

Expected Solid Growth in 1Q21 Means Resilience

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- **The surprisingly positive activity releases in 1Q21 highlighted the resilience of the economy amid the withdrawal of fiscal stimuli and the resurgence of the pandemic.** In our view, these figures are consistent with a more positive outlook for 1Q21 GDP growth. Accordingly, we are raising our projection to +0.9% QoQ-sa (0.5% YoY) from +0.4% QoQ-sa (-0.2% YoY).
- **On the supply side, we expect the services sector to post solid growth in 1Q21, while industrial growth is likely to decelerate from the strong upward trend seen in 2H20, reflecting the lingering impact of the pandemic and the widespread shortage of inputs in manufacturing.** We expect agriculture to contribute positively, on the heels of the commodities price hike.
- **On the demand side, we expect household consumption to retreat, reflecting the weak figures for broad retail sales and services to families in 1Q21.** Investment should be stable, in our view, while we expect government consumption to expand. We expect the external sector to contribute negatively.
- **If our projection is confirmed, this result implies a carryover of 4.5% to 2021 GDP and places the economy at levels 0.4% below the pre-crisis mark (4Q19).** Moreover, we believe the already positive figures for the tertiary sector in 2Q21, along with the materialization of the first effects of the new round of emergency aid, point to better than expected activity in 1H21. **Therefore, these figures imply solid upside risks to our current projection for 2021 GDP (3.6%), likely above the 4% mark.**

The surprisingly positive activity releases for 1Q21 showed the resilience of the economy amid the withdrawal of fiscal stimuli and the resurgence of the pandemic. In our view, two main factors explain this surprise. The first one is companies' adaptation to the pandemic environment, with the digitalization of activities and gains in work-from-home productivity amid the increase of mobility restrictions. The second factor is the spending of part of the household savings accumulated in the past year, especially by the segments of the population with higher income (who did not consume services during the lockdown), softening the effects of the fiscal cliff. Moreover, the commodities price hikes contributed to a positive outcome for the agriculture sector. Therefore, we are revising upward our 1Q21 GDP projection to 0.9% QoQ-sa (0.5% YoY) from 0.4% QoQ-sa (-0.2% YoY).

Looking at the breakdown, on the supply side, we expect the services sector to post solid growth (0.8%), mainly driven by the more cyclical segments, as highlighted by the monthly services surveys, which ended the quarter with 2.8% quarterly growth. If this result is confirmed, it would place the services sector 1.5% below the pre-pandemic mark (4Q19). Regarding the industry sector, we expect quarterly growth of 0.3%, mainly due to growth in the mining industry (2.6%), while manufacturing should retreat, reflecting the lingering impact of the pandemic and the widespread shortage of inputs. This quarterly growth places the industry sector 1.5% above the pre-crisis mark. Additionally, we expect agriculture to contribute positively, on the heels of the hikes in commodities prices.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

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On the demand side, we expect household consumption to retreat (-1.3%), reflecting the weak quarterly figures for broad retail sales (-3.9%) and services provided to families (-6.3%), stemming mainly from March's drop. In comparison to the pre-crisis mark, we forecast household consumption to reach readings 4.3% below 4Q19. We expect investments to be stable (-0.1%) after strong 2H20 output (with 4Q20 inflated by accounting effects of oil platforms imports), likely reflecting the drop in confidence, but supported by the resilience of domestic capital goods production. Government consumption should contribute positively (2.2%), according to our projections.

Figure 1. GDP Projections Breakdown

	4Q20		1Q21e		2021e	
	Weights	% YoY	% QoQ	% YoY	% QoQ	% Carryover
GDP	100%	-1.1	3.2	0.5	0.9	4.5
Supply						
Taxes	15%	0.2	5.2	1.0	0.2	5.8
Agriculture	4%	-0.4	-0.5	4.1	5.0	4.1
Industry	17%	1.2	1.9	2.4	0.3	5.3
Mining	16%	-6.7	-4.7	-2.0	2.6	-0.3
Manufacturing	55%	5.0	4.9	5.2	-0.8	8.3
Construction	15%	-4.8	-0.4	-3.0	0.5	1.1
Utilities	14%	1.5	-1.2	3.0	1.3	3.0
Services	63%	-2.2	2.7	-0.3	0.8	3.6
Demand						
Consumption	64%	-3.0	3.4	-3.1	-1.3	1.8
Government	21%	-4.1	1.1	-1.1	2.2	2.7
Investments	18%	13.5	20.0	8.8	-0.1	14.6
Exports	17%	-4.3	-1.4	0.9	3.7	1.9
Imports	-17%	-3.1	22.0	0.5	5.6	12.5

Sources: IBGE, Santander estimates.

For 2Q21, our view is that the risks are to the upside, even with the negative carryover left by March's retreat. The faster than expected increase in mobility, along with some positive activity figures for April and May (based on our proprietary index IGet^{1 2}), suggest strong upside risks to our current forecast (-0.6%), and the materialization of the first effects of the new round of emergency aid contribute to this view. On the negative side, we expect industry to continue to suffer from the lingering impact of the pandemic and from the widespread shortage of inputs. In our view, the services sector will be the main driver of the recovery, with industry still creating something of a drag on the recovery (i.e., the opposite pattern from recent quarters). All in all, we recognize the likelihood of a stable (or slightly positive) figure for 2Q21.

If our projection is confirmed, this result would imply a carryover of 4.5% to 2021 GDP, which, along with the likely better than expected activity in 1H21 (as described above), implies solid upside risks to our current projection for 2021 GDP (3.6%), likely above the 4% mark. **For details on Santander's economic activity scenario, please refer to our last chartbook³.**

¹ Santander Brazil Economic Activity - "IGet Serviços: Um Trimestre Aparentemente Promissor" – May 19, 2021 - Available (in Portuguese) on: <http://bit.ly/lget-serv-previa-mai21>

² Santander Brazil Economic Activity - "IGet: Varejo Segue Apresentando Bom Desempenho" – May 21, 2021 - Available (in Portuguese) on: <http://bit.ly/Std-IGet-210521>

³ Santander Brazil Economic Activity - "Chartbook – Positive Surprises with Risks On The Upside" – May 25, 2021- <http://bit.ly/Std-chart-econact-may21>



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