Santander
Macroeconomic Research

BRAZIL MACRO February 1, 2022

DATA ANALYSIS – ECONOMIC ACTIVITY

Continued Widespread Weakening in January

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- **Industrial confidence continued to weaken in January, retreating 1.7% and marking the sixth consecutive decline.** The headline index reached 98.4 points, below the 100-point neutral threshold and 3.0% below the pre-pandemic mark (February 2020), reflecting worsening in both the current situation assessment and expectations. Moreover, the details indicated continued weakening in expected production, while the inventory surplus slightly decreased, to 1.2 points.
- **Consumer confidence marked a new weak print, tumbling 1.9% MoM-sa.** January's weak figure reinforced the downward trend seen since September's tumble (-7.9%) and placed the index 15.6% below the pre-pandemic mark. Moreover, the intention to purchase durable goods retreated again. Conversely, the details indicate that the labor differential was down for the first time since August 2021.
- **Weak figures in the tertiary sector.** Retail confidence retreated 0.5% MoM-sa, the third decline in a row but with better prints for both current and expected demand. Services confidence shrank 4.5%, marking the third consecutive decline and reaching below pre-pandemic levels for the first time since July 2021.
- **Construction confidence contracted 4.0% MoM-sa, with expectations worsening.** January's figure marked a weak start to 1Q22, mainly reflecting a deteriorating demand outlook for the coming months. Moreover, the index retroacted to pre-crisis readings but with a continued reduction in the percentage of respondents pointing to raw material costs as the major obstacle to activities (26.9% from an all-time high of 40.3% in August 2021).
- **All in all, the aggregated business index reflected this widespread drop in economic confidence by shrinking 2.7% MoM-sa.** This result marked the third decline in a row, reaching 91.6 points — below the 100-point neutral threshold — and placing the index 5.9% below the pre-pandemic mark.

Industrial confidence continued to weaken in January, marking the sixth decline in a row. The headline index extended its negative trend to the start of 2022, reaching levels below the 100 points neutral threshold (98.4 points) and 3.0% below the pre-pandemic mark. Looking at the breakdown, January's fall stems both from a less favorable current situation assessment (-1.2%) and a more cautious expectation (-2.0%).

Survey details indicated worsening in demand and expected production. Indeed, actual and expected demand continued to weaken, retreating 4.1% and 4.4%, respectively, retracting to below pre-pandemic levels. Expected production also printed a retreat (-4.8%), widening the gap relative to the 2019 average (-4.6%). The demand gap (the difference between expected and current demand) widened to -2.9 points (-2.7 in December) but considerably below the local low of February 2021 (-18.9 points), perhaps suggesting a softening deterioration pace ahead.

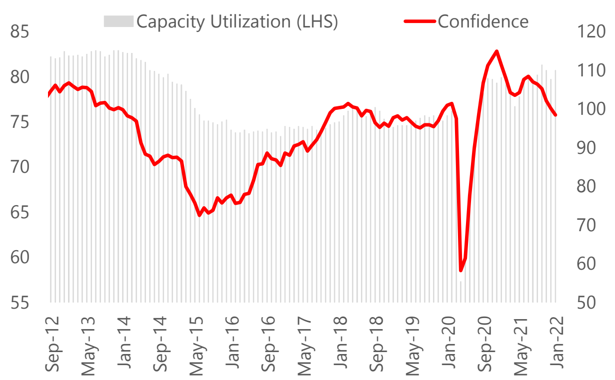
Capacity utilization rose 1.0 p.p., to 80.7% (79.7% in December), still well above the pre-pandemic average (~76%). Survey details also indicate that inventories surplus (i.e., the percentage of respondents seeing inventories as excessive minus respondents seeing inventories as insufficient) was down to 1.2 points (vs. 3.5 points in December), the fourth consecutive month with a positive print but still considerably below the historical average. This time around, however, amid significant global supply hurdles in the wake of the pandemic, low inventories likely mean that local industry is having a hard time overcoming high costs and widespread input shortages.

