What the first quarter GDP surprise teaches us for the rest of the year

Myriã Bast
Thiago Angelis Coraucci

The first quarter GDP advanced 1.2%, well beyond expectations at the end of last year, when projections were around 0%[1]. In the middle of the quarter, fears about the worsening of the pandemic even pushed this number onto negative ground. However, the effective data from the beginning of the year and the resilience observed in March quickly reversed these projections, confirmed by the result released yesterday. Some of the factors behind these robust first quarter results are likely to continue to spur growth into the second quarter, perhaps even the rest of the year. Likewise, second quarter forecasts, currently at -0.8%[2], should be revised upwards in the coming weeks; the natural consequence will be an increase in the consensus for the growth in the year, which should migrate to above 4.5%. Our estimates consider 0% for this quarter and 4.8% growth for 2021.

The growth in the quarter is the result of expansion in all sectors, from the supply perspective. The agricultural sector grew 5.7% compared to the previous quarter, while industry and services also recorded positive results, revealing important resilience, even in the sectors most affected by the social distancing measures. In terms of demand, household consumption remained practically stable and exports registered strong expansion once again.

Table 1: GDP components
% change

	2017	2018	2019	1Q21/1Q20	1Q21/4Q20
GDP at market prices	1.3	1.3	1.4	1.0	1.2
Supply Perspective					
Agriculture	14.2	1.4	0.6	5.2	5.7
Industry	-0.5	0.5	0.4	3.0	0.7
Services	0.8	1.5	1.7	-0.8	0.4
Demand Perspective					
Household Consumption	2.0	2.1	2.2	-1.7	-0.1
Government Consumption	-0.7	0.4	-0.4	-4.9	-0.8
Gross fixed capital formation	-2.6	3.9	3.4	17.0	4.6
Exports	4.9	4.0	-2.4	0.8	3.7
Imports	6.7	8.3	1.1	7.7	11.6

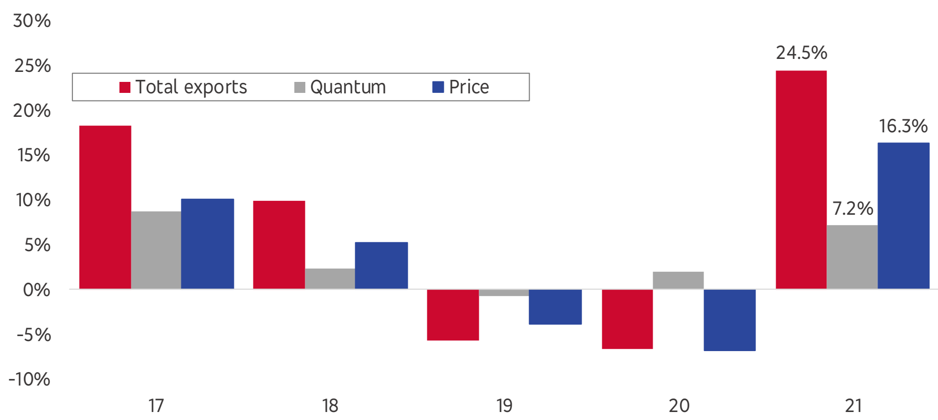
Source: IBGE, Bradesco

Several elements help explain this more robust result, such as: i) the recovery of global growth; ii) rising commodity prices; iii) the positive dynamics of the labor market, especially formal jobs; and iv) the adaptation of the economy and the population to the social distancing rules. All these vectors seem to remain valid in the second quarter.

[1] According to a Focus survey on 12/31/2021, the median expectation was -0.57% year-on-year, the compatibility for variation in the margin was made by us.
[2] According to a Focus survey on 05/20/2021, the median expectation was +10% year-on-year, the compatibility for variation in the margin was made by us.

