Santander Macroeconomic Research

BRAZIL MACRO

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DATA ANALYSIS – ECONOMIC ACTIVITY

Another Increase in Economic Activity

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- Today the BCB published its monthly activity indicator for November, capping the batch of activity index releases for that month. The IBC-Br posted a gain of 0.6% MoM-sa (-0.8 YoY), in line with the market consensus of 0.5% MoM-sa (-1.0% YoY), but with the series revised downward for October.
- Despite this positive result, the growth was still not enough to offset the drop registered during the COVID-19 crisis: this figure implies that 87.5% of the losses registered between March and April have already been recovered, and the index is still down by 1.9% since February (pre-crisis mark).
- This result is consistent with a sequential resumption of activity seen for other key sector-based indicators in November (e.g., industrial production, broad retail sales, the services sector). After a favorable start for the sequence of fourth quarter releases, we calculate a carryover of 2.9% in 4Q20, which in our view supports the likelihood of solid growth for economic activity.
- In a preliminary exercise based on the historical correlation of IBC-Br and GDP, our tracking for 4Q20 GDP was updated to 2.6% QoQ-sa (from 2.5% QoQ-sa), which reflects a gradual move toward our current projection of 2.8% QoQ-sa, consistent with our expectations of a 4.1% drop in 2020.

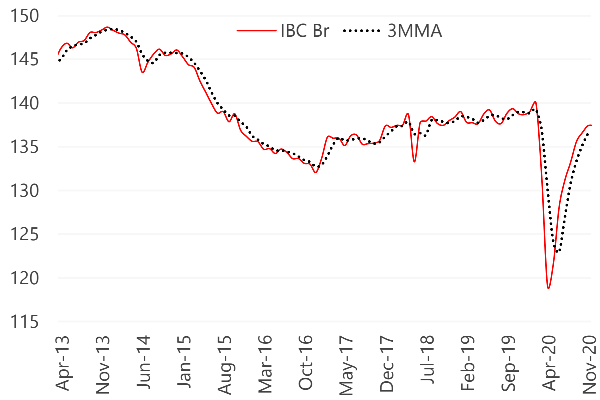
Figure 1 – Economic Activity Breakdown

	% MoM			% YoY			% QoQ		
	Sep-20	Oct-20	Nov-20	Sep-20	Oct-20	Nov-20	Sep-20	Oct-20	Nov-20
IBC-Br	1.8	0.8	0.6	-1.1	-2.8	-0.8	8.5	6.5	4.4
Industrial Production	2.8	1.1	1.2	3.7	0.3	2.7	22.2	14.8	9.2
Core Retail Sales	0.4	0.8	-0.1	7.2	8.4	3.4	23.9	9.3	4.3
Broad Retail Sales	1.0	2.1	0.6	7.4	6.1	4.0	23.9	14.2	7.7
Services Sector	2.2	1.8	2.6	-6.9	-7.4	-4.8	9.0	8.9	8.7

Sources: BCB and Santander.

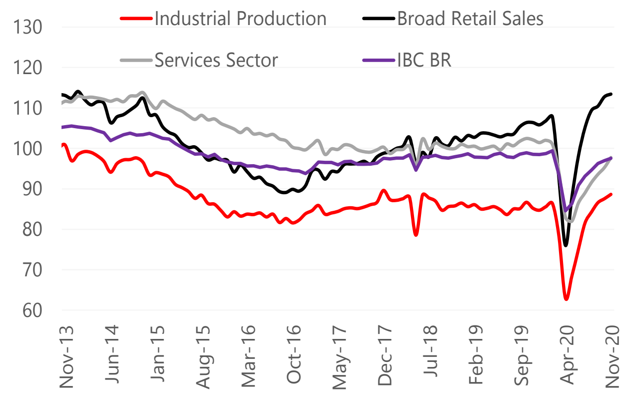
Today the BCB published its monthly activity indicator for November, capping the batch of activity index releases for that month. The IBC-Br posted a gain of 0.6% MoM-sa (-0.8% YoY), in line with the market consensus (0.5%) and our call (0.6%), but with the series revised downward for October (from -2.6% YoY to -2.8% YoY). This was the seventh gain in a row following April's tumble, but the growth was still not enough to offset the impact of the pandemic: regarding the stage of recovery, 87.5% of the losses registered between March and April have already been recovered, and the headline index is still down by 1.9% since February (pre-crisis mark). In terms of trends, a deceleration vs. the previous months' growth can also be observed, after a partial rebound from notably depressed bases of comparison.

