

Brazil Macro: GDP Review

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Strong Growth, with Partial Recovery

- Following COVID-19's strong impact on 2Q20, 3Q20 GDP grew 7.7% QoQ s.a. (-3.9% YoY), versus consensus of 8.7% QoQ s.a. (-3.6% YoY) — though a revision of 2Q20 results offset in part the discrepancy between consensus projection and actual results. This reading marked an all-time high, but we must take into account the very depressed comparison basis, as well as the effect of the massive and temporary income transference program.
- The composition of 3Q20 points to a continued but heterogeneous improvement in non-farm sectors (supply) and a consumer-led recovery (spending). Despite this sharp increase, GDP is still down 4.1% since 4Q19 (pre-crisis mark). The carryover for 2020 led to a full-year contraction of 5.1%.
- In terms of outlook, we still see no evidence of a sequential 4Q20 decline: our preliminary tracking indicates quarterly growth of ~2%. These figures are coherent with an upward revision of our projection of a -4.8% contraction in 2020 economic activity.

Partial Recovery of 2Q20 Loss

After the previous quarter's record decline of the historical series due to the pandemic, monthly economic activity indicators 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 with the sharp increase of 7.7% QoQ s.a. (-3.9% YoY) registered this quarter.

In recent years, each third quarter, the IBGE statistics bureau has conducted a comprehensive revision to the GDP series of previous years, affecting data from 2018 onward. In 2020, 2Q data was revised to -10.9% (from -11.4%), while for earlier years, 2019 moved to 1.4% (from 1.1%), and 2018 was revised to 1.8% (from 1.3%).

Among sectors, the growth was well diffused, but heterogeneous, as we have seen in this economic recovery. On the supply side, industry posted a sharp increase of 14.8% QoQ s.a., especially due to manufacturing (23.7% QoQ s.a.), which has fully recovered from the crisis in the monthly data, and to construction (8.5% QoQ s.a.), boosted by the easier financial conditions. Compared to 4Q19 (pre-crisis level), industry is still down 1.1%. Regarding the services sector, there was a quarterly increase of 6.3%, despite in the YoY variation the segment is still -4.8%, down since 3Q19. As this was the most affected sector in this crisis, the reading in this quarter is still 5.1% below 4Q19. In the details, retail and transport services, two sectors mainly affected by lockdown measures, posted quarterly increases of 15.9% and 12.5%, respectively, while sectors less affected — like financial and rents — were stable, with quarterly growth of 1.5% and 1.0%, respectively.

On the demand side, a sharp contribution of domestic absorption was registered in the quarterly gain, especially due to household consumption (7.6% 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. In comparison to pre-crisis reading, this segment is still -6.4% below 4Q19's reading. With respect to investments, a positive result (11.0% QoQ s.a.) driven by the consumption of capital goods and the construction sector, in an environment of easier financial conditions; compared to 4Q19's reading, it is still down by 5.0%. Net exports have contributed positively to GDP, as

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imports (-9.6% QoQ s.a.) declined given the weak domestic demand, but exports disappointed (-9.6% QoQ s.a.). In fact, this was the only surprise, in our view,

This quarterly figure was the all-time high reading, but we must take into account the very depressed basis of comparison and the effect of the massive and temporary income transference program. Despite this sharp increase, the result was not enough to offset the impact of the pandemic: compared to the pre-crisis level, the headline index is down 4.1% since 4Q19. Assuming no growth in the remaining quarter of the year, we would have a full-year contraction of -5.1%. In terms of outlook, we still see no evidence of a 4Q20 sequential decline: our preliminary tracking indicates quarterly growth of 2%. These figures are coherent with an upward revision in our projection of a -4.8% contraction of economic activity in 2020.

