowledge that an increase in uncertainty could be a downside risk to this scenario.

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



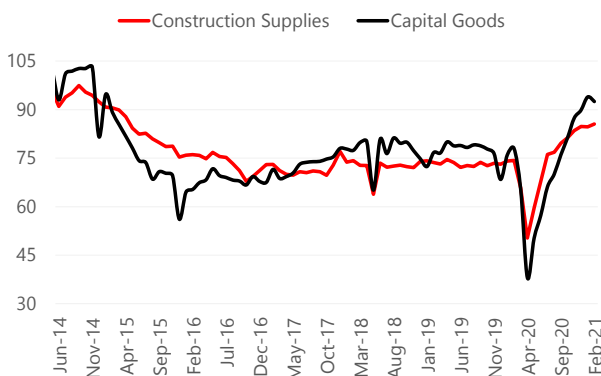
Sources: IBGE, Santander.

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



Sources: IBGE, Santander.

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



Sources: IBGE, Santander.

Figure 3.B – Recovery Breakdown

	Feb-21	MoM %	Feb-20 % *	Carryover **
Total Industry		-0.7	2.8	0.8
Mining		-4.7	-6.5	-1.1
Manufacturing		-0.2	4.8	1.4
Capital Goods		-1.5	18.6	7.9
Intermediate Goods		0.6	4.0	0.2
Consumer goods		-1.1	0.4	0.9
Durable		-4.6	-4.7	-1.9
Non-Durable		-0.3	1.7	1.7
Construction Supplies		1.0	15.2	2.5

Sources: IBGE, Santander.

* Variation relative to February's reading

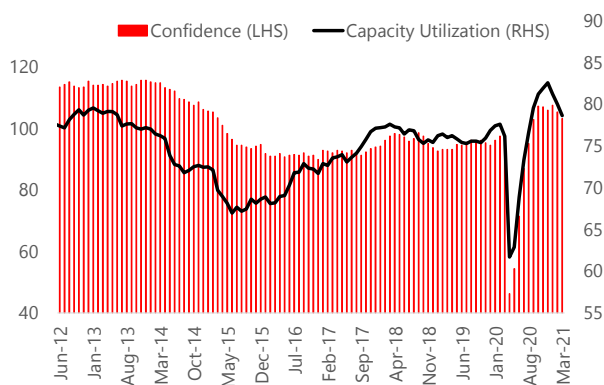
** Carryover for 1Q21



In the details, the growth, again, was not diffuse. The percentage of industrial segments whose production increased this month was weak, reaching 48% (52% in the previous month). In addition to the sharp decline seen in the Vehicles segment, Textile Products also showed a negative result (-8.9%). On the positive side, the main highlights were Other Transport Equipment (+6.3%) and Printing and Playback of recordings (+6.0%).

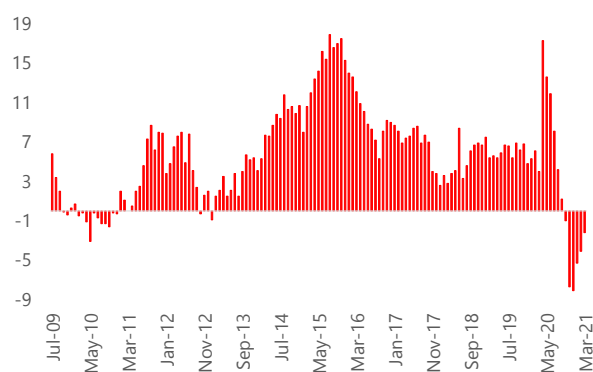
The widespread shortage of inputs and the resurgence of the public health crisis may compromise the performance of domestic factories in the coming months, in our view. We had expected industrial production to be supported in 1H21 by inventory replenishment, despite lower demand for industrial goods. 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 the widespread shortage of inputs and the resurgence of the pandemic will compromise the performance of domestic factories in the coming months. Regarding the auto industry, the outlook for March and April is affected by some factories already granting mandatory vacation to their employees and halting production. **For more details regarding our scenario review, see link below¹.**

