

MONTHLY GDP PROXY TUMBLED IN JANUARY

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- **The IBC-Br (a proxy for monthly GDP) tumbled 0.99% MoM-sa (0% YoY) in January, considerably below the market consensus of -0.2% MoM-sa (0.8% YoY) and our call of 0% MoM-sa (1.0% YoY), but with the series being considerably revised upward (mostly in 4Q21).** The original series was revised to +1.73% YoY (from +1.30%) in December, to +1.22% YoY (from +0.94%) in November and to -1.22% YoY (from -1.44%) in October. We saw no significant revisions in the seasonally adjusted series. In our view, the incorporation of 4Q21 GDP data largely explains these revisions.
- **The weaker-than-expected January figure placed the economy 0.63% below the pre-pandemic mark (February 2020), according to this indicator.** In addition, broad activity reached readings 1.9% below the recent spike seen in February 2021. Among key sectors, we saw a sharp tumble in industrial output (-2.4% MoM-sa), while the tertiary sector posted tepid figures (-0.3% for broad retail sales and -0.1% MoM-sa for services real revenue). We understand that health and education services (not integrally captured by timely activity indexes) may have suffered more than expected with the Omicron variant outbreak, contributing to January's negative print. Moreover, this figure may be a sign of weak farm output in January amid Brazil's drought in the South.
- **Regarding 1Q22, January's figure implies a statistical carryover of -0.6% QoQ-sa, following 0.1% QoQ-sa growth in 4Q21.** Among key sectors, January's results implied carryovers of 0.1% and 2.0% QoQ-sa growth to 1Q22 for broad retail sales and services real revenue, respectively; conversely, we calculated a 0.6% QoQ-sa drop implied for industrial output. As for now, our IBC-Br tracking for February stands at +0.64% MoM-sa (+0.8% YoY), with the following estimates for key sectors: +1.2% MoM-sa surge for industry, +1.1% MoM-sa gain for services and +0.7% MoM-sa growth for retail sales. In our opinion, given the recent strong IBC-Br revisions, we must look carefully at this implied carryover.
- **We are slightly lowering our 1Q22 GDP growth tracking to +0.3% QoQ-sa (from +0.4% QoQ-sa).** Our growth thesis this quarter rests on a good contribution from the services segments, primarily those 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, we (still) expect farm output to strengthen, contributing positively this quarter. We forecast GDP growth of 0.7% in 2022 and a 0.2% contraction of real activity in 2023.



Figure 1 – Economic Activity Breakdown

	% MoM			% YoY			% QoQ			%	
	Nov-21	Dec-21	Jan-22	Nov-21	Dec-21	Jan-22	Sep-21	Dec-21	Jan-22	Feb-20	Carry*
IBC-Br	0.5	0.3	-1.0	1.2	1.7	0.0	-0.1	0.1	0.2	-0.6	-0.6
Industry	0.0	2.9	-2.4	-4.3	-4.9	-7.2	-1.9	-0.1	0.5	-3.5	-0.6
Core Retail Sales	0.4	-1.9	0.8	-4.2	-3.0	-1.9	-0.1	-2.6	-0.9	-1.0	-0.3
Broad Retail Sales	0.6	0.3	-0.3	-2.9	-2.7	-1.4	-1.5	-1.8	0.0	-1.6	0.1
Services	2.9	1.7	-0.1	10.2	11.0	9.4	3.1	0.7	2.7	7.0	2.0

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

Monthly GDP proxy (IBC-Br) surprised to the downside in January. The index tumbled 0.99% MoM-sa (0% YoY) in January, considerably below the market consensus of -0.2% MoM-sa (0.8% YoY) and our call of 0% MoM-sa (1.0% YoY), but with the series being considerably upward revised (most in 4Q21). Indeed, the original series was revised to +1.73% YoY (from +1.30%) in December, to +1.22% YoY (from +0.94%) in November and to -1.22% YoY (from -1.44%) in October. We saw no significant revisions in the seasonally adjusted series. In our view, the incorporation of 4Q21 GDP data largely explains these revisions, in addition to revisions seen in animal slaughter data and December's services output.

Broad activity retroacted to levels below the pre-pandemic period. The weaker-than-expected January figure placed the economy 0.63% below the pre-pandemic mark (February 2020), according to this indicator, and broad activity reached readings 1.9% below the recent February 2021 spike. Among key sectors, we saw a sharp tumble in industrial output¹ (-2.4% MoM-sa), while the tertiary sector posted tepid figures (-0.3% for broad retail sales² and -0.1% MoM-sa for services real revenue³). We understand that health and education services (not integrally captured by timely activity indexes) may have suffered more than expected with the Omicron variant outbreak, contributing to January's negative print. Moreover, this figure may sign a weak farm output in January amid the drought problems seen in Brazil's southern region.