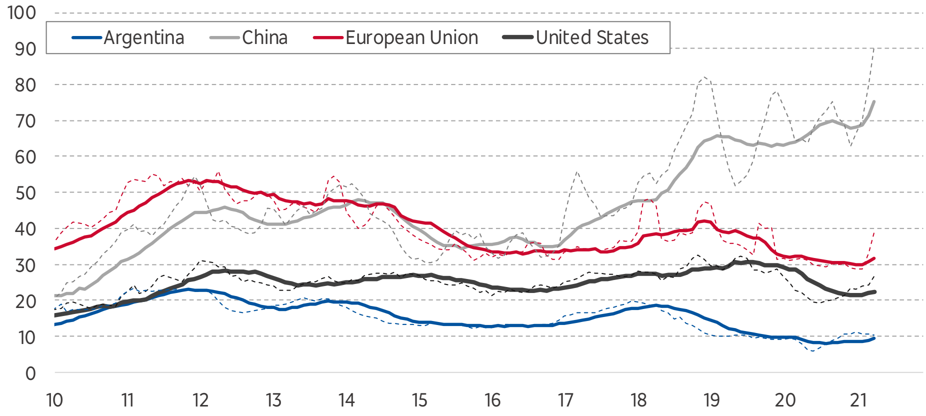
Global recovery has increased demand for exported products, in addition to putting pressure on commodity prices. Thus, the effect for domestic growth is doubly favorable[3], with an increase in exports in both quantum and value. Exports totaled USD 56 billion as of March, growth of 15.6% compared to the same period last year. In volume, the increase is 1.5% on this comparison basis, while the price effect is 13%. But the positive effect of exports should be even more visible in the second quarter, when they should add up to USD 68 billion, an increase of 4% in volume and 25% in prices. For the year, we expect exports to reach around USD 270 billion, a record 17% of the GDP. The trade balance should also be a record, close to USD 74 billion.

Chart 1: Exports in quantum and price
Annual %



Source: BCB, Bradesco

Chart 2: Exports by destination country
USD billions, annualized average – 3 and 12 months

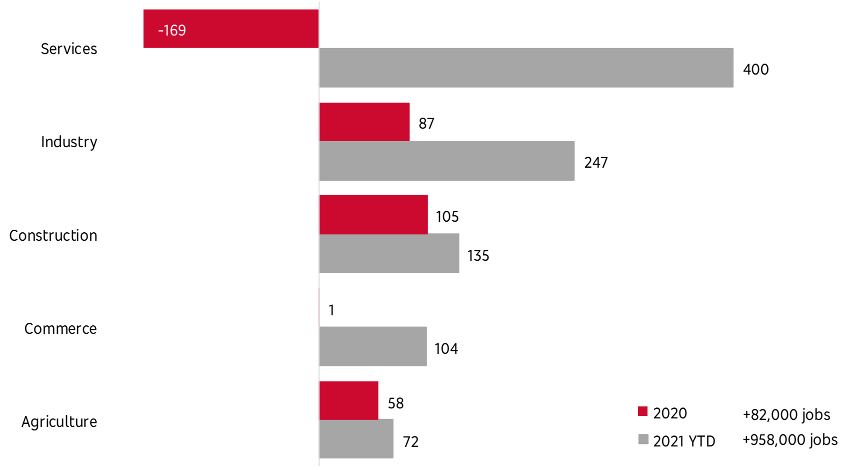


Source: Funcex, Bradesco

[3] For more details on these positive effects, see the Depec Highlight dated 05/26/21, "Commodity cycle is positive for growth, investments and employment."

This favorable dynamic in the export sector reinforces an ongoing cycle of recovery in the formal job market. The data have already been suggesting it for several months and it was no different early in the year, even in a period of greater uncertainty with the worsening of the pandemic. In fact, there is a slight slowdown in job creation in April, which is not expected to be permanent, according to our internal surveys. A significant portion of the positive surprises with employment in recent months is concentrated in the services sector, reinforcing an economy that is more adapted and resilient to the uncertainties brought about by the pandemic. Our surveys indicate that this sector continued to generate jobs in May, a natural consequence of the recovery in demand observed in recent months.

Chart 3: Net job creation by sector
thousand, 2020 vs 2021



Source: Caged, Bradesco

The wage bill continued to grow in the first quarter, at least partially offsetting the drop in extraordinary transfers (such as emergency assistance). There was a decrease in the expanded wage bill, which includes stimuli, compared to the end of last year, but the magnitude of this downturn was smaller than initially expected. Furthermore, the negative effect that this reduction could have on consumption was not verified. It is possible to argue that the increase in income expands the confidence of families to consume, since it tends to be perceived as more permanent than stimuli such as emergency aid. At this point, the continued improvement in the job market is a key element for a persistent growth scenario in the coming quarters. We hope that advances in vaccination, which should allow for a permanent opening of the economy, will also lead to a recovery in the informal job market, especially in the second half of the year.