Figure 1 – Confidence Breakdown

	Headline (as)			MoM %			Feb-20 % Chg *		
	Nov-21	Dec-21	Jan-22	Nov-21	Dec-21	Jan-22	Nov-21	Dec-21	Jan-22
Business	**96.4**	**94.1**	**91.6**	**-4.0**	**-2.4**	**-2.7**	**-0.9**	**-3.3**	**-5.9**
Current	97.0	95.8	91.3	-2.5	-1.2	-4.7	5.2	3.9	-1.0
Expectations	95.8	94.4	91.4	-4.5	-1.5	-3.2	-5.1	-6.5	-9.5
Industry	**102.1**	**100.1**	**98.4**	**-2.9**	**-2.0**	**-1.7**	**0.7**	**-1.3**	**-3.0**
Current	103.7	101.0	99.8	-4.2	-2.6	-1.2	2.8	0.1	-1.1
Expectations	100.3	99.1	97.1	-1.6	-1.2	-2.0	-1.5	-2.7	-4.6
Consumer	**74.9**	**75.5**	**74.1**	**-1.8**	**0.8**	**-1.9**	**-14.7**	**-14.0**	**-15.6**
Current	66.9	65.6	66.1	-3.0	-1.9	0.8	-17.3	-18.9	-18.3
Expectations	81.4	83.4	80.7	-1.2	2.5	-3.2	-12.7	-10.5	-13.4
Retail	**88.0**	**85.3**	**84.9**	**-6.6**	**-3.1**	**-0.5**	**-11.8**	**-14.5**	**-14.9**
Current	88.3	84.0	80.5	-7.3	-4.9	-4.2	-4.6	-9.3	-13.1
Expectations	88.2	87.3	90.0	-5.5	-1.0	3.1	-17.6	-18.4	-15.9
Services	**96.8**	**95.5**	**91.2**	**-2.3**	**-1.3**	**-4.5**	**2.5**	**1.2**	**-3.4**
Current	92.8	92.5	89.4	-1.9	-0.3	-3.4	2.9	2.5	-0.9
Expectations	100.9	98.7	93.2	-2.6	-2.2	-5.6	2.0	-0.2	-5.8
Construction	**95.3**	**96.7**	**92.8**	**-0.8**	**1.5**	**-4.0**	**2.7**	**4.2**	**0.0**
Current	92.0	92.8	90.7	0.0	0.9	-2.3	6.1	7.0	4.6
Expectations	98.7	100.8	95.0	-1.6	2.1	-5.8	-0.3	1.8	-4.0

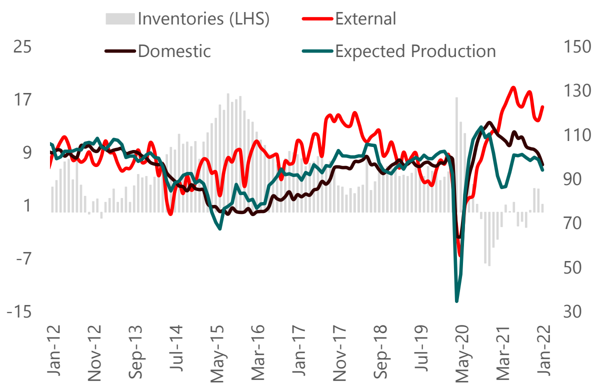
Sources: FGV, Santander. * Variation relative to February's reading.

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



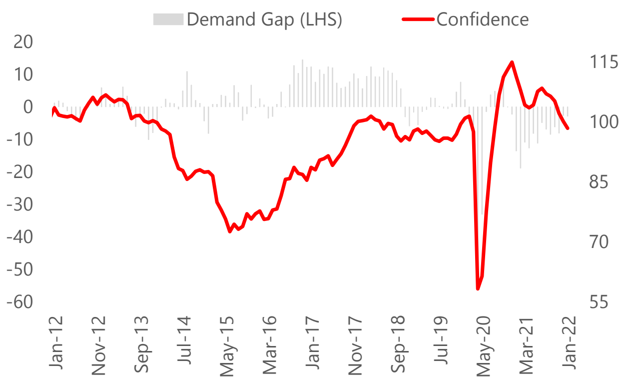
Sources: FGV, Santander.

Figure 2.B – Inventories Perception*, Current Demand and Expected Production (points, sa)**



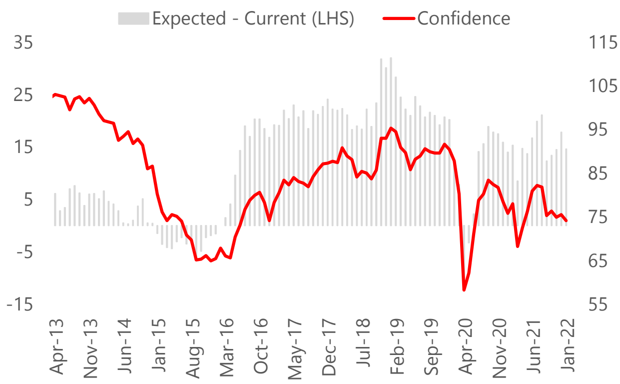
Sources: FGV, Santander. *Excessive – Insufficient, ** domestic and external demand

Figure 3.A – Demand Gap x Industrial Confidence (points, sa)



Sources: FGV, Santander.