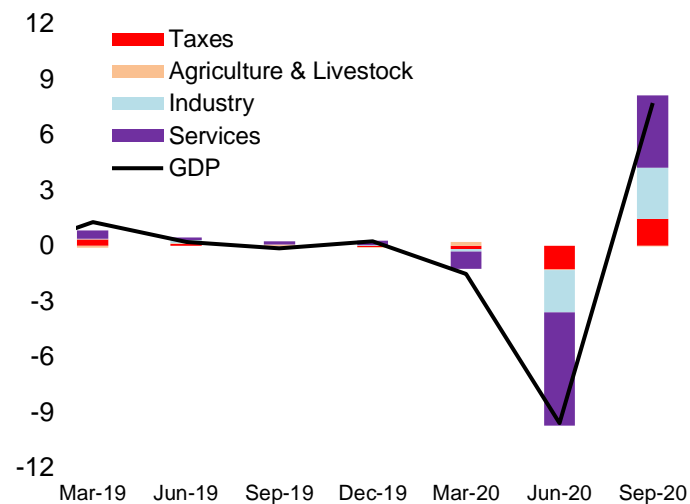
Figure 1. Third Quarter GDP Breakdown

		2Q20		3Q20			
		YoY	QoQ	YoY		QoQ	
GDP	100%	-10.9	-9.6	-3.9		7.7	
Supply	Weights	YoY	QoQ	YoY	Contribution	QoQ	Contribution
Taxes	14%	-14.5	-12.7	-5.1	-0.7	10.4	1.5
Agriculture	6%	2.5	-0.2	0.4	0.0	-0.5	0.0
Industry	19%	-14.1	-13.0	-0.9	-0.2	14.8	2.8
Mining	13%	7.1	-0.3	1.0	0.0	2.5	0.1
Manufacturing	58%	-20.9	-19.1	-0.2	0.0	23.7	2.6
Construction	15%	-13.6	-8.1	-7.9	-0.2	5.6	0.2
Utilities	13%	-5.5	-5.1	3.8	0.1	8.5	0.2
Services	62%	-10.2	-9.4	-4.8	-3.0	6.3	3.9
Retail	20%	-14.4	-13.7	-1.3	-0.2	15.9	2.0
Transports	6%	-20.7	-19.0	-10.4	-0.4	12.5	0.5
Information	5%	-3.4	-3.2	-1.3	0.0	3.1	0.1
Financial	9%	5.7	2.6	6.0	0.4	1.5	0.1
Other Services	22%	-20.8	-16.9	-14.4	-1.9	7.8	1.0
Rent	14%	1.8	0.8	2.7	0.2	1.1	0.1
Public Services	24%	-8.4	-7.0	-5.4	-0.8	2.5	0.4
Demand	Weights	YoY	QoQ	YoY	Contribution	QoQ	Contribution
Consumption	62%	-12.2	-11.3	-6.0	-3.7	7.6	4.7
Government	20%	-8.5	-7.7	-5.3	-1.0	3.5	0.7
Investments	16%	-13.9	-16.5	-7.8	-1.3	11.0	1.8
Exports	18%	0.7	1.6	-1.1	-0.2	-2.1	-0.4
Imports	-14%	-14.6	-12.4	-25.0	3.6	-9.6	1.4
MEMO (Contribution)							
Inventories (proxy)	-1%	-1.7	-0.5	-1.3		-0.5	
Domestic	97%	-11.5	-11.1	-6.0		7.2	
External	3%	2.2	2.1	3.4		1.0	

Sources: IBGE and Santander.

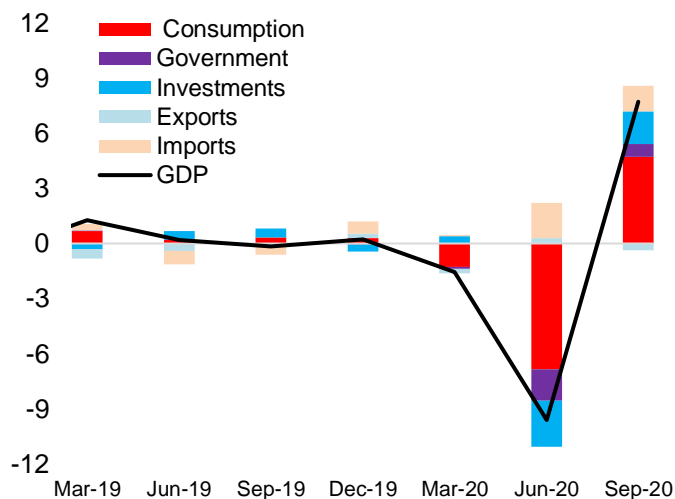


Figure 2-A. GDP Supply QoQ % (s.a.)