Figure 2.A – IBC-Br (sa 2013=100)



Sources: IBGE and Santander.

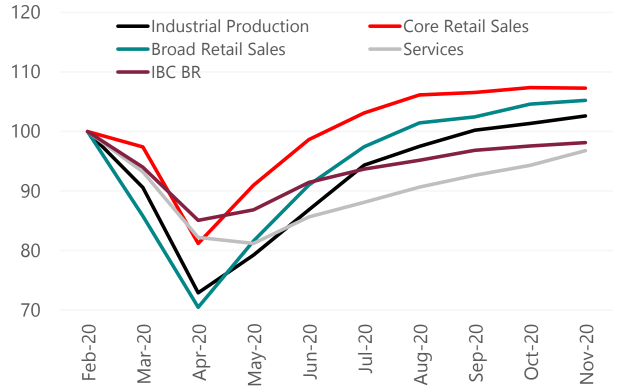
Figure 2.B – Economic Activity (sa 2011=100)



Sources: IBGE, BCB and Santander

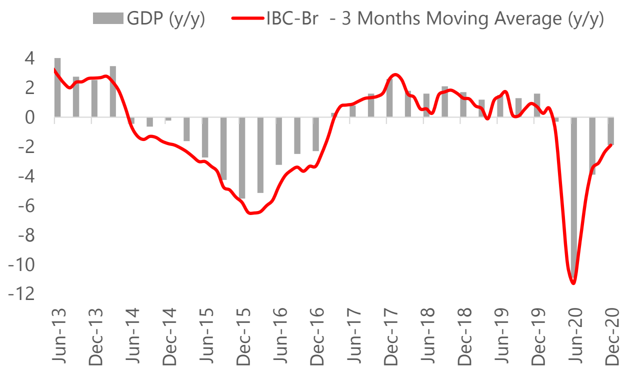
November's positive result was expected, since the key sector-based indicators (e.g., industrial production, broad retail sales, and the services sector) posted widespread growth in the month, consistent with the sequential resumption in economic activity seen up to now. In our view, the possible reason the IBC-Br is still below the pre-crisis level is the impact of social distancing on the services sector, especially the segments related to social interactions (Families and Transport). As social distancing eases and mobility increases, we expect a gradual recovery, with the services sector being the main driver of an economic rebound in the coming months. Regarding the outcome at the margin, industrial production has also contributed positively, especially due to manufacturing. In our view, Retail Sales is possibly partially responsible for the deceleration seen at the margin, with broad retail sales posting an adjustment after sharp increases, reflecting the lower paycheck amounts, price hikes for essential goods, and the negative employment outlook.

Figure 3.A – Recovery Stage (sa Feb-20=100)



Sources: IBGE, BCB and Santander.

Figure 3.B – IBC-Br (sa 2011=100) and GDP Tracking



Sources: IBGE and Santander.

Figure 4 – Recovery Breakdown

Nov-20	Drop %	MoM %	YoY %	Feb-20 % Chg	Carryover 4Q %
IBC-Br	-14.9	0.6	-0.8	-1.9	2.9
Industrial Production	-27.1	1.2	2.7	2.6	5.0
Core Retail Sales	-18.8	-0.1	3.4	7.3	1.9
Broad Retail Sales	-29.4	0.6	4.0	5.2	4.4
Services Sector	-17.9	2.6	-4.8	-3.2	6.1

Sources: IBGE, BCB and Santander

In terms of outlook, we see no evidence of a sequential decline in December. Indeed, we believe industrial production should contribute positively to economic activity, as confidence and capacity utilization are posting high readings, inventories are below the desirable level; the services sector should continue its recovery as mobility advances (despite the reversal of economic reopening in some regions). The carryover for the key sectors of economic activity is running at more than 4%, which reinforces the likelihood of solid growth for economic activity in the remaining quarter of the year, in our view. Indeed, our tracking of 4Q20 GDP was updated from 2.5% QoQ-sa to 2.6% QoQ-sa, gradually moving toward our projection of 2.8% and consistent with a drop of 4.1% in 2020.

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