Regarding 1Q22, January's figure implies a statistical carryover of -0.6% QoQ-sa, following a 0.1% QoQ-sa growth in 4Q21. Among key sectors, January's results implied carryovers of 0.1% and 2.0% QoQ-sa growth to 1Q22 for broad retail sales and services real revenue, respectively; conversely, we calculated a 0.6% QoQ-sa drop implied for industrial output. Despite the weak start of quarter (reflecting the Omicron variant outbreak), coincident indexes and proprietary data point to a solid recovery of activity in February and March. Indeed, as for now, our IBC-Br tracking for February stands at +0.64% MoM-sa (+0.8% YoY), with the following estimates for the key sectors: +1.2% MoM-sa surge for industry, +1.1% MoM-sa gain for services and +0.7% MoM-sa growth for retail sales. **In our opinion, given the recent strong IBC-Br revisions, we must look carefully to this implied carryover.**

We are slightly lowering our 1Q22 GDP growth tracking to +0.3% QoQ-sa (from +0.4% QoQ-sa), after a 0.5%⁴ growth print in 4Q21. Our growth thesis this quarter rests on a good contribution from the services segments, mainly those 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, we (still) expect the strengthening of farm output to contribute positively this quarter. We forecast GDP growth of 0.7% in 2022 and a 0.2% contraction of real activity in 2023. **For details on Santander's activity outlook, please refer to our last chartbook⁵.**

¹ Santander Brazil Economic Activity - "Weaker-Than-Expected Start to 1Q22" – March 9, 2022 – Available on: <https://bit.ly/Std-econact-030922>

² Santander Brazil Economic Activity - "Better Headline but with still Weak Composition" – March 10, 2022 – Available on: <https://bit.ly/Std-econact-031022>

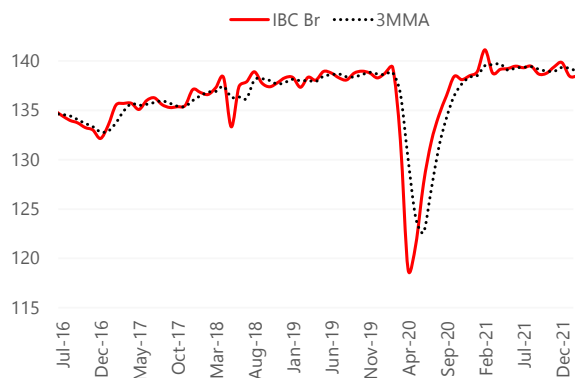
³ Santander Brazil Economic Activity - "Mixed Services Output Figures" – March 16, 2022 – Available on: <https://bit.ly/Std-econact-031622>

⁴ Santander Brazil Economic Activity - "GDP Consolidates a Stronger than Anticipated 4Q21" – March 4, 2022 – Available on: <https://bit.ly/Std-GDP-4Q21>

⁵ Santander Brazil Economic Activity - "Positive Surprises Reinforce Resilience Outlook for 2022" – March 14, 2022 – Available on: <https://bit.ly/Std-chart-econact-mar22>

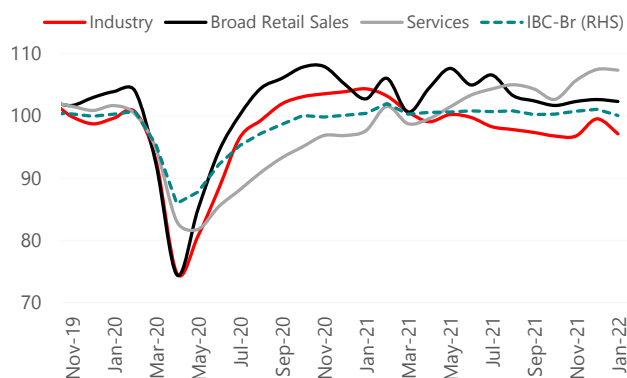


Figure 2.A – IBC-Br (sa, 2003=100)



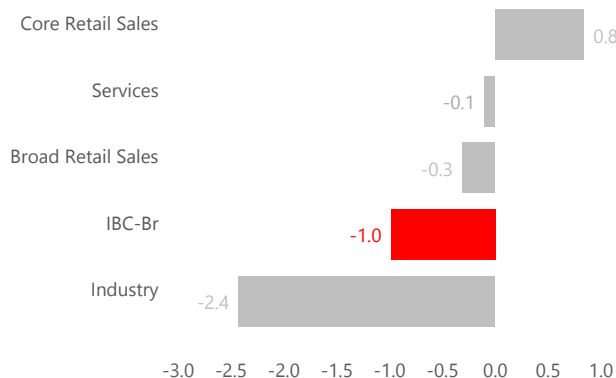
Sources: BCB, Santander.