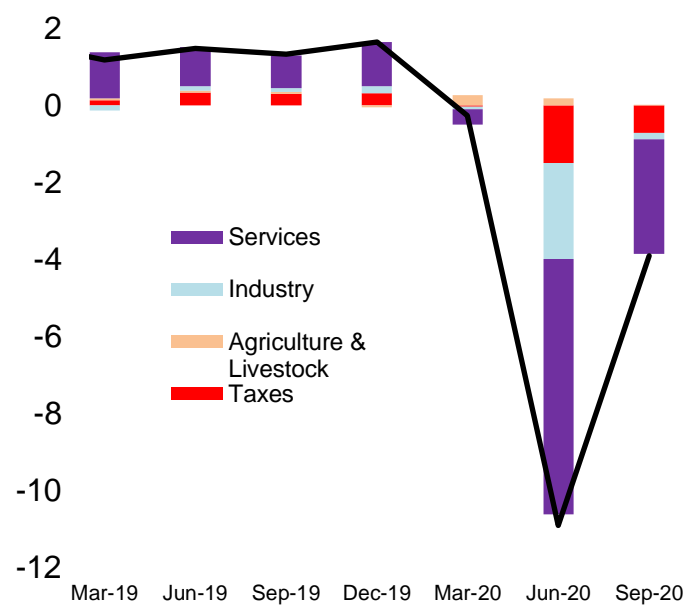
Sources: IBGE and Santander

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



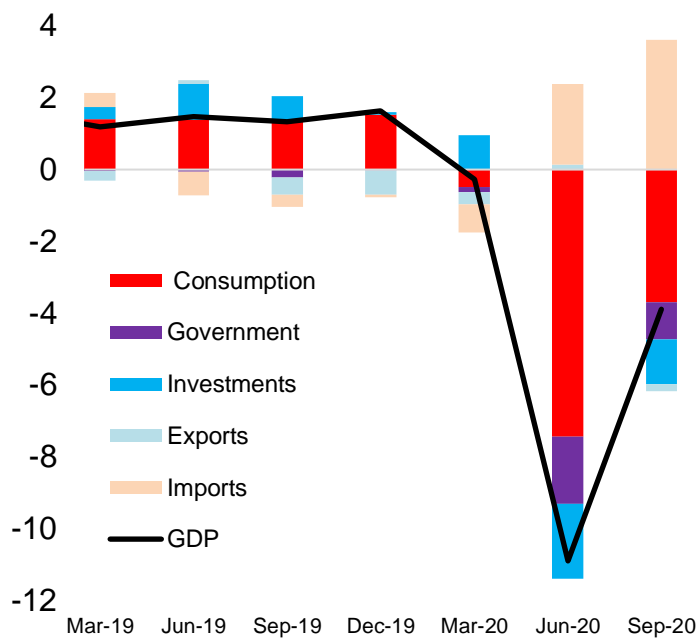
Sources: IBGE and Santander

Figure 3-A. GDP Supply YoY %



Sources: IBGE and Santander

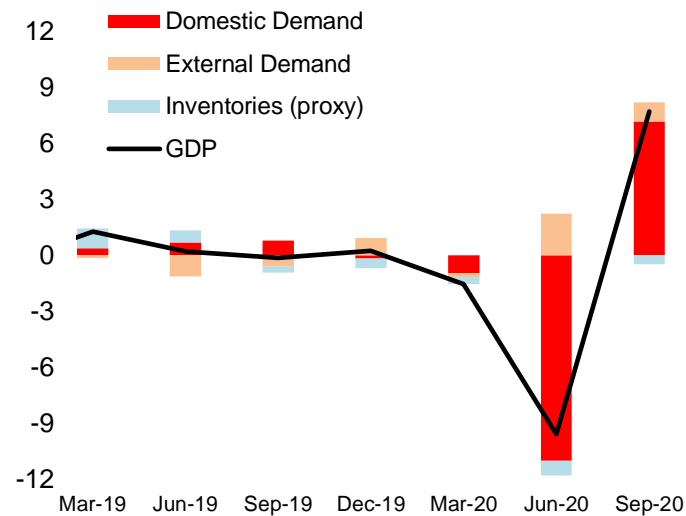
Figure 3-B. GDP Demand YoY %



Sources: IBGE and Santa

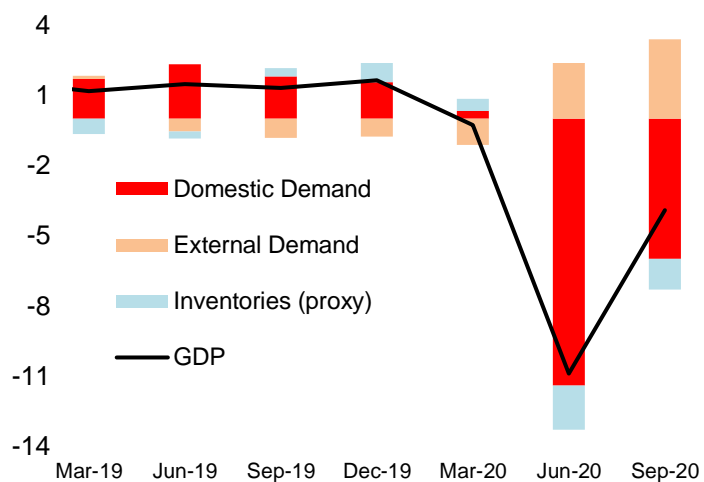


Figure 4-A. Contributions for QoQ % GDP (s.a.)



