

Brazil Macro: GDP Preview

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(+55 11) 3553 7495**Strong Growth, but Partial Recovery Expected Ahead**

- **Following the strong impact of the COVID-19 crisis in 2Q20, for 3Q20 we expect a sharp increase of 8.7% QoQ s.a. (-3.4% YoY). This positive result would be consistent with a sequential resumption of activity for other key sector-based indicators in 3Q20 (e.g., industrial production, retail sales and the services sector).**
- **On the supply side, we expect a well diffused quarterly increase among the sectors, but with the services sector posting a slow recovery, as it has been most affected by the crisis. On the demand side, we expect a sharp contribution of domestic absorption in the quarterly gain, particularly due to household consumption, on the heels of emergency aid payments. Investments and net exports should also contribute positively to GDP, per our projections.**
- **If confirmed, this sharp increase would mark an all-time high for quarterly growth, though still not enough to offset the pandemic's impact. In our scenario, in comparison with pre-crisis level, GDP will still be 4% below the 4Q19 reading.**

Partial Recovery of 2Q20 Loss

After the previous quarter's posting of the worst quarterly growth result in the historical series due to the pandemic, monthly indicators of economic activity have pointed to a consistent recovery in the last three months. In fact, industrial production and retail sales have already surpassed pre-crisis level, in the aftermath of massive (temporary) government transfers; the services sector, despite being the biggest laggard in the economic recovery, has pointed to sequential quarterly growth, in the wake of the economy's reopening. This sequential resumption of activity seen in key sector-based indicators is consistent, in our view, with a sharp 3Q20 increase of 8.7% QoQ s.a. (-3.4% YoY).

Among sectors, we expect a well diffused increase. On the supply side, industry should post a sharp increase of 14.2% QoQ s.a., especially due to manufacturing (22.8% QoQ s.a.), which has fully recovered from the crisis, and to construction (7.2% QoQ s.a.), boosted by the easier financial conditions environment. Regarding the services sector, we expect a quarterly increase of 7.0%, despite in the YoY variation the segment is still 5.2% down since 3Q19. In the details, retail and transports services, two sectors mainly affected by lockdown measures, should post quarterly increases of 12.6% and 17.4%, respectively, while sector less affected — like financial and rent services — should be stable, in our view, with quarterly growth of 0.2% and 0.4%, respectively.

On the demand side, we expect a sharp contribution of domestic absorption in the quarterly gain, especially due to household consumption (10.9% QoQ s.a.), subsequent to the payment of the emergency aid and the economy's gradual reopening. The massive (temporary) government transfers boosted the real wage bill, sustaining goods demand, while the economy's reopening supported increased consumption of services provided to families. With respect to investments, we expect a positive result (12.9% QoQ s.a.) driven by the consumption of capital goods and the construction sector, in an environment of easier financial conditions. Net exports, in our opinion, will likely contribute positively to GDP, as imports (-7.7% QoQ s.a.) should decline given the weak domestic demand, and exports (1.5% QoQ s.a.) should reflect the higher exports of mining and agro products.

If this strong growth is confirmed, GDP should register an all-time high quarterly change (over a very depressed basis), though this would not be enough to offset the impact of the pandemic. Compared to the pre-crisis level, we expect the headline index to be down 4% since 4Q19, and in the YoY variation, we expect GDP to be -3.4% below the year-ago quarter. Regarding the revision of 2018 GDP from 1.3% to 1.8%, since we don't know how the figure for 2019 was affected, we choose to assume no assumptions.