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)											
	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
Food products	-1.22	3.18	0.60	-1.19	2.20	0.29	1.85	-4.11	-2.89	-4.21	2.89	0.52
Oil and biofuel coke	-0.41	-18.35	16.48	-1.61	5.58	3.32	0.90	-1.19	-0.70	-1.42	-1.44	-0.73
Vehicles	-28.14	-89.16	250.00	70.97	43.56	16.22	14.45	5.16	10.10	4.83	0.47	-7.18
Metalurgy	-2.73	-29.27	10.69	-1.09	18.87	3.57	4.21	3.06	1.66	18.83	-11.71	1.45
Other chemical products	-5.87	-7.57	-0.96	7.66	6.29	0.11	0.11	-2.32	5.18	0.31	0.41	3.26
Machines and equipments	-8.04	-31.42	13.15	11.44	15.54	1.49	12.85	2.37	4.06	5.68	-2.00	2.80
Metalic products except machines and equipments	-11.32	-25.82	17.80	13.92	13.80	3.13	3.16	3.19	3.33	4.37	0.22	-4.07
Non-mentalic minerals	-12.02	-26.20	20.80	16.75	12.19	4.15	4.69	2.02	0.55	0.98	0.11	-0.54
Rubber and plastic products	-13.02	-27.23	12.77	17.45	12.00	5.36	3.16	2.30	2.25	3.56	-0.71	0.61
Beverages	-19.57	-37.32	70.73	23.93	3.94	-1.57	0.47	-1.87	3.43	-7.83	-0.30	-1.80
Cellulose,paper and paper-based products	-0.73	-1.30	-6.47	0.50	3.60	1.25	4.00	-0.92	0.37	-2.40	5.38	0.99
Machines, equipments and eletric material	-10.39	-33.91	20.83	26.86	10.51	3.30	6.78	1.56	2.00	1.62	1.25	-0.79
Computer equipments, eletronics and optical products	-7.57	-33.69	29.06	20.57	15.21	1.03	4.95	-0.48	-1.46	6.04	-10.47	0.39
Pharmaceuticals	-11.25	7.15	5.04	0.89	-0.22	-8.84	6.18	4.34	-10.07	8.76	-0.45	-3.37
Manufacture of clothing and accessories	-37.19	-41.18	19.33	7.26	31.34	13.45	13.36	5.74	9.61	11.18	0.46	-3.53
Leather, travel items and footwears	-31.48	-49.66	51.34	16.19	14.05	17.50	18.21	5.02	7.56	-4.03	1.94	-5.91
Textile products	-21.53	-40.13	9.95	35.48	26.75	9.52	6.05	2.61	1.97	15.21	-3.15	-8.95
Other transport equipments, except motor vehicles	-3.59	-76.19	56.52	133.33	5.88	-5.34	1.13	-4.24	13.99	-6.54	-16.19	6.27
Repair of Machines and equipments	0.00	-8.22	-3.18	-0.30	1.49	-3.68	3.82	-0.44	1.48	1.31	-5.61	0.30
Furniture	-28.95	-36.80	48.01	29.37	19.02	3.50	1.69	-0.59	-1.31	1.93	3.20	0.69
Personal Care	1.59	1.20	-5.02	3.17	5.39	-7.14	2.37	-4.17	-0.58	0.49	3.20	-2.16
Wood products	-15.42	-7.82	1.88	19.29	10.47	0.00	4.29	3.16	0.00	-1.21	-2.54	-1.73
Printing and playback of recordings	0.00	0.00	0.00	0.00	-32.43	-8.98	4.42	15.31	23.73	-15.30	2.96	6.02
Miscellaneous	-12.05	-30.91	-15.25	29.00	29.51	8.73	-1.16	5.65	3.01	0.76	15.04	-8.22
Tobacco products	-14.55	-9.79	20.13	1.05	7.47	1.04	21.90	-18.06	-3.56	7.98	-10.80	3.58

Sources: IBGE, Santander

¹ Santander Brazil - “Anchoring power is dwindling” – April 1, 2021- Available on: <http://bit.ly/Std-scenario-Apr21>