Sources: IBGE and Santander

Figure 4-B. Contributions for YoY % GDP



Sources: IBGE and Santander

Figure 5-A. Real GDP : QoQ% s.a. and YoY%

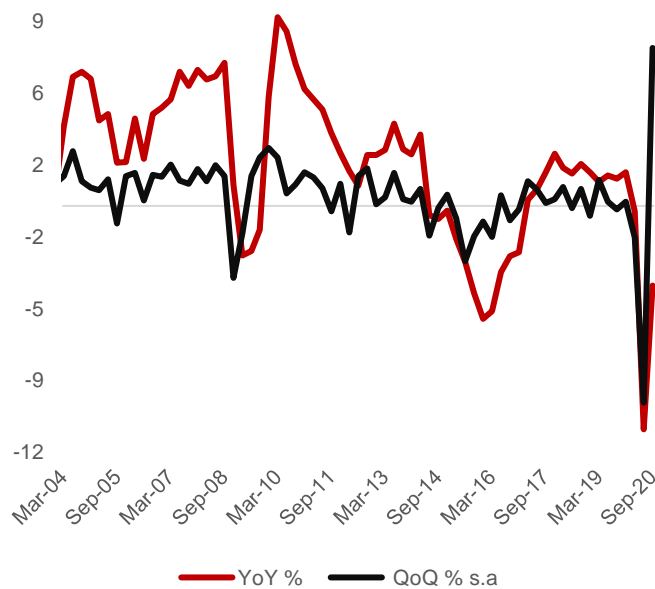


Figure 5-B. Real GDP: QoQ% s.a and rolling 4Q %

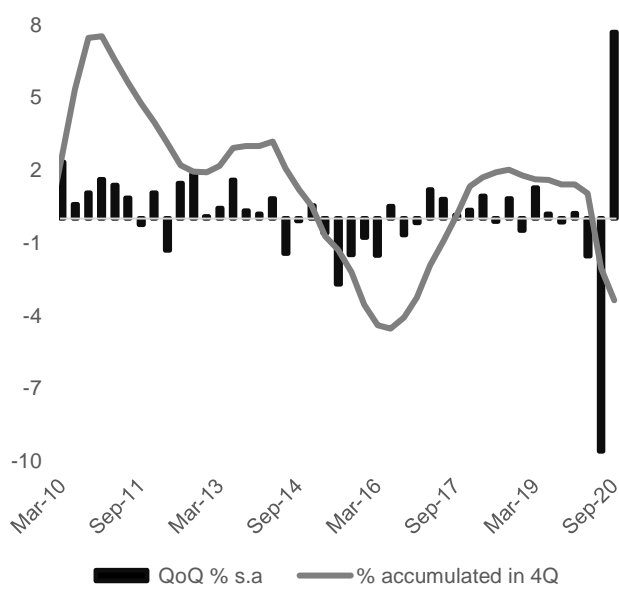




Figure 6-A. Quarterly Changes and Contributions

	Weights							QoQ Change s.a. (%)							Quarterly Contributions (p.p)						
	3Q20	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3		
GDP	100%	0.2	-0.2	0.2	-1.5	-9.6	7.7	0.2	-0.2	0.2	-1.5	-9.6	7.7								
Taxes	14%	0.6	-0.3	-0.5	-1.3	-12.7	10.4	0.1	0.0	-0.1	-0.2	-1.3	1.5								
Agriculture	6%	1.1	1.6	-1.7	2.9	-0.2	-0.5	0.1	0.1	-0.1	0.2	0.0	0.0								
Industry	19%	0.9	-0.2	0.1	-0.9	-13.0	14.8	0.2	0.0	0.0	-0.1	-2.3	2.8								
Mining	13%	-2.0	9.5	1.2	-2.5	-0.3	2.5	0.0	0.3	0.0	-0.1	0.0	0.1								
Manufacturing	58%	1.2	-1.9	0.9	-1.1	-19.1	23.7	0.1	-0.2	0.1	-0.1	-1.9	2.6								
Construction	15%	3.4	-0.4	-3.8	-1.7	-8.1	5.6	0.1	0.0	-0.1	-0.1	-0.2	0.2								
Utilities	13%	-0.7	-1.2	0.5	0.3	-5.1	8.5	0.0	0.0	0.0	0.0	-0.1	0.2								
Services	62%	0.2	0.2	0.4	-1.5	-9.4	6.3	0.2	0.1	0.3	-0.9	-6.1	3.9								
