

Activity Continued to Improve in August

- Industrial Production has confirmed the expectations of a fourth gain in a row after April's sharp drop. The headline index pointed to growth of 3.2% MoM (s.a.), a result worse than our forecast (4.5%) and market consensus (3.7%). Relative to August 2019, there was a decline of 2.7%. Mining and Manufacturing posted monthly gains of 2.6% and 3.5%, respectively.
- This positive result for August implies the headline number is down by 2.6% since February (pre-crisis level), meaning that 90.3% of the drop registered between March and April has already been recovered. With today's result, the carryover for 3Q2020 stands at 20.8% QoQ (s.a.).
- Preliminary soft data for September points to continued improvement in Industrial Production. According to FGV, industrial business confidence stands at the highest level since January 2013, and industrial capacity utilization has surpassed the pre-crisis level, registering a reading close to the historical average. Based on this data, we project a rise of 2.4% MoM (s.a.) (2.9% YoY) for September.

Figure 1. Industrial Production Breakdown

	% MoM		%YoY		%QoQ	
	July/20	Aug/20	July/20	Aug/20	July/20	Aug/20
Mining	9.2	2.6	1.3	-2.0	0.5	8.7
Manufacturing Industry	9.3	3.5	-3.3	-2.7	-0.4	17.2
Capital goods	16.0	2.4	-15.9	0.0	-5.2	23.4
Intermediate goods	10.4	2.3	1.7	0.0	-0.4	11.0
Consumer goods	10.4	2.9	-7.4	0.0	0.3	23.5
Durable goods	37.0	18.5	-16.5	0.0	-9.4	91.9
Non-durable goods	5.2	0.6	-4.9	0.0	2.1	13.6
Total Industrial Production	8.3	3.2	-2.8	-2.6	-1.1	14.7
Construction Supplies	9.9	1.5	4.2	2.7	6.6	25.7

Sources: IBGE and Santander.

Continuing Industrial Recovery

Industrial Production has confirmed market expectations of a fourth gain in a row after April's sharp drop. The headline index pointed to growth of 3.2% MoM (s.a.), a result worse than our forecast (4.5%) and market consensus (3.8%). In relation to August 2019, there was a decline of 2.7%, almost closing the YoY gap. Mining and Manufacturing posted monthly gains of 2.6% and 3.5%, respectively.

This positive result for August implies the headline number is down by 2.6% since February (pre-crisis level), meaning that 90.3% of the drop registered between March and April has already been recovered. With today's result, assuming no growth in the remaining months of the quarter, we calculate that growth for 3Q20 stands at 20.8% QoQ (s.a.).

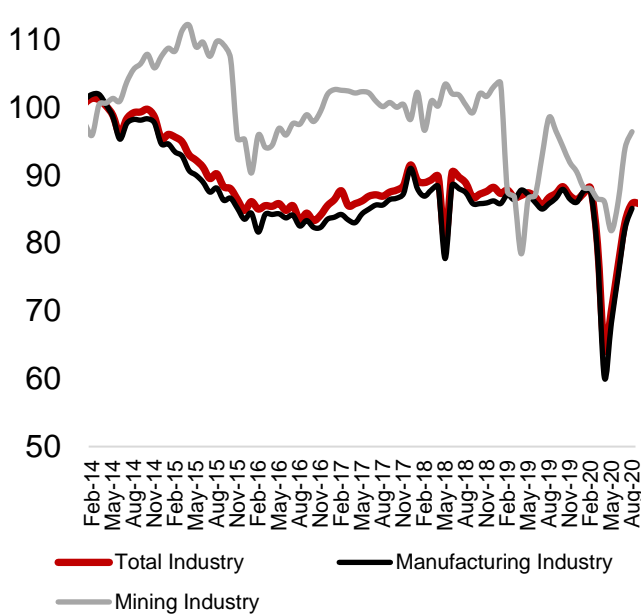
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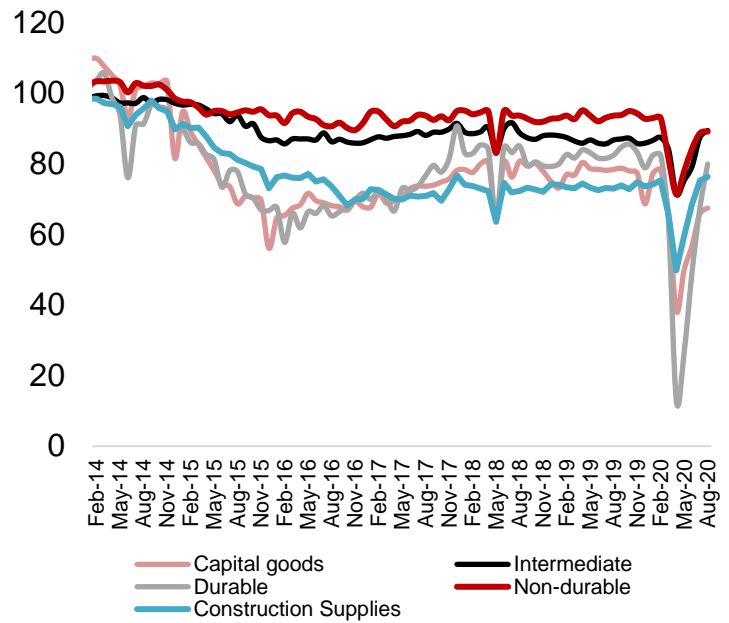