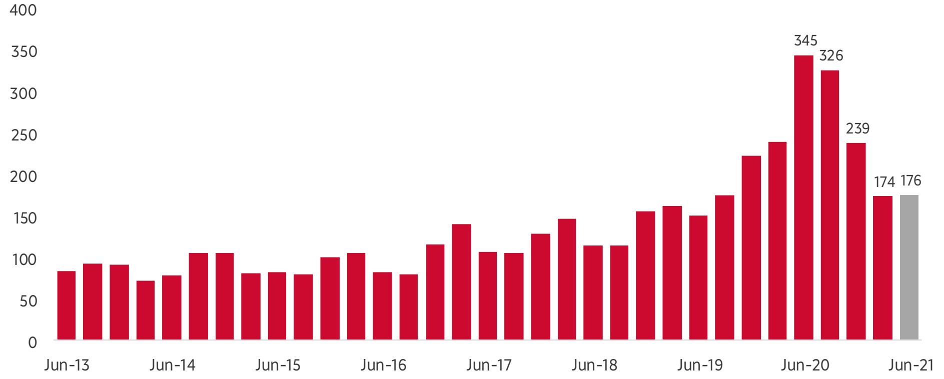
Additionally, the use of savings and credit played an important role in maintaining the economy's resilience, easing consumption for families and providing liquidity for companies. The early months registered a reduction in the excess of savings accumulated last year, while new loans continued to grow across all segments. Liquidity conditions remain favorable, with interest rates at historically low levels and with no sign of an increase in defaults. From the point of view of companies, the low number of judicial recoveries and bankruptcies registered during the pandemic is still worth mentioning, not only in comparison with other crises, but even in relation to the historical average.

Table 2: Wage bill and transfers
billions of BRL (current)

Period	Wage bill (billions of BRL)	Regular transfers (billions of BRL)	Expanded wage bill (billions of BRL)	Extraordinary transfers (billions of BRL)	Expanded wage bill + stimuli (billions of BRL)	YoY variation
1Q20	726.7	174.1	900.8	-	**900.8**	**6.6%**
2Q20	596.3	203.4	799.7	135.5	**935.2**	**15.8%**
3Q20	567.3	236.0	803.3	145.0	**948.3**	**12.9%**
4Q20	609.2	210.2	819.4	89.1	**908.5**	**1.3%**
2020	**2499.5**	**823.7**	**3323.2**	**369.6**	**3692.8**	**8.9%**
1Q21	678.6	187.4	866.0	0.6	**866.6**	**-3.8%**
2Q21	642.9	257.5	900.4	33.0	**933.4**	**-0.2%**
3Q21	650.1	177.9	828.1	11.0	**839.1**	**-11.5%**
4Q21	665.5	261.2	926.7	0.0	**926.7**	**2.0%**
2021	**2637.1**	**884.1**	**3521.2**	**44.6**	**3565.8**	**-3.4%**

Source: BCB, Bradesco

Chart 4: Household savings
BRL billion current, Bradesco estimate, by residue

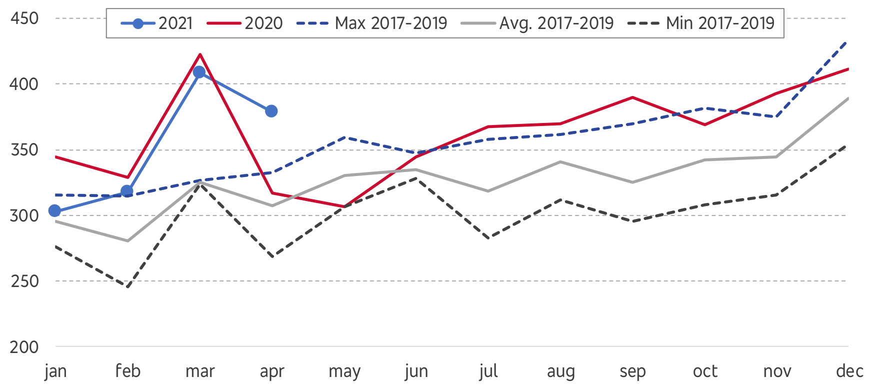


Source: IBGE, Bradesco

Another important vector has been the adaptation of the economy and the population to isolation measures and the rapid recovery of mobility. The Central Bank has drawn attention to the decreasing marginal effect of restrictions on indicators of mobility and household consumption. This is partly due to technological advances by companies, adaptation to remote work, drive-thru, online sales, among others. But also the population's behavior regarding the new restrictions, which includes learning about the pandemic itself. Thus, mobility data fell less than observed in the first wave and have been showing a relevant recovery since mid-April.