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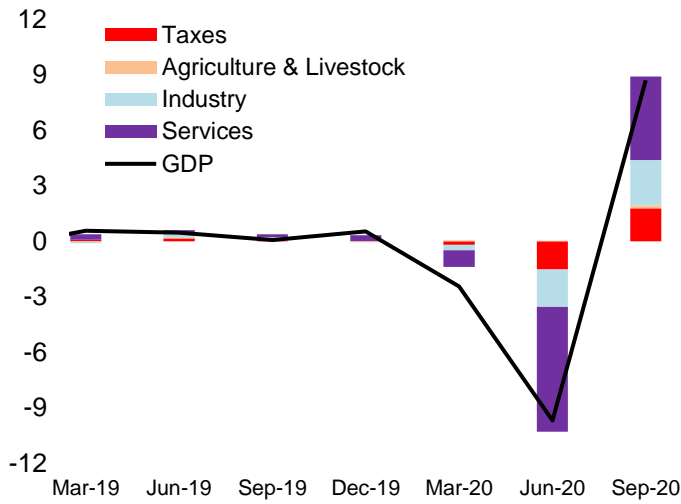
Figure 1. Third Quarter GDP Projections Breakdown

		2Q20		Forecast	
		YoY	QoQ	YoY	QoQ
GDP	100%	-11.4	-9.7	-3.4	8.7
Supply	Weights	YoY	QoQ	YoY	QoQ
Taxes	11%	-15.6	-14.3	-1.5	16.7
Agriculture	8%	1.2	0.5	2.7	2.1
Industry	17%	-12.7	-11.6	-0.8	14.2
Mining	14%	6.8	-1.1	0.5	3.0
Manufacturing	53%	-20.0	-17.5	-0.6	22.8
Construction	17%	-11.1	-5.7	-4.0	7.2
Utilities	16%	-5.8	-4.4	1.0	1.2
Services	64%	-11.2	-10.5	-5.2	7.0
Retail	18%	-14.1	-13.0	-3.4	12.6
Transports	5%	-20.8	-19.3	-5.3	17.4
Information	5%	-3.2	-3.0	-8.7	-4.1
Financial	9%	3.6	0.8	1.5	0.2
Other Services	21%	-23.6	-19.8	-12.7	14.6
Rent	15%	1.4	0.5	1.6	0.4
Public Services	27%	-8.6	-7.6	-5.9	3.9
Demand	Weights	YoY	QoQ	YoY	QoQ
Consumption	61%	-13.5	-12.6	-4.3	10.9
Government	22%	-8.6	-8.8	-3.7	5.3
Investments	15%	-15.2	-16.6	-6.6	12.9
Exports	20%	0.5	1.1	4.0	1.5
Imports	-16%	-14.9	-11.4	-22.8	-7.7
MEMO (Contribution)					
Inventories (proxy)	-2%	-1.6	0.3	-3.5	-2.6
Domestic	96%	-12.4	-12.1	-4.4	9.7
External	4%	2.5	2.0	4.4	1.5

Sources: IBGE and Santander.

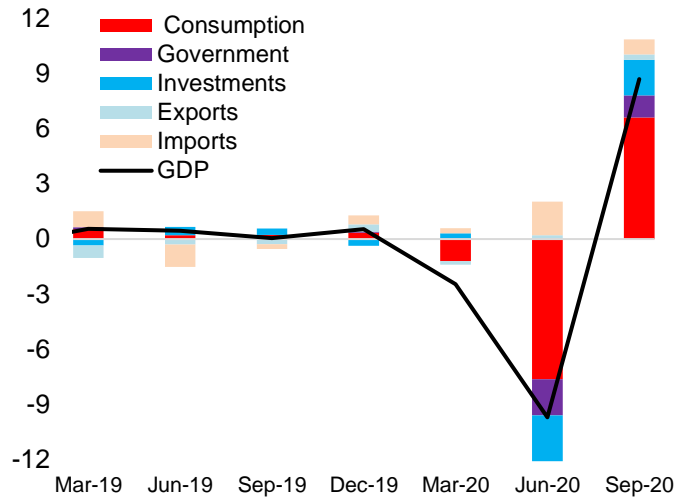


Figure 2-A. GDP Supply QoQ % (s.a.)



