

## BROAD ACTIVITY CONTINUED TO STRENGTHEN IN DECEMBER

Lucas Maynard\*  
lucas.maynard.da.silva@santander.com.br  
+5511 3553 8487

- **The IBC-Br jumped 0.33% MoM-sa (+1.30% YoY) in December, between market consensus of 0.5% MoM-sa (+1.0% YoY) and our estimate of +0.1% MoM-sa (+0.3% YoY), but with the series being considerably upward revised.** The seasonally adjusted series was revised to +0.51% MoM-sa (from +0.69%) in November and to -0.06% MoM-sa (from -0.28%) in October. The original series was revised to 0.94% YoY (from 0.43%) in November and to -1.44% YoY (from -1.55%) in October.
- **December’s figure places the economy 0.27% below the pre-pandemic mark (February 2020), according to this indicator.** Moreover, broad activity reached the highest reading since the recent spike seen in February 2021 (down 0.94%). Among key sectors, December’s result summarizes the widespread growth seen in the period, with a slight increase in broad retail sales (+0.3% MoM-sa), and with strong growth in industrial output (+2.9% MoM-sa) and services’ real revenue (+1.4% MoM-sa). We also understand that farm output’s rebound (after the sharp drop seen in 3Q21) and the continued recovery of health and education services (not captured in the monthly surveys) may have also contributed positively.
- **In quarterly terms, December’s result implies quarterly stability (0% QoQ-sa in 4Q21).** Among sectors, we also see tepid quarterly figures: 0% for industrial output, 0.4% for services and -1.9% for broad retail sales. Regarding 1Q22, December’s result of IBC-Br implies a positive 0.4% carryover, likely contributing to a positive start of 2022 for overall activity.
- **Despite these still weak quarterly figures, we are keeping our 4Q21 GDP growth tracking at +0.3% QoQ-sa.** Our growth thesis for GDP this quarter (and for 2022) rests mainly on a good contribution from the services segments which are still quite idle compared to the pre-crisis period (e.g., Other Services and Public Services) and are not well captured by timely activity indexes. Moreover, a strong farm rebound should contribute positively to GDP growth in 4Q21 and 2022. This result is consistent with 4.5% GDP growth in 2021, generating a 0.1% carryover for 2022. We forecast 0.7% growth this year.

**Figure 1 – Economic Activity Breakdown**

	% MoM			% YoY			% QoQ			%	
	Oct-21	Nov-21	Dec-21	Oct-21	Nov-21	Dec-21	Jun-21	Sep-21	Dec-21	Feb-20	Carry*
<b>IBC-Br</b>	<b>-0.06</b>	<b>0.51</b>	<b>0.33</b>	<b>-1.44</b>	<b>0.94</b>	<b>1.30</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.3</b>	<b>0.4</b>
Industrial Production	-0.5	0.0	2.9	-7.8	-4.4	-4.9	-2.9	-1.9	0.0	-0.9	1.9
Core Retail Sales	0.0	0.4	-0.1	-6.9	-4.2	-3.0	1.8	-1.6	-2.1	-2.3	0.1
Broad Retail Sales	-0.8	0.7	0.3	-7.0	-2.9	-2.7	2.5	-1.5	-1.9	-1.3	0.5
Services Sector	-1.6	2.7	1.4	7.4	10.2	10.5	2.2	3.0	0.4	6.6	1.8

Sources: IBGE, BCB, Santander. \*Carryover calculated to 1Q22.

**IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE “IMPORTANT DISCLOSURES” SECTION OF THIS REPORT.**

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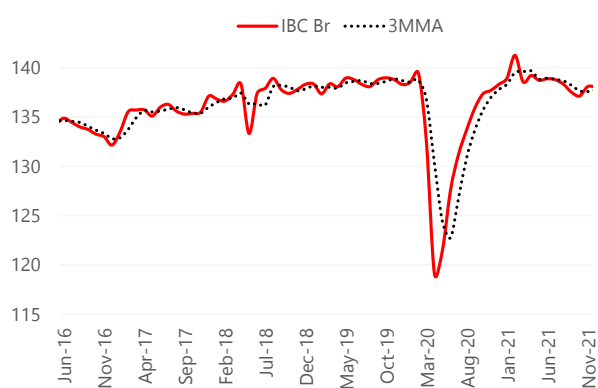
**December's results consolidate a stronger than expected activity growth in 4Q21.** The IBC-Br jumped 0.33% MoM-sa (+1.30% YoY), between the market consensus of 0.5% MoM-sa (+1.0% YoY) and our estimate of +0.1% MoM-sa (+0.3% YoY), but with the series being considerably upward revised since 2020. Regarding the recent revisions, the seasonally adjusted series was revised to +0.51% MoM-sa (from +0.69%) in November and to -0.06% MoM-sa (from -0.28%) in October. The original series was revised to 0.94% YoY (from 0.43%) in November and to -1.44% YoY (from -1.55%) in October.

**December's figure places the index 0.27% below the pre-pandemic mark (February 2020) and ended 2021 with a 4.5% growth (-3.9% in 2020).** Moreover, broad activity reached the highest reading the recent spike reached in February 2021 (down 0.94%). Among key sectors, December's result summarizes the widespread growth seen in the period, with a slight increase in broad retail sales<sup>1</sup> (+0.3% MoM-sa) and with strong growth in industrial output<sup>2</sup> (+2.9% MoM-sa) and services' real revenue<sup>3</sup> (+1.4% MoM-sa). We also understand that farm output's rebound (after the sharp drop in 3Q21), and a continued recovery of health and education services (not fully captured in the monthly surveys) may have also contributed positively.

**In quarterly terms, the IBC-Br ended 4Q21 with stability (0% QoQ-sa).** Among sectors, we also see widespread tepid quarterly figures: 0% for industrial output, 0.4% for services and -1.9% for broad retail sales. Regarding 1Q22, December's result of IBC-Br implies a 0.4% carryover, likely contributing to a positive start of 2022 for overall activity. However, we see lower confidence<sup>4</sup>, high inflation and unemployment bringing challenges to goods-related sectors like industry and retail sales at the start of 2022. Moreover, we will closely monitor the impact of the Omicron variant on mobility-related activities in the coming months, with our proprietary index (IGet) already hinting at an impact in January. Conversely, as the economy's reopening consolidates, we expect a good contribution coming from the services segments that still show strong idleness compared to the pre-pandemic period (e.g., Other Services and Public Services, that accounts for roughly 30% of total GDP) and that are not well captured by timely activity indexes. The strong farm output expected should be also an important source of GDP growth this year.

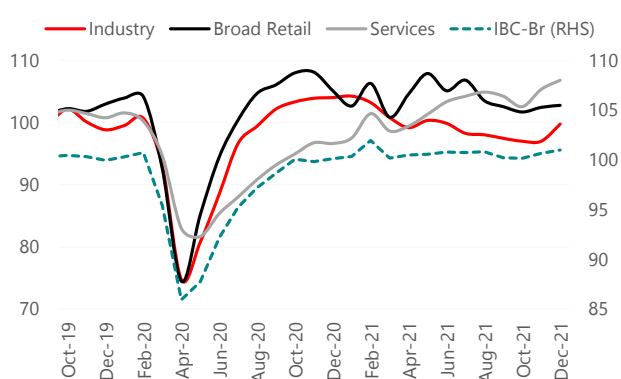
**We are keeping our 4Q21 GDP growth tracking at +0.3% QoQ-sa.** This result is consistent with 4.5% GDP growth in 2021 and generating a 0.1% carryover for 2022. We forecast 0.7% growth this year. **For details on Santander's activity outlook, please refer to our last reports<sup>5</sup>.**

Figure 2.A – IBC-Br (sa, 2003=100)



Sources: BCB, Santander.