Chart 5: New corporate and individual loans

Billions of constant BRL

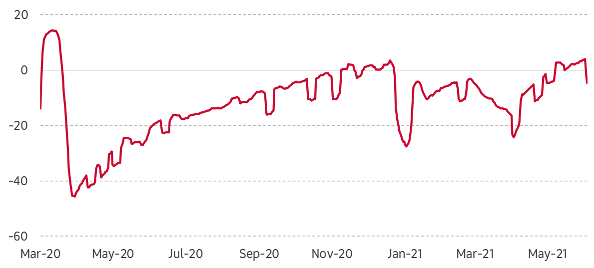


Source: BCB, Bradesco

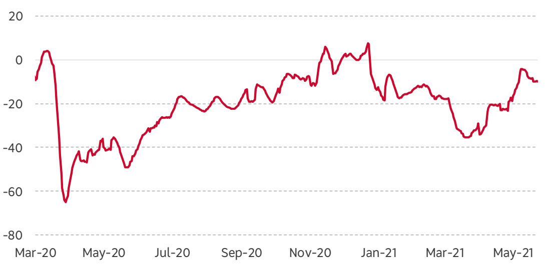
Chart 6: Mobile georeferencing data

% of people in each location compared to the base period 01/03/20 to 02/06/20

At work



In commerce



Source: Google/mobility, Bradesco

In addition to these elements, which remain present in the economy, other vectors will be more relevant in the coming months. These include vaccination acceleration, the rebuilding of inventories in the economy, the largely favorable financial conditions and the use of savings accumulated in 2020. Thus, we are more confident in a strong result in the current quarter, which should be close to stability.

However, some caveats must be considered when thinking about the second half of the year. Part of the positive results of the first half is due to the increase in mobility after the second wave of the pandemic. That is, it is possible that part of the growth generated by the reopening of the economy, with advances in vaccination, may already be occurring. Additionally, expectations for the expanded wage bill plus stimuli show a relevant deceleration in the second half of the year, when emergency aid and the effects of Christmas bonus advances should end. We do not expect a strong adverse effect on consumption, but the growth boost tends to be smaller and needs to be compensated by the continuous improvement of the job market – informal in this case, with the reopening – and the use of savings.

[4] Available at: https://www.bcb.gov.br/conteudo/home-ptbr/TextosApresentacoes/Apresenta%C3%A7%C3%A3o_RCN_BTG_VPUB.pdf, page 7.

Furthermore, growth so far has basically recovered to the pre-pandemic level, that is, there is a strong cyclical component underway. With the recovery of the level, the additional growth should return to a pace closer to the potential, or to that registered in recent years, around 0.3% per quarter (average between 2010 and 2019). The progress of the economic agenda since 2016 may start to produce results in terms of GDP acceleration, but this is still an uncertain factor, indicating that it is more prudent to bet on a gradual return to the growth rate registered prior to 2020.

Another factor to be considered is supply constraints, such as lack of global inputs or hydrological risk. In fact, there is recent news of interruptions to automobile production due to a lack of parts, especially imported ones. The challenge of normalizing inventories and supplying inputs is global and regularization may be slow, limiting the industry's recovery. Similarly, the hydrological risk has increased. A more intensive use of thermal plants will reduce the GDP by increasing intermediate consumption. In a more adverse scenario, and quite unlikely for the time being, restrictions on energy supply could have significant impacts on the GDP. For now, we do not consider energy rationing in our scenario, but the more intensive use of thermal plants has made us estimate a GDP below 5.0% in 2021.

The pandemic itself is obviously an element of risk still present. It is true that mobility restrictions have had less effect on the economy recently, but any relevant delays in vaccination going forward and the discovery of new variants are still risks for a more positive growth scenario.

As a result, we expect GDP growth of 4.8% this year, more than recovering the pre-pandemic level. The result is much higher than expected at the end of last year, both by us (3.9%) and the median of economists (3.4%). The economy's resilience is the result of a combination of several elements that have already ensured growth in the first quarter, such as the recovery of the job market, adaptation to mobility restrictions, favorable liquidity conditions and global growth. Vaccination advances are added to these vectors, maintaining a strong growth rate during the year.

Technical Staff

Director of Economic Research and Studies	Fernando Honorato Barbosa
Economists	Ana Beatriz Moreira dos Santos / Constantin Jancsó / Ederson Luiz Schumanski / Fabiana D'Atri/ Felipe Wajskop França / Myriã Tatiany Neves Bast / Priscila Pacheco Trigo / Renan Bassoli Diniz / Robson Rodrigues Pereira / Thiago Coraucci de Angelis
Interns	Bruna Andreata Valentino / Henrique Monteiro de Souza Rangel / Lorena Pires Sene / Lucas Daniel Duarte / Rafaela de Sousa Silva

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