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



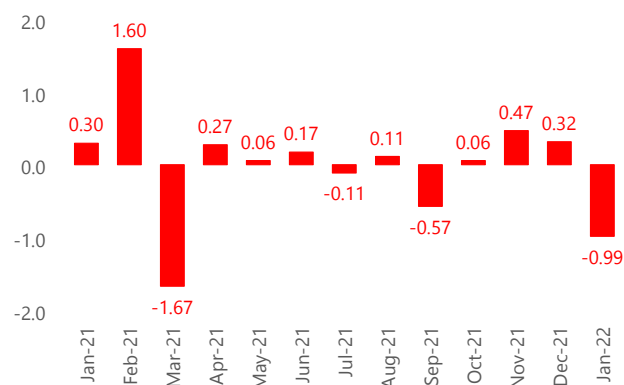
Sources: IBGE, BCB, Santander

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



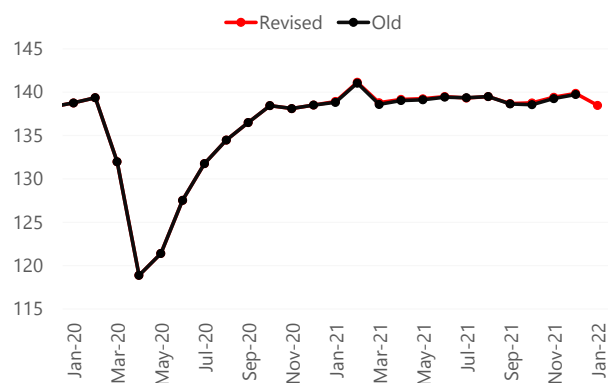
Sources: BCB, IBGE, Santander.

Figure 3.B – IBC-Br (sa, MoM%)



Sources: BCB, Santander.

Figure 4.A – IBC-Br (sa, 2002=100)

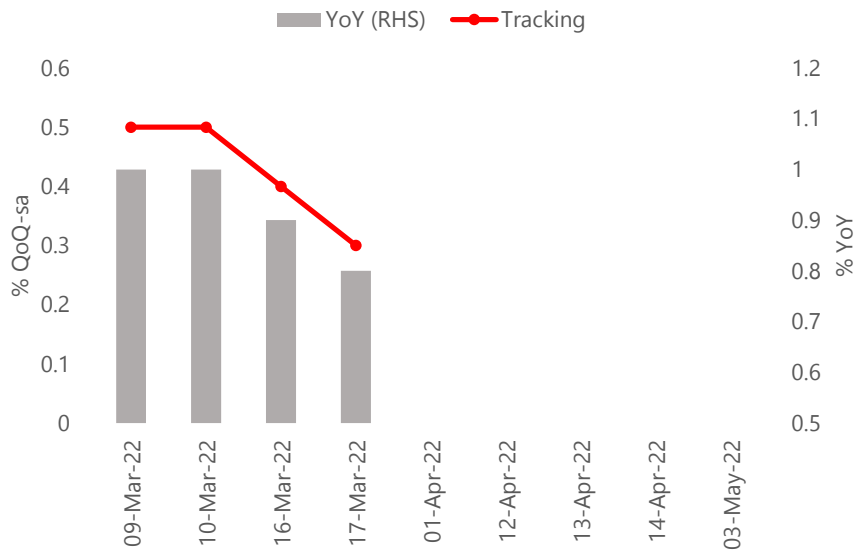


Sources: BCB, Santander.

Figure 4.B – Revisions

	NSA (YoY%)		SA (MoM %)	
	Previous	Revised	Previous	Revised
Feb-21	-0.04	-0.04	1.60	1.60
Mar-21	5.98	5.99	-1.74	-1.67
Apr-21	17.25	17.26	0.32	0.27
May-21	14.95	14.97	0.06	0.06
Jun-21	9.42	9.41	0.22	0.17
Jul-21	5.19	5.15	-0.05	-0.11
Aug-21	4.53	4.51	0.09	0.11
Sep-21	1.03	1.11	-0.60	-0.57
Oct-21	-1.44	-1.22	-0.06	0.06
Nov-21	0.94	1.22	0.51	0.47
Dec-21	1.30	1.73	0.33	0.32
Jan-22	-	0.01	-	-0.99

Sources: BCB, Santander.


Figure 5 – 1Q22 GDP Growth Tracking (% QoQ-sa and YoY-nsa)


Sources: IBGE, Santander

Figure 6 – Santander Tracking

1Q22 GDP Growth						
Date	Release	Reference	Tracking (%)		Projection (%)	
			QoQ-sa	YoY	QoQ-sa	YoY
09-Mar-22	Industry	Jan-22	0.5	1.0	0.5	1.0
10-Mar-22	Retail Sales	Jan-22	0.5	1.0	0.5	1.0
16-Mar-22	Services	Jan-22	0.4	0.9	0.5	1.0
17-Mar-22	IBC-Br	Jan-22	0.3	0.8	0.5	1.0

Sources: IBGE, Santander.



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