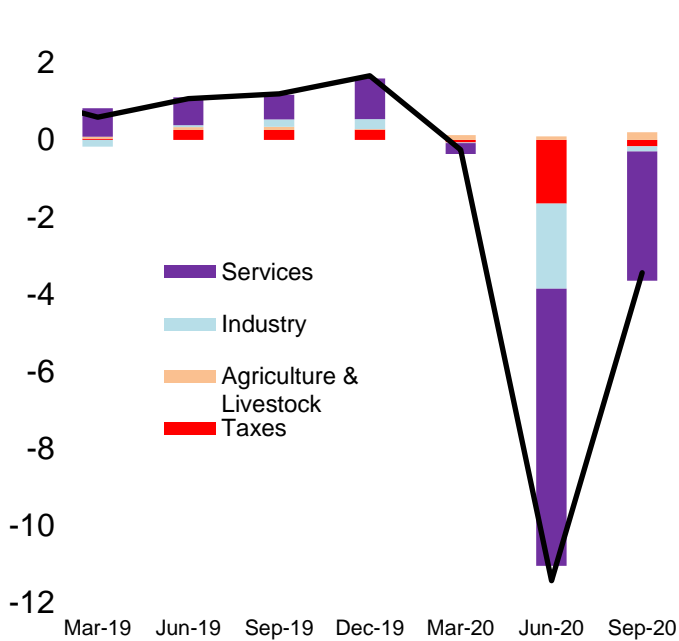
Sources: IBGE and Santander

Figure 2-B. GDP Demand QoQ % (s.a.)