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

		By Activity (% MoM sa)											
		Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
Capital Goods	Computer equipments, electronics and optical products	21.4	-37.3	14.2	12.6	13.1	11.7	-5.9	0.2	9.0	26.1	-22.8	17.7
	Machines, equipments and electric material	7.0	-25.5	-4.6	34.3	-6.3	-3.9	14.3	7.0	7.1	0.6	-11.0	0.8
	Machines and equipments	-2.2	-38.4	13.7	19.3	12.2	0.1	18.8	1.4	9.4	13.7	-11.2	-1.5
	Vehicles	-5.1	90.1	331.9	57.4	9.7	5.4	34.1	6.0	18.0	32.8	-14.9	-13.4
	Other transport equipments, except motor vehicles	23.6	-50.9	20.3	34.5	10.5	-14.9	-0.2	-7.9	4.1	13.5	-9.7	45.0
	Miscellaneous	-14.4	-5.8	7.5	9.0	5.5	1.0	-1.1	-4.8	-1.4	19.1	-9.7	-0.7
Intermediate Goods	Mining	-0.8	10.1	-14.1	4.9	2.6	-3.2	-2.4	-2.0	-3.2	5.7	4.4	-7.0
	Food products	-0.1	19.8	-8.1	-1.2	2.9	-4.7	7.3	-10.4	-4.5	-5.2	-4.7	2.3
	Textile products	-13.7	-42.2	2.1	42.9	20.9	9.5	11.1	1.1	2.0	16.6	-7.7	-13.8
	Cellulose,paper and paper-based products	-1.8	-2.4	-7.1	7.7	1.6	-0.2	5.9	-3.4	1.4	-2.1	3.4	-0.6
	Oil and biofuel coke	-1.5	-16.7	16.2	-2.2	6.0	2.5	-3.3	4.0	-7.7	-7.6	-5.8	1.6
	Other chemical products	-2.4	-16.3	-1.8	13.6	11.6	-1.6	0.7	-5.8	9.9	2.2	-4.3	2.5
	Rubber and plastic products	-7.6	-30.9	11.0	23.6	8.9	5.0	3.8	0.0	-0.6	10.7	-7.4	-2.4
	Non-ferrous metals	-8.5	-30.1	21.3	24.3	7.8	3.0	6.9	-1.4	1.3	6.0	-4.5	-2.1
	Metalurgy	-7.7	-30.2	9.4	3.3	18.9	3.7	6.9	5.0	1.8	22.6	-17.0	-1.9
	Metallic products except machines and equipments	-4.7	-34.8	19.9	21.7	10.7	3.4	3.4	1.0	4.0	12.4	-7.7	-5.7
	Machines and equipments	8.2	-43.2	9.5	31.8	13.7	7.3	10.2	1.7	-0.1	28.3	-18.5	1.9
	Vehicles	-16.6	-81.6	99.3	64.7	36.8	12.3	13.5	-2.1	8.9	23.3	-18.7	-6.6
	Miscellaneous	-10.7	-28.8	6.3	36.4	9.7	-2.7	15.3	-6.8	8.8	1.5	-8.4	-4.2
	Durable Goods	Computer equipments, electronics and optical products	10.5	-50.4	38.2	61.8	11.4	-7.8	16.5	-10.1	-8.7	10.6	-38.8
Machines, equipments and electric material		-3.6	-71.1	69.0	104.6	17.3	-2.0	9.2	-11.5	2.2	9.2	-8.6	-3.4
Vehicles		-1.0	99.9	13900.0	184.3	54.8	20.8	14.4	-8.5	22.1	14.5	-9.6	-14.1
Other transport equipments, except motor vehicles		14.4	-97.3	513.8	538.8	-8.6	-16.4	29.9	-23.4	30.5	0.4	-45.8	14.5
Furniture		-15.3	-59.0	72.7	62.2	7.3	6.7	-2.7	-5.4	-0.1	12.1	-6.7	-2.1
Miscellaneous		11.1	-64.1	-5.0	18.7	77.0	-2.3	23.3	-6.6	-0.5	0.1	-2.7	7.1
Non Durable Goods	Food products	4.2	-9.5	-1.7	14.2	-2.4	-3.5	5.0	-6.6	1.7	2.0	-4.0	0.9
	Beverages	-21.5	-37.3	77.2	27.5	1.6	-2.9	-0.4	-2.7	-1.6	-5.8	-3.8	1.2
	Textile products	-19.7	-63.5	64.4	62.7	22.4	3.0	2.3	-3.6	-2.3	14.0	-3.0	-5.2
	Manufacture of clothing and accessories	-24.7	-54.1	18.4	34.6	24.0	16.9	14.1	4.8	8.2	12.7	-4.7	-3.8
	Leather, travel items and footwear	29.7	-63.4	58.1	24.3	25.6	16.8	34.7	-0.8	8.0	13.3	-11.8	-10.3
	Printing and playback of recordings	65.9	-38.0	53.0	164.5	-49.4	-29.3	15.0	36.3	23.5	-53.4	237.9	25.1
	Oil and biofuel coke	-9.7	-9.6	6.2	-0.8	3.8	-0.1	12.7	-10.6	8.3	2.4	4.9	-4.9
	Personal Care	10.7	-4.9	-3.2	14.7	0.4	-13.4	7.6	-7.3	-2.2	3.5	-1.5	-4.1
	Pharmaceuticals	-3.0	2.0	3.7	13.2	-12.8	-4.8	18.4	-8.2	-11.9	31.3	-12.6	-1.2
	Miscellaneous	2.5	-29.3	-1.4	42.1	9.1	-3.3	1.5	-4.1	1.5	8.6	-9.1	-1.3

Sources: IBGE, Santander.



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