Retail	20%	0.5	0.5	-0.2	-1.1	-13.7	15.9	0.1	0.1	0.0	-0.1	-1.5	2.0								
Transports	6%	0.1	0.4	0.0	-2.0	-19.0	12.5	0.0	0.0	0.0	-0.1	-0.7	0.5								
Information	5%	1.5	1.0	1.1	-2.2	-3.2	3.1	0.0	0.0	0.0	-0.1	-0.1	0.1								
Financial	9%	-1.6	1.5	1.4	0.2	2.6	1.5	-0.1	0.1	0.1	0.0	0.2	0.1								
Other Services	22%	0.0	-0.3	0.8	-5.1	-16.9	7.8	0.0	-0.1	0.1	-0.8	-2.4	1.0								
Rents	14%	1.0	0.2	0.1	0.8	0.8	1.1	0.1	0.0	0.0	0.1	0.1	0.1								
Public Services	24%	-0.7	-0.7	0.8	-1.6	-7.0	2.5	-0.1	-0.1	0.1	-0.2	-1.2	0.4								
Consumption	62%	0.3	0.5	0.4	-2.0	-11.3	7.6	0.2	0.3	0.3	-1.3	-6.9	4.7								
Government	20%	0.1	-0.1	-0.3	-0.5	-7.7	3.5	0.0	0.0	-0.1	-0.1	-1.7	0.7								
Investments	16%	3.0	3.0	-2.7	2.4	-16.5	11.0	0.5	0.5	-0.4	0.4	-2.5	1.8								
Exports	18%	-2.8	-0.7	1.7	-1.9	1.6	-2.1	-0.4	-0.1	0.2	-0.3	0.3	-0.4								
Imports	-14%	5.3	3.1	-4.7	-0.5	-12.4	-9.6	-0.7	-0.5	0.7	0.1	1.9	1.4								
MEMO (Contribution)																					
Inventories (proxy)	-1%	-	-	-	-	-	-	0.6	-0.3	-0.5	-0.4	-0.8	-0.5								
Domestic	97%	-	-	-	-	-	-	0.7	0.8	-0.2	-1.0	-11.0	7.2								
External	3%	-	-	-	-	-	-	-1.1	-0.6	0.9	-0.2	2.2	1.0								