Figure 3.B – Consumer Confidence (sa, points)



Sources: FGV, Santander.

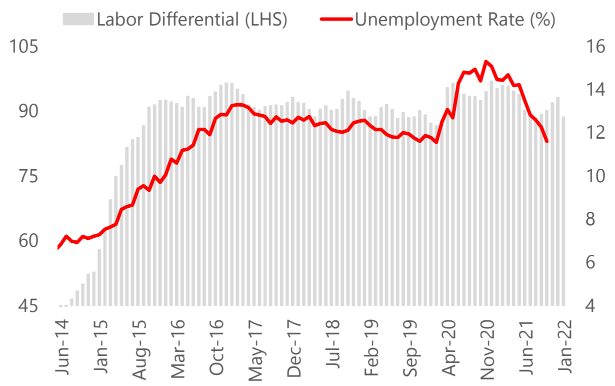
January's weak print reinforced the downward trend in consumer confidence. The index retreated 1.9%**,** marking the second decline in a row and reinforcing the downward trend seen since September's tumble (-7.9%). Moreover, January's result places the index still 15.6% below the pre-pandemic mark, with the headline index being influenced by worsening expectations (-3.2%) at the same time that the assessment of the current situation slightly increased (+0.8%).

The survey details also indicated that the intention to purchase durable goods retreated by the fifth month in a row. The 4.0% MoM-sa drop placed this rubric 27% below the 2019 average. Median expected inflation slightly decreased to 9.9% (from 10.1%), and regarding employment figures, expected employment fell 4.8%, while the labor differential (i.e., percentage of respondents seeing jobs hard to get minus respondents seeing jobs easy to get) was down to 88.6 points (from 93.1), the first decrease since August 2021. This result placed the index close to the 2019 average of 89.5 points, perhaps suggesting a more favorable job market outlook ahead.

Weak figures in the tertiary sector. Retail confidence continued to weaken in January, dropping 0.5% MoM-sa and marking the third decline in a row — though printing weak figures since August 2021. The index reached 84.9 points, well below the 100-point neutral mark and 14.9% below the pre-pandemic mark. January's figure stems mainly from an unfavorable assessment of the current situation (-4.2%) at the same time that expectations expanded (+3.1%). Regarding demand, both current assessment (+0.6%) and expectations (+10.0%) improved, following five months printing weak figures amid low consumer confidence, slow recovery of the labor market, high inflation and rising interest rates. Among retail activities, supermarkets (+7.3%), other personal items (+1.7%) and furniture and home appliance (+1.1%) were in the spotlight. Conversely, clothing (-2.6%), building materials (-4.1%) and vehicles (-3.8%) posted weak figures. Services confidence shrank 4.5% in January, marking the third decline in a row and reaching levels 3.4% below the pre-pandemic mark (after running above it since July-2021). January's figure was influenced both by worsening in the current assessment (-3.4%) and expectations (-5.6%), with contractions in current demand (-3.4%) and in demand expectations for the coming months (-4.5%). Despite the advances in the vaccination rollout and increased mobility, the baseline scenario for the coming months still seems quite uncertain, mainly due to the more fragile macroeconomic environment and doubts regarding the new variant. Among services activities, a widespread drop in services to families (-9.3%), professional services (-7.3%) and transports (-3.9%) was the lowlight, while information services climbed 4.1%.