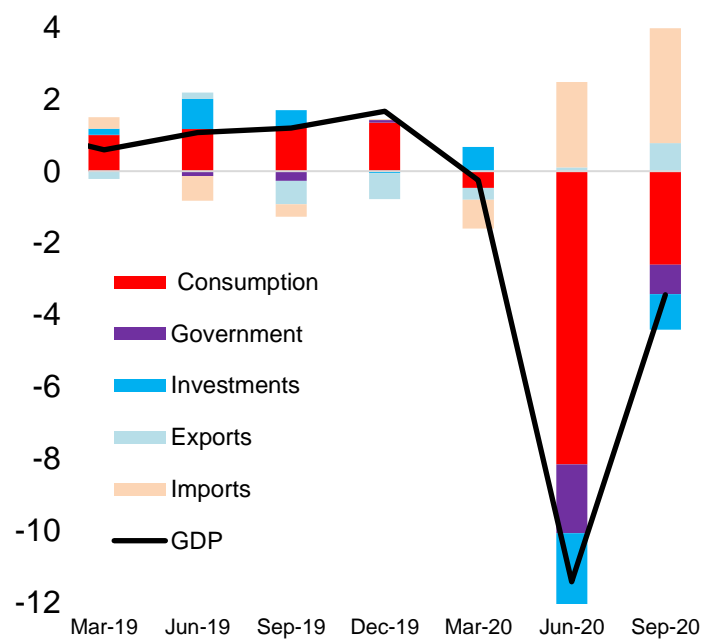
Sources: IBGE and Santander

Figure 3-A. GDP Supply YoY %



Sources: IBGE and Santander

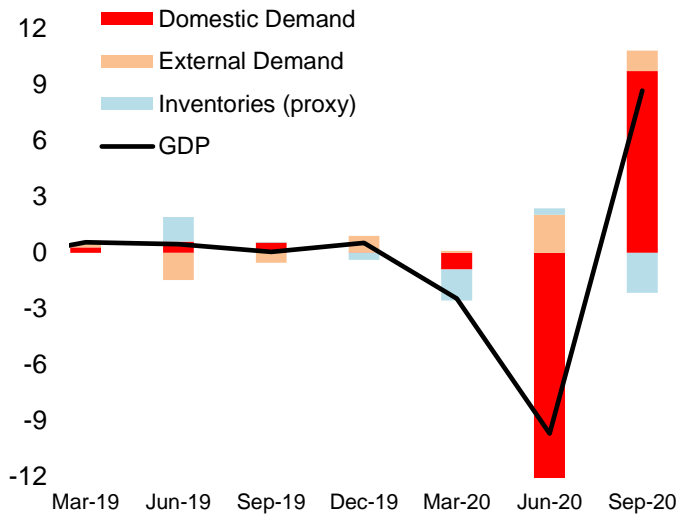
Figure 3-B. GDP Demand YoY %



Sources: IBGE and Santa

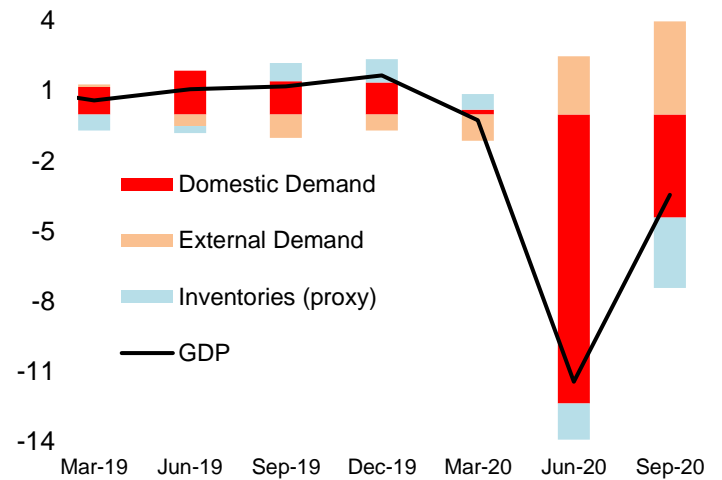


Figure 4-A. Contributions for QoQ % GDP (s.a.)



Sources: IBGE and Santander

Figure 4-B. Contributions for YoY % GDP



Sources: IBGE and Santander

Figure 5. Quarterly Changes and Contributions

	Weights		QoQ Change s.a. (%)				Quarterly Contributions (p.p)				
	2Q20	19Q2	19Q3	19Q4	20Q1	20Q2	19Q2	19Q3	19Q4	20Q1	20Q2
GDP	100%	0.5	0.1	0.5	-2.5	-9.7	0.5	0.1	0.5	-2.5	-9.7
Taxes	11%	1.1	0.2	-0.2	-1.4	-14.3	0.1	0.0	0.0	-0.2	-1.5
Agriculture	8%	1.1	1.0	-0.8	0.7	0.5	0.1	0.0	0.0	0.0	0.0
Industry	17%	1.1	0.7	0.0	-1.7	-11.6	0.2	0.1	0.0	-0.3	-2.0
Mining	14%	-3.0	12.7	0.8	-4.7	-1.1	-0.1	0.4	0.0	-0.1	0.0
Manufacturing	53%	1.0	-0.9	0.1	-1.9	-17.5	0.1	-0.1	0.0	-0.2	-1.6
Construction	17%	3.6	0.7	-3.0	-3.3	-5.7	0.1	0.0	-0.1	-0.1	-0.2
Utilities	16%	-0.2	-1.2	-0.1	-0.3	-4.4	0.0	0.0	0.0	0.0	-0.1
Services	64%	0.3	0.3	0.5	-1.5	-10.5	0.2	0.2	0.3	-0.9	-6.8
Retail	18%	0.6	0.4	-0.2	-1.4	-13.0	0.1	0.1	0.0	-0.2	-1.5
Transports	5%	-0.1	-0.1	1.3	-2.4	-19.3	0.0	0.0	0.0	-0.1	-0.7
Information	5%	1.4	0.9	1.0	-2.0	-3.0	0.0	0.0	0.0	-0.1	-0.1
Financial	9%	-0.7	1.7	0.9	0.2	0.8	0.0	0.1	0.1	0.0	0.0
Other Services	21%	0.1	0.0	0.8	-5.3	-19.8	0.0	0.0	0.1	-0.8	-2.7
Rents	15%	0.7	0.3	0.2	0.3	0.5	0.1	0.0	0.0	0.0	0.0
Public Services	27%	-0.5	-0.7	1.0	-1.4	-7.6	-0.1	-0.1	0.2	-0.2	-1.3
Consumption	61%	0.3	0.3	0.5	-1.9	-12.6	0.2	0.2	0.3	-1.2	-7.6
Government	22%	-0.3	-0.1	0.2	0.1	-8.8	-0.1	0.0	0.0	0.0	-2.0
Investments	15%	2.9	2.1	-2.5	1.8	-16.6	0.5	0.3	-0.4	0.3	-2.5
Exports	20%	-1.7	-1.7	2.9	-1.3	1.1	-0.2	-0.3	0.4	-0.2	0.2
Imports	-16%	8.6	1.7	-3.3	-1.9	-11.4	-1.2	-0.3	0.5	0.3	1.8