Sources: IBGE and Santander

Figure 6-B. Yearly Changes and Contributions

	Weights							YoY Change (%)							Yearly Contributions (p.p)						
	3Q20	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3		
GDP	100%	1.5	1.3	1.6	-0.3	-10.9	-3.9	1.5	1.3	1.6	-0.3	-10.9	-3.9								
Taxes	14%	2.4	2.2	2.2	-0.3	-14.5	-5.1	0.3	0.3	0.3	0.0	-1.5	-0.7								
Agriculture	6%	1.2	1.1	-1.4	4.0	2.5	0.4	0.1	0.0	0.0	0.3	0.2	0.0								
Industry	19%	0.6	0.5	1.0	-0.3	-14.1	-0.9	0.1	0.1	0.2	-0.1	-2.5	-0.2								
Mining	13%	-9.1	4.2	4.1	5.5	7.1	1.0	-0.2	0.1	0.1	0.1	0.2	0.0								
Manufacturing	58%	1.7	-1.5	0.8	-1.1	-20.9	-0.2	0.2	-0.2	0.1	-0.1	-2.1	0.0								
Construction	15%	2.8	4.3	0.0	-1.6	-13.6	-7.9	0.1	0.1	0.0	0.0	-0.4	-0.2								
Utilities	13%	1.8	1.7	-1.0	-1.1	-5.5	3.8	0.0	0.0	0.0	0.0	-0.1	0.1								
Services	62%	1.6	1.3	1.8	-0.7	-10.2	-4.8	1.0	0.8	1.1	-0.4	-6.6	-3.0								
Retail	20%	2.0	2.4	2.1	0.7	-14.4	-1.3	0.2	0.3	0.2	0.1	-1.5	-0.2								
Transports	6%	1.2	-0.1	0.8	-1.5	-20.7	-10.4	0.0	0.0	0.0	-0.1	-0.8	-0.4								
Information	5%	4.7	5.5	5.3	1.3	-3.4	-1.3	0.1	0.2	0.2	0.0	-0.1	0.0								
Financial	9%	-0.8	1.5	3.2	1.1	5.7	6.0	0.0	0.1	0.2	0.1	0.4	0.4								
Other Services	22%	3.1	1.6	2.2	-3.6	-20.8	-14.4	0.5	0.2	0.3	-0.5	-2.9	-1.9								
Real estate and Rents	14%	2.8	2.0	1.3	2.0	1.8	2.7	0.2	0.2	0.1	0.2	0.2	0.2								
Public Services	24%	-0.3	-0.7	0.2	-1.1	-8.4	-5.4	-0.1	-0.1	0.0	-0.2	-1.4	-0.8								
Consumption	62%	2.2	2.1	2.3	-0.7	-12.2	-6.0	1.4	1.4	1.5	-0.5	-7.4	-3.7								
Government	20%	-0.3	-1.1	-0.1	-0.8	-8.5	-5.3	-0.1	-0.2	0.0	-0.1	-1.9	-1.0								
Investments	16%	6.6	4.1	0.5	6.0	-13.9	-7.8	1.0	0.7	0.1	0.9	-2.1	-1.3								
Exports	18%	0.8	-3.3	-4.8	-2.4	0.7	-1.1	0.1	-0.5	-0.7	-0.3	0.1	-0.2								
Imports	-14%	4.7	2.2	0.6	5.2	-14.6	-25.0	-0.7	-0.3	-0.1	-0.8	2.3	3.6								
MEMO (Contribution)																					
Inventories (proxy)	-1%	-	-	-	-	-	-	-0.3	0.3	0.8	0.5	-1.9	-1.3								
Domestic	97%	-	-	-	-	-	-	2.3	1.8	1.6	0.3	-11.4	-6.0								
External	3%	-	-	-	-	-	-	-0.5	-0.8	-0.8	-1.1	2.4	3.4								

Sources: IBGE and Santander



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