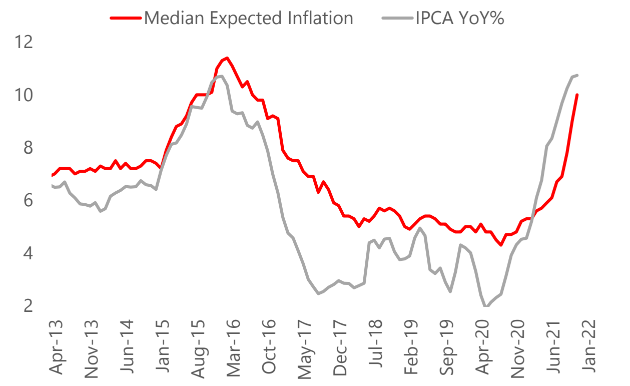
We note seeing ambiguity between solid services spending and weak demand for goods, as highlighted by hard data released in recent months. In our view, it reflects the gradual normalization of health and mobility conditions, favoring the reopening of services and implying a more normal balance between spending in services and goods. The effect of inflation eating into household income and the supply-chain disruptions are additional explanations for the weak figures seen in goods-related sectors.

Figure 4.A – Labor Differential (points, sa) x Unemployment Rate (%, sa)



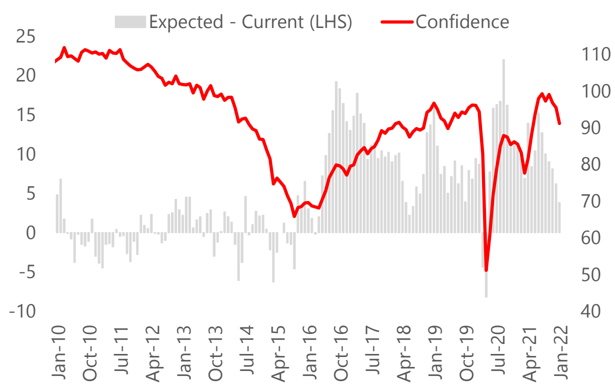
Sources: FGV, Santander

Figure 4.B – Consumer Median Expected Inflation 12-months Ahead (%, sa)



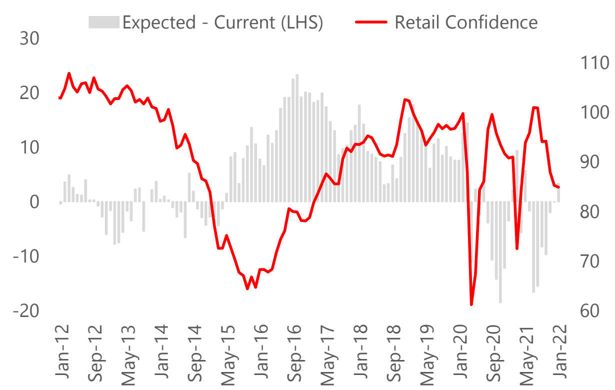
Sources: FGV, IBGE, Santander

Figure 5.B – Services Confidence (points, sa)



Sources: FGV, Santander

Figure 5.B – Retail Confidence (points, sa)



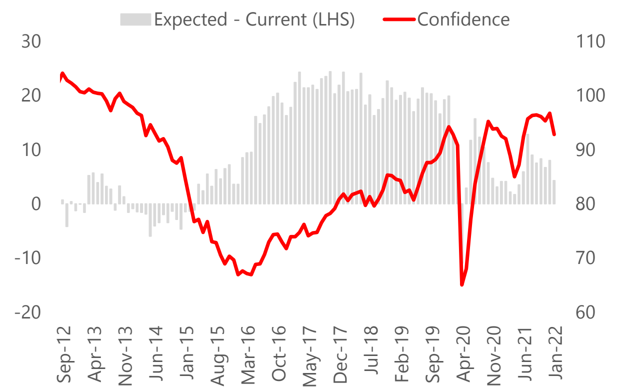
Sources: FGV, Santander

Construction confidence contracted and marked a weak start of quarter. The headline index dropped 4.0% MoM-sa, the third negative print in three months and placing the index at the same level seen in the pre-pandemic mark. January's retreat stems mainly from a worsening in expectations (-5.8%) but with the current situation assessment also contributing negatively (-2.3%). This result marked a weak start of 1Q22 (-0.1% QoQ-sa in 4Q21 and +9.0% QoQ-sa in 3Q21) with a steep decline in expected demand (-6.4%) for the coming months but with a continued reduction in the percentage of respondents pointing to raw material costs as the major obstacle to activities (26.9% from an all-time high of 40.3% in August 2021).