Figure 2-A. Industrial Production (s.a., 2012=100)



Sources: IBGE and Santander.

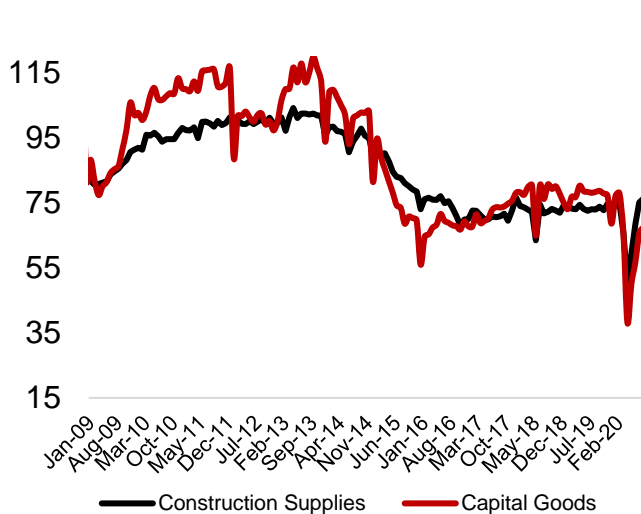
Figure 2-B. Economic Categories (s.a., 2012=100)



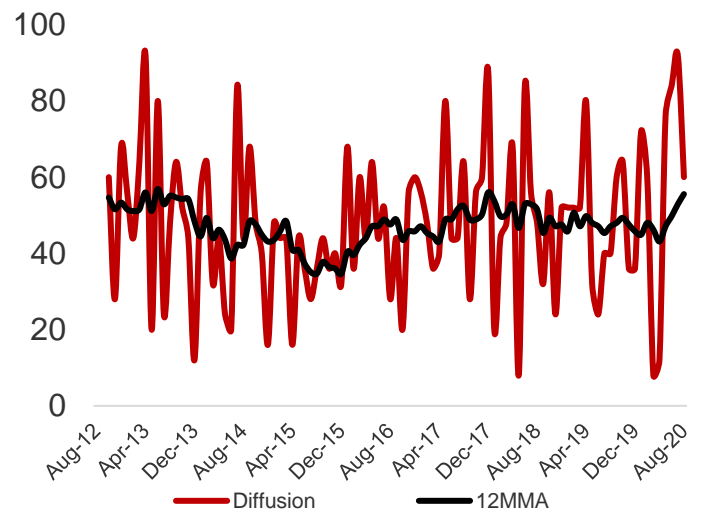
Sources: IBGE and Santander.

Among the categories, the positive highlight was Durable Goods, up 18.5% MoM (s.a.). Construction Supplies and Capital Goods, related to investments, posted increases of 1.5% and 2.4%, respectively. In our view, the behavior of these measures points to a possible rise in investments in the third quarter, especially in an environment with looser financial conditions. Regarding the accumulated drop, Construction Supplies and Intermediate Goods have already recovered all the losses registered in the crisis, while Durable Goods has recovered 96.4%. In comparison with February's reading, Intermediate Goods and Construction Supplies are 2.3% and 1.4% above the pre-crisis mark, while Capital Goods and Consumer Goods are the laggards, still 13.6% and 5.0% below that mark.

Figure 3-A: Construction Supplies and Capital Goods (s.a., 2012=100) Figure 3-B: Diffusion Index (% of sector with monthly increase)



Sources: IBGE and Santander.



Sources: IBGE and Santander.



In the survey details, the positive highlights were Vehicles (19.2%), Clothing Manufacture (11.5%), and Leather and Travel Items (14.9%); on the other hand, Personal Care and Printing posted declines of 9.7% and 7.1%, respectively. In general terms, the monthly gains are not widespread as in the previous month, with the Diffusion Index (percentage of industrial categories with monthly growth) reaching 60.0% (vs. 92.0% in July).