Sources: IBGE and Santander



Figure 6. Yearly Changes and Contributions

	Weights	YoY Change (%)					Yearly Contributions (p.p)				
	2Q20	19Q2	19Q3	19Q4	20Q1	20Q2	19Q2	19Q3	19Q4	20Q1	20Q2
GDP	100%	1.1	1.2	1.7	-0.3	-11.4	1.1	1.2	1.7	-0.3	-11.4
Taxes	11%	1.8	1.8	1.9	-0.4	-15.6	0.3	0.3	0.3	-0.1	-1.7
Agriculture	8%	1.4	2.1	0.4	1.9	1.2	0.1	0.1	0.0	0.1	0.1
Industry	17%	0.3	1.0	1.5	-0.1	-12.7	0.1	0.2	0.3	0.0	-2.2
Mining	14%	-9.3	4.0	3.4	4.8	6.8	-0.2	0.1	0.1	0.1	0.2
Manufacturing	53%	1.4	-0.5	1.1	-0.8	-20.0	0.1	-0.1	0.1	-0.1	-1.8
Construction	17%	2.4	4.4	1.0	-1.0	-11.1	0.1	0.1	0.0	0.0	-0.3
Utilities	16%	2.2	1.6	-0.8	-1.8	-5.8	0.1	0.0	0.0	-0.1	-0.2
Services	64%	1.1	1.0	1.6	-0.5	-11.2	0.7	0.6	1.1	-0.3	-7.2
Retail	18%	2.0	2.4	2.2	0.4	-14.1	0.2	0.3	0.3	0.0	-1.6
Transports	5%	0.4	-1.0	1.0	-1.6	-20.8	0.0	0.0	0.0	-0.1	-0.7
Information	5%	3.3	4.2	4.6	1.3	-3.2	0.1	0.1	0.1	0.0	-0.1
Financial	9%	-1.0	1.3	3.0	2.0	3.6	-0.1	0.1	0.2	0.1	0.2
Other Services	21%	1.5	0.9	1.5	-3.4	-23.6	0.2	0.1	0.2	-0.5	-3.2
Real estate and Rents	15%	2.6	1.9	1.5	1.6	1.4	0.2	0.2	0.1	0.1	0.1
Public Services	27%	0.0	-0.6	0.4	-0.4	-8.6	0.0	-0.1	0.1	-0.1	-1.5
Consumption	61%	1.8	1.9	2.1	-0.7	-13.5	1.2	1.2	1.3	-0.5	-8.2
Government	22%	-0.7	-1.4	0.3	0.0	-8.6	-0.1	-0.3	0.1	0.0	-1.9
Investments	15%	5.4	2.9	-0.4	4.3	-15.2	0.8	0.5	-0.1	0.7	-2.3
Exports	20%	1.3	-4.4	-5.1	-2.2	0.5	0.2	-0.7	-0.7	-0.3	0.1
Imports	-16%	4.9	2.2	-0.2	5.1	-14.9	-0.7	-0.3	0.0	-0.8	2.4

Sources: IBGE and Santander



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