Figure 2.B – Activity Indexes (sa, Jan/2019=100)



Sources: IBGE, BCB, Santander

<sup>1</sup> Santander Brazil Economic Activity - "Tepid Retail Sales Figures in December" – February 09, 2022 – Available on: <https://bit.ly/Std-econact-020922>

<sup>2</sup> Santander Brazil Economic Activity - "Industrial Output Topped Expectations in December" – February 02, 2022 – Available on: <https://bit.ly/Std-econact-020222>

<sup>3</sup> Santander Brazil Economic Activity - "Services Output Surprised to the Upside in December" – February 10, 2022 – Available on: <https://bit.ly/Std-econact-021022>

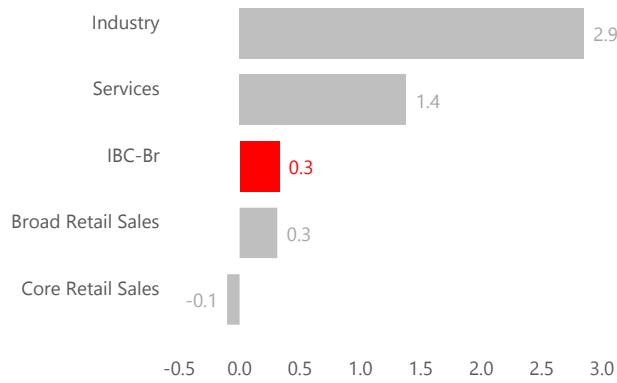
<sup>4</sup> Santander Brazil Economic Activity - "Continued Widespread Weakening in January" – February 02, 2022 – Available on: <https://bit.ly/Std-econact-020122>

<sup>5</sup> Santander Brazil Economic Activity - "Chartbook – Maintaining the Main Growth Drivers for 2022" – February 1, 2022 – Available on: <https://bit.ly/Std-chart-econact-feb22>

Santander Brazil Economic Activity - "Special Report – Resilience Factors for 2022 GDP Growth" – January 14, 2022 – Available on: <https://bit.ly/Std-special-011422>

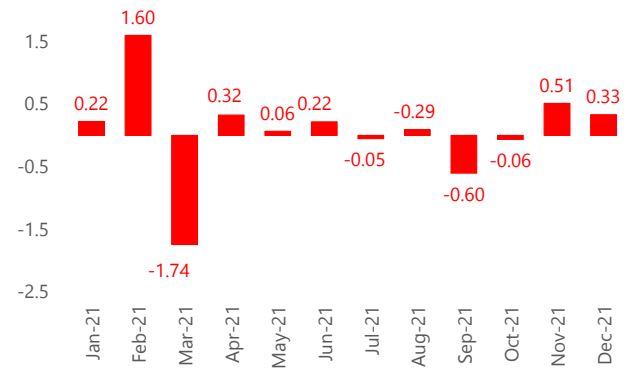


**Figure 3.A – Activity Indexes (sa, MoM %)**



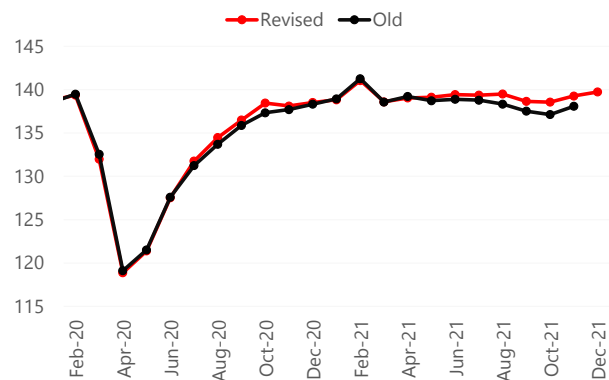
Sources: BCB, IBGE, Santander.

**Figure 3.B – IBC-Br (sa, MoM%)**



Sources: BCB, Santander.

**Figure 4.A – IBC-Br (sa, 2002=100)**



Sources: BCB, Santander.

**Figure 4.B – Revisions**

	NSA (YoY%)		SA (MoM %)	
	Previous	Revised	Previous	Revised
Jan-21	-1.38	-1.64	0.45	0.22
Feb-21	0.07	-0.04	1.67	1.60
Mar-21	5.48	5.98	-1.90	-1.74
Apr-21	17.03	17.25	0.46	0.32
May-21	14.42	14.95	-0.35	0.06
Jun-21	8.95	9.42	0.12	0.22
Jul-21	5.15	5.19	-0.07	-0.05
Aug-21	4.25	4.53	-0.33	0.09
Sep-21	0.77	1.03	-0.59	-0.60
Oct-21	-1.55	-1.44	-0.28	-0.06
Nov-21	0.43	0.94	0.69	0.51
Dec-21	-	1.30	-	0.33

Sources: BCB, 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 – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
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
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684

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