All in all, January's results marked a widespread drop in economic confidence among the sectors. Following the tepid figure seen in 4Q21 (-2.0% QoQ-sa), the aggregated business confidence marked a weak start of 2022 by shrinking 2.7%, the third decline in a row. This result places the index at 91.6 points, below the 100-point neutral threshold and 5.9% below the pre-pandemic mark. Looking at the composition, this result stems both from a less favorable assessment of the current situation (-4.7%) as well as a more cautious expectation for the coming months (-3.2%). The demand metrics also printed apathetic figures — the third declines in a row — for both current demand assessment (-4.8%) and demand expectation (-4.7%). Regarding employment figures, expected employment retreated 5.3%, fully offsetting the previous gain (+2.5%). Conversely, the gap between the expectation and current situation components was up down 0.1% (from -1.2%), after two negative figures, which may suggest a softening ahead in the negative trend seen recently.

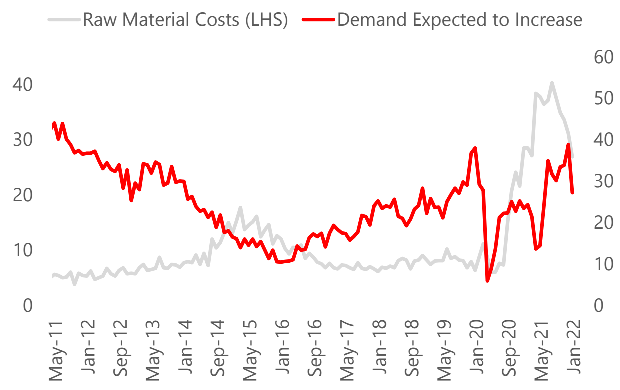
Despite this weakening in the economic confidence, we still expect GDP growth in 4Q21 (current tracking at +0.2% QoQ-sa) and 1Q22 (current tracking at +0.7% QoQ-sa). Our expectations rest mainly on good contribution to growth coming from the services sector — amid the consolidation in the economy's reopening — especially those segments that still show wide idleness compared to the pre-crisis period (e.g., Other Services, Public Services and Transports, that accounts for 30% of total GDP). Additionally, we also expect the non-cyclical farm output sector to solid contribute to economic growth in 4Q21 and 1Q22.

Figure 6.A – Construction Confidence (points, sa)



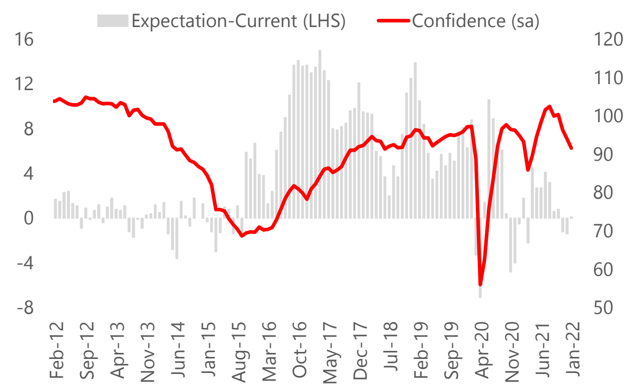
Sources: FGV, Santander.

Figure 6.B – Construction Survey Details (sa, points)



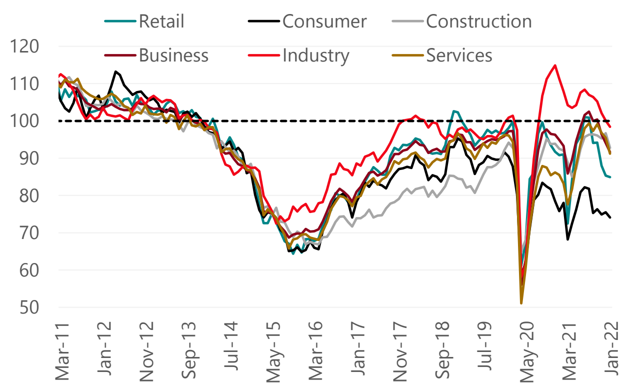
Sources: FGV, Santander.

Figure 7.A – Business Confidence (points, sa)



Sources: FGV, Santander.

Figure 7.B – Economic Confidence Data (sa, points)



Sources: FGV, Santander.

For details on Santander's activity outlook, please refer to our last chartbook[1] and our most recent special report[2].

[1] **Santander Brazil Economic Activity -** ***"Chartbook – Maintaining the Main Growth Drivers for 2022"*** **–** February 1, 2021 – Available on: https://bit.ly/Std-chart-econact-feb22
[2] **Santander Brazil Economic Activity -** ***"Special Report – Resilience Factors for 2022 GDP Growth"*** **–** January 14, 2022 – Available on: https://bit.ly/Std-special-011422

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