

## A Sequential Improvement in Economic Activity

- Today the BCB published its monthly activity indicator for September, capping the batch of activity index releases for that month. The IBC-Br posted a gain of 1.3% MoM s.a. (-0.8 YoY), above the market consensus of 1.0% MoM s.a. (even with August's number revised upward). However, the index is still 2.5% below February's reading.
- This positive result is consistent with a sequential resumption of activity seen for other key sector-based indicators in September (e.g., industrial production, retail sales, services sector). In terms of outlook, assuming no growth in the remaining months of the year (carryover), we calculate growth of 1.3% in 4Q20.
- In a preliminary exercise based on the YoY correlation of IBC-Br and the GDP, we are updating our tracking for 3Q20 GDP to 9.5% QoQ s.a. from 9.1% (-3.0% YoY).

Figure 1. Economic Activity Breakdown

	% MoM			% YoY			% QoQ		
	Jul-20	Aug-20	Sep-20	Jul-20	Aug-20	Sep-20	Jul-20	Aug-20	Sep-20
Industrial Production	8.6	3.6	2.6	-2.8	-2.4	3.4	-1.2	14.9	22.3
Core Retail Sales	4.7	3.1	0.6	5.5	6.2	7.3	5.5	14.8	17.2
Broad Retail Sales	7.2	4.1	1.2	1.7	3.7	7.4	5.5	22.0	24.2
Services Sector	2.7	2.9	1.8	-11.9	-10.0	-7.2	-7.6	2.8	8.6
IBC-Br	3.8	1.4	1.3	-4.3	-3.9	-0.8	-2.2	6.2	9.5

Sources: IBGE, BCB, and Santander.

### The Recovery Continues

The BCB published its monthly activity indicator for September, capping the batch of activity index releases for that month. The IBC-Br posted a gain of 1.3% MoM s.a. (-0.8% YoY), above the market consensus forecast of 1.0% MoM s.a., even with August's number revised upward. Without this upward revision, the monthly growth would be +1.8%. This result implies that 83.0% of the losses registered between March and April have already been recovered, and now the index is only 2.5% below February's reading. In terms of trend, the 3MMA posted the third gain in a row after four consecutive declines since March. This positive result is consistent with the sequential resumption in activity seen for other key sector-based indicators in August (e.g., industrial production, retail sales, services sector), but in quarterly terms, the IBC-Br posted growth of 9.5% in 3Q20, still not enough to offset the sharp drop of -10.2% in the previous quarter. With today's result and assuming no growth for the IBC-Br in the remaining months of the year, we calculate that growth for 4Q20 stands at 1.3% QoQ s.a.

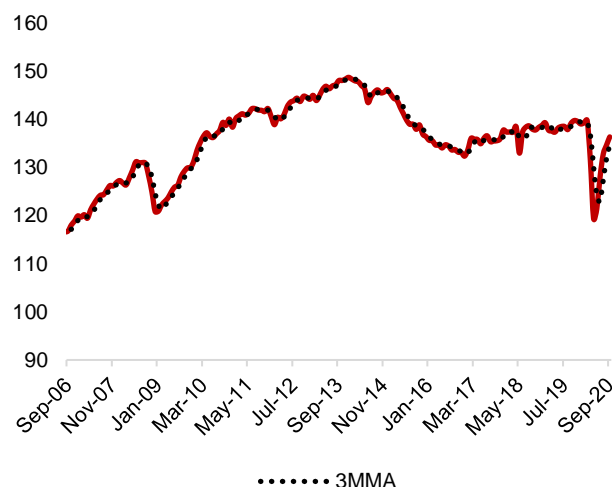
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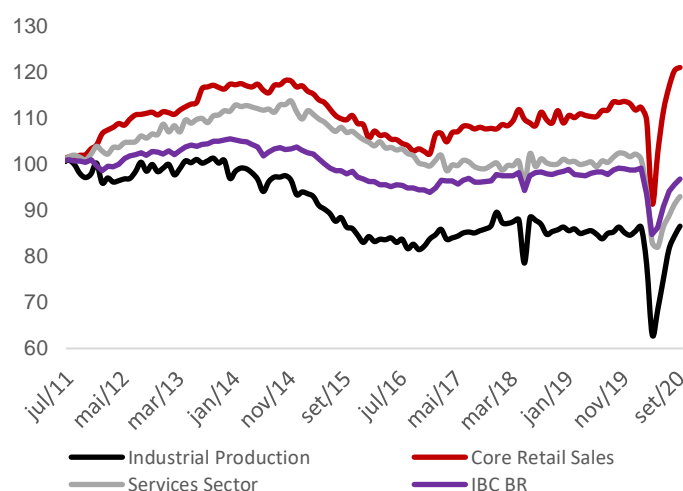


Figure 2-A. IBC Br (s.a., 2003=100)



Sources: IBGE and Santander.

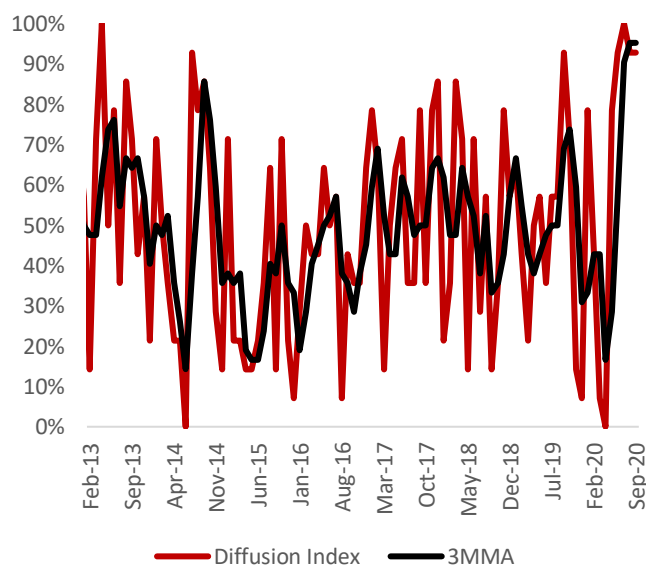
Figure 2-B. Economic Activity Compilation (s.a., 2011=100)



Sources: IBGE, BCB and Santander.

