Economic Activity – Brazil's Q2 GDP Preview

We estimate that Brazil GDP expanded by 0.3% QoQ in Q2

Q2 GDP Preview

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Brazil's Q2 GDP results will be published next week (September 01). We anticipate a modest increase of 0.3% QoQ (13.0% YoY) after the strong expansion of 1.2% QoQ registered in Q1 (1.0% YoY). If our estimate proves accurate, the statistical carryover effect for the full-year 2021 GDP growth will be 5.2%. Moreover, Brazil GDP would stand at 0.3% above pre-crisis level (Q419). We continue to see this year's GDP growth at 5.5%.

In turn, our current expectation for 2022 GDP growth is 2.3%, which considers a carryover effect of around 1.0% from 2021 GDP. We assign a downward bias to that forecast, nevertheless, mainly due to the significant deterioration in financial conditions in recent weeks (the latest revision of the GDP growth outlook was carried out in early July). We highlight the increased fiscal risk perception and the rise in real interest rates. Another report with a more in-depth analysis on 2022 GDP will be released after we know Q221 GDP results.

Our detailed estimates for Brazil's Q2 GDP are presented below.

Brazil GDP Breakdown	Q121		Q221		Carryover - 2021	Pre-Crisis Level	2020	2021 (F)
	% YoY	% QoQ *	% YoY	% QoQ				
Agriculture and Livestock	**5.2**	**6.5**	**1.2**	**-3.2**	**2.6**	**2.9**	**2.0**	**2.2**
Industry	**3.0**	**0.7**	**17.0**	**-1.6**	**4.4**	**0.3**	**3.5**	**5.8**
Mining	-1.3	3.5	5.6	4.2	3.7	0.5	1.3	4.5
Manufacturing	5.6	-0.5	25.2	-2.7	6.0	1.5	-4.3	6.9
Civil Construction	-0.9	3.4	11.3	2.0	5.6	-1.4	-7.0	5.4
Utilities	2.1	0.8	7.7	-0.2	2.4	2.1	-0.4	3.2
Services	**-0.8**	**0.4**	**11.3**	**1.2**	**4.3**	**-0.5**	**-4.5**	**5.4**
Retail	3.5	1.7	24.1	2.2	9.6	5.7	-3.1	9.8
Transportation and Storage	1.3	3.8	26.5	1.3	10.8	0.5	-9.2	11.5
Information and Communication	5.5	1.6	12.5	3.3	7.9	7.3	-0.2	8.3
Financial Intermediation	5.1	1.1	2.6	0.7	2.7	5.1	4.0	3.0
Other Services	-7.3	-2.2	14.2	1.2	2.8	-10.0	-12.1	6.5
Real Estate Activities and Rents	3.9	1.0	3.7	0.8	3.0	5.3	2.5	3.2
Public Services	-4.4	-0.2	5.5	0.9	1.5	-3.2	-4.7	2.3
Net Indirect Taxes	1.9	2.1	20.3	0.8	8.1	3.1	-4.9	7.4
Added Value	**0.8**	**1.4**	**12.1**	**0.6**	**4.9**	**0.6**	**-3.9**	**5.3**
Total GDP	**1.0**	**1.2**	**13.0**	**0.3**	**5.2**	**0.3**	**-4.1**	**5.5**
Household Consumption	-1.7	-0.1	12.9	1.2	3.8	-2.0	-5.5	4.8
Government Consumption	-4.9	-0.8	5.3	1.6	0.6	-3.4	-4.7	2.2
Gross Fixed Capital Formation	17.0	4.6	32.6	-1.4	19.2	17.5	-0.8	13.2
Exports	0.8	3.7	11.7	6.8	7.5	6.0	-1.8	7.8
Imports (-)	7.7	11.6	31.5	6.5	24.3	15.1	-10.0	12.4

Source: IBGE. Estimates by: XP.
* Seasonal adjustment considering data up to Q221.

On the Supply Side, the positive highlight should be the widespread expansion in the services sector, on the heels of the improved mobility allowed for the advance in vaccination program against Covid-19 and the new round of emergency cash-transfers for vulnerable people. We calculate a 1.2% QoQ increase in Total Services GDP last quarter (11.3% YoY). Looking at the tertiary sector breakdown, (I) Information and Communication Services (3.3% QoQ) and (II) Retail (2.2% QoQ) are expected to post the sharpest increases in the quarterly comparison. We also note the rebound of Other Services (mostly driven by the services rendered to families) after a steep decline in Q1, in addition to solid results in the Transportation and Storage activity.

On the other hand, Agriculture & Livestock and Total Industry are likely to show weak figures for Q2. Regarding the former, the poor performance of the coffee (main factor), sugarcane and corn harvests more than offset the material expansion in soybean output that is partially accounted in Q2 (we estimate a 3.2% QoQ contraction in the primary sector GDP). In turn, Total Industry GDP shrank 1.6% QoQ in Q2 as per our estimates, as the tumble of Manufacturing component (-2.7% QoQ) should have overshadowed the continued recovery of Mining (4.2% QoQ) and Civil Construction (2.0% QoQ) in the period. In general, manufacturing sector faces higher costs for raw materials, whereas some activities (automotive chain as the main example) continues to struggle with input shortage. Furthermore, we call attention to the surge in Net Indirect Taxes in Q2 (0.8% QoQ; 20.3% YoY), which should have contributed significantly to the advance in Total GDP.

On the Demand Side, all components should unveil solid figures for Q2. Our estimate for Household Consumption growth is 1.2% QoQ (12.9% YoY), in line with the favorable behavior of retail sales and services provided to families. In the same direction, we think that Government Consumption resumed upward path last quarter, reflecting the gradual improvement in the provision of public services such as education and health (1.6% QoQ; 5.3% YoY). In turn, Gross Fixed Capital Formation probably decreased in Q2 (-1.4% QoQ; 32.6% YoY), but it’s important to bear in mind the massive investments in the previous quarters. In addition to surging apparent consumption of capital goods, important civil construction segments have shown solid rebound in the recent period, particularly the residential real estate and logistic structures. Accordingly, **we estimate that Domestic Absorption advanced 0.9pp in Q2**. Lastly, our expectations point to sharp increase in both Exports (6.8% QoQ; 11.7% YoY) and Imports (6.5% QoQ; 31.5% YoY) last quarter, owing to the firm performance of global economy and rebounding domestic demand. **Hence, we calculate only a subtle positive contribution from external sector to Q2 GDP growth (0.1pp). All-in, the Inventory Change should have been negative in Q2, contrasting materially to the figures seen in Q1 (-0.7pp versus 1.8pp).**

We anticipate continued recovery of Brazil GDP throughout the second half of 2021, driven chiefly by the rebound of services rendered to families and gradual normalization of public services. If our projection for this year’s GDP growth proves accurate (5.5% YoY), the statistical carryover for next year’s GDP growth will be around 1.0%.

Our current expectation for 2022 GDP growth is 2.3%. We assign a downward bias to that forecast, nevertheless, mainly due to the significant deterioration in financial conditions in recent weeks (the latest revision of the GDP growth outlook was carried out in early July). We highlight the increased fiscal risk perception and the rise in real interest rates.

Other relevant risks to domestic activity remain on the radar. Among them, we note the persistence of inflationary pressure, which could lead to a lower real disposable household income and tighter-than-expected monetary policy stance; water crisis (severe drought) and rising odds of some electricity rationing; and the spread of the Covid-19 Delta variant and a slower-than-expected growth in global economy.

We are reassessing the outlook for domestic economic growth next year. Another report with a more in-depth analysis about 2022 GDP will be released after we know Q221 GDP results.

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