Preliminary soft data for September points to continued improvement of Industrial Production. According to FGV, industrial business confidence stands at the highest level since January 2013, and industrial capacity utilization has surpassed the pre-crisis level, registering a reading close to the historical average. Expected demand stands above current demand for the third month running, and expected production also showed a positive result for a fifth straight month, at around the highest level since October 2010. Finally, the inventories surplus (i.e., percentage of respondents that view inventories as excessive minus respondents reporting inventories as insufficient) reached the lowest value since August 2013. In our view, these figures are a tailwind for industrial activity ahead. Based on this data, we project a rise of 2.4% MoM (s.a.) (2.9% YoY) for September.

Figure 4. Recovery Breakdown

	Capital Goods	Intermediate Goods	Consumer goods	Durables	Non-Durables	Construction Supplies	Manufacturing
MoM %	2.4	2.3	2.9	18.5	0.6	1.5	3.5
YoY %	-15.9	1.7	-7.4	-16.5	-4.9	4.2	-3.3
QoQ %	23.4	11.0	23.5	91.9	13.6	25.7	17.2
Rec% *	73.4	112.5	86.8	96.4	82.4	104.1	90.9
Feb% **	-13.6	2.3	-5.0	-3.0	-4.1	1.4	-2.9

* Percentage of the drop already recovered.

** Variation relative to February's reading

Sources: IBGE and Santander.

Figure 5. "Heatmap" Showing Industrial Production by Activities

	By Activity (% 3MMA seasonally adjusted)									
	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Food products	0.14	0.14	-0.35	0.97	0.69	1.19	0.84	0.84	0.53	0.82
Oil and biofuel coke	-0.39	0.21	1.60	1.57	0.69	1.19	0.84	0.84	0.53	2.06
Vehicles	-0.41	-3.65	-1.96	0.43	-7.30	-33.36	-40.49	-23.62	72.62	36.19
Metalurgy	-1.45	-1.88	1.00	1.61	1.26	-10.24	-8.96	-9.06	9.37	6.65
Other chemical products	0.25	-0.54	-0.33	1.46	-0.25	-3.25	-4.92	-0.51	4.49	4.00
Machines and equipments	-0.04	-3.05	-0.13	0.61	0.87	-12.50	-11.23	-5.49	12.98	8.56
Metalic products except machines and equipments	1.51	-0.61	-0.40	-0.09	-3.06	-11.49	-8.84	-0.17	14.43	9.80
Non-mentalic minerals	0.37	-0.69	-1.02	-0.37	-3.64	-12.29	-8.53	1.55	15.40	10.06
Rubber and plastic products	1.30	0.47	0.62	0.73	-3.43	-11.89	-11.43	-1.42	13.15	11.31
Beverages	2.53	1.03	0.03	-0.27	-6.85	-17.62	-6.04	12.09	25.16	6.98
Cellulose, paper and paper-based products	-0.22	0.25	0.13	1.52	1.13	0.06	-2.81	-2.48	-1.24	1.61
Machines, equipments and electric material	0.74	-0.09	0.00	0.04	-2.99	-14.35	-11.43	0.53	19.17	11.25
Computer equipments, electronics and optical products	1.45	-0.85	1.58	-1.82	-3.12	-15.70	-8.24	1.27	20.05	11.50
Pharmaceuticals	1.34	0.54	-0.85	1.05	-0.89	-0.74	-0.04	4.24	1.96	-3.00
Manufacture of clothing and accessories	1.35	1.45	1.06	0.16	-13.55	-24.13	-27.99	-10.79	19.00	15.99
Leather, travel items and footwears	-0.18	-2.91	-1.10	-1.57	-9.15	-24.85	-23.55	-5.07	23.64	15.15
Textile products	0.81	0.25	0.67	0.84	-6.67	-18.57	-21.44	-4.79	24.51	21.60
Other transport equipments, except motor vehicles	-0.49	-1.60	-3.31	-5.52	-5.10	-28.82	-29.21	-8.10	52.45	24.38
Machines and equipments	-1.81	-2.34	-3.11	-1.21	-0.61	-2.91	-3.82	-4.06	-0.79	-0.75
Furniture	1.61	-3.29	-0.13	0.80	-7.46	-19.69	-15.53	8.18	28.05	16.38
Personal Care	-0.61	-0.29	-0.13	1.59	1.63	2.24	-0.77	-0.28	0.56	-0.12
Wood products	-0.21	0.53	0.39	0.53	-4.91	-7.71	-7.83	4.21	10.61	8.53
Printing and playback of recordings	0.87	26.03	-6.01	-13.09	-29.05	-8.85	-9.80	11.27	0.00	-0.65
Miscellaneous	1.94	1.94	-0.07	-0.24	-4.84	-13.41	-19.50	-10.75	13.54	20.53
Tobacco products	0.46	1.70	0.72	3.58	-0.86	-5.54	-2.82	3.18	6.91	1.67

Sources: IBGE 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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