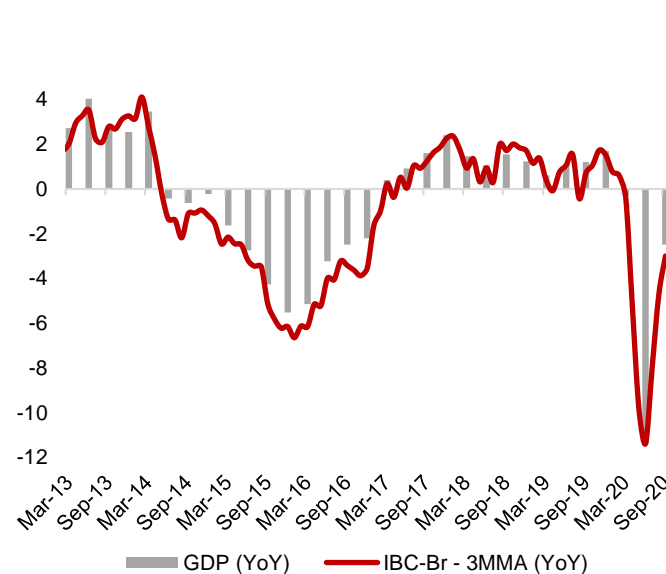
With today's data, all of the main indicators of economic activity for the month have been released. Retail sales have far exceeded the pre-crisis level, and industrial production finally achieved full recovery from the crisis; on the other hand, the services sector is still 8.0% below the pre-crisis level, underlining that the latter is still the laggard in the economic recovery. In general terms, we calculated a diffusion index—which captures the proportion of segments with monthly gains—based on 14 of the main activity indicators (e.g., labor market, industrial production, retail sales, energy consumption, etc.), and its 3MMA stood at 90%, highlighting that this recovery trend is widespread in most sectors.

Figure 3-A. Diffusion Index



Sources: IBGE, BCB, and Santander.

Figure 3-B. IBC-Br and GDP Tracking (s.a., 2011=100)



Sources: IBGE, BCB, and Santander.

Based on the historical correlation between YoY GDP changes and the 3MMA YoY movements of the IBC-Br, we can compute a preliminary tracking for GDP quarterly changes. With today's result, we updated our tracking for 3Q20 GDP to 9.5% QoQ s.a. from -9.1% (-3.0% YoY).



Figure 4. Recovery Breakdown

September	Drop %	MoM %	YoY %	Rec % *	Feb % **
Industrial Production	-27.0	2.6	3.4	-	0.2
Core Retail Sales	-18.7	0.6	7.3	-	7.7
Broad Retail Sales	-29.4	1.2	7.4	-	2.9
Services Sector	-17.9	1.8	-7.2	55.3	-8.0
IBC-Br (e)	-14.6	1.3	-0.8	83.0	-2.5

\* Percentage of the drop already recovered.

\*\* Variation relative to February's reading

Sources: IBGE, BCB and Santander.

Figure 5. "Heatmap" Showing Economic Activity Indexes Used in the Diffusion Index

	Economic Activity ( % MoM seasonally adjusted)									
	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Employment Creation	-0.96	-0.50	1.80	-7.25	-52.14	21.30	31.20	11.63	14.63	11.76
Corrugated Fiberboard	-0.17	1.00	-0.82	0.80	-4.30	-7.61	11.08	4.44	3.00	3.01
Auto Production	-4.76	7.27	-2.46	-21.84	-97.89	1105.13	133.12	57.31	19.43	10.87
Energy Consumption	-0.89	0.55	-0.32	-2.69	-8.69	3.45	4.34	2.88	0.94	2.91
Steel Production	-0.26	8.57	-3.56	-3.08	-42.01	57.11	0.48	14.99	-0.61	4.41
Steel Production	1.09	17.29	-4.55	-11.00	-28.34	13.48	13.17	1.42	7.27	2.74
Gross Vehicles Toll Road Flow	-1.60	0.74	0.95	-3.64	-18.82	9.25	8.79	5.32	1.96	2.71
Services Sector	-0.66	0.55	-1.10	-6.78	-11.92	-1.22	5.34	2.73	2.91	1.85
Total Industry	-0.69	1.04	0.92	-9.31	-19.52	8.71	9.59	8.62	3.61	2.55
Mining Industry	-0.58	1.86	0.00	-10.27	-23.41	13.12	25.99	9.21	3.09	-3.73
Manufacturing Industry	-1.52	-2.54	-0.23	-1.70	-0.46	-4.99	-7.95	9.30	3.65	3.87
Core Retail Sales	-0.31	-1.35	0.52	-2.40	-16.68	12.71	8.43	4.73	3.11	0.58
Broad Retail Sales	-0.42	1.04	0.93	-14.31	-17.66	15.80	11.51	7.18	4.08	1.21
IBC BR	-0.39	0.15	0.40	-5.89	-9.23	1.67	5.38	3.77	1.39	1.29

Sources: IBGE, BCB, ABPO, IBS, ANFAVEA, Labor's Ministry and Santander.



## CONTACTS / IMPORTANT DISCLOSURES

### 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

### Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina& FX	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Orenge*	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
Daniel Gewehr*	Head, Brazil	dhgewehr@santander.com.br	5511-3012-5787

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