

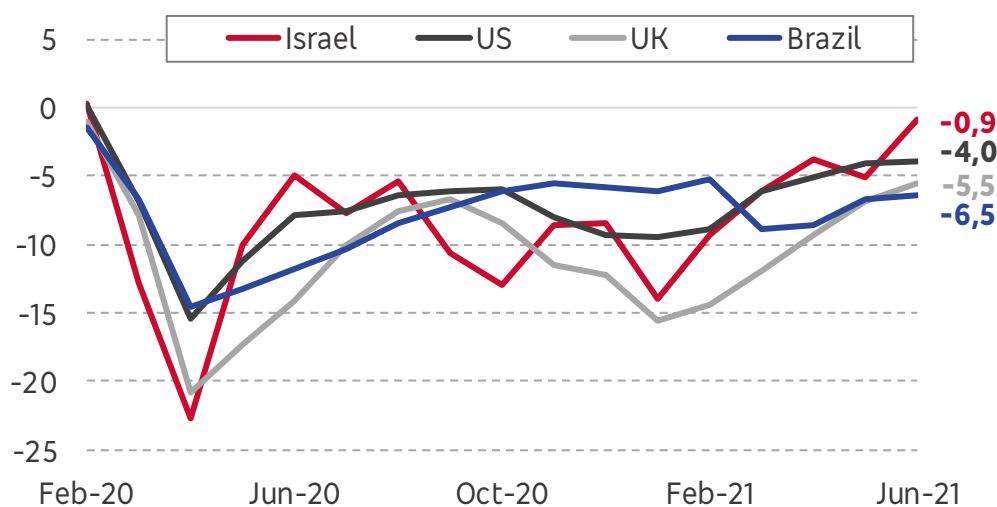
## Economic recovery and reopening: evidence from other countries

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**As vaccination efforts advance, mobility indicators across different countries are moving back to pre-pandemic levels.** Leading the way are Israel, USA and UK, as the most advanced countries in this process, with nearly 50% of their population completely immunized. Monitoring the evolution of economic activity and the job market in these countries, always considering their specific characteristics, may suggest some trends for Brazil's case in the next few months. With just over 30% of the population vaccinated with at least one dose and 10% with both, the high level of mobility in Brazil – compared to these countries – draws attention, despite the still higher pandemic numbers in this second wave.

### Chart 1: Mobility indicators

Index based on number of hours away from home (Feb/20=0)

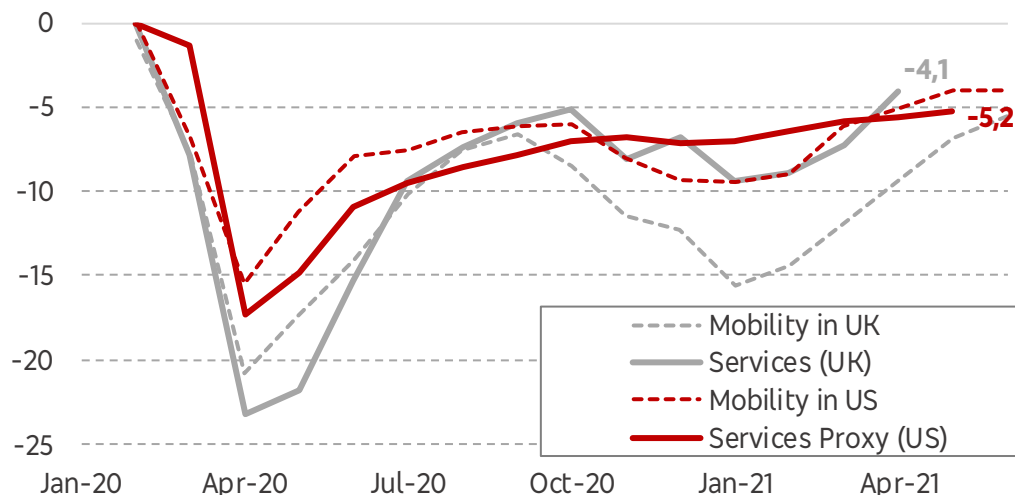


Source: Google, Bradesco

**As a result of the gradual reopening process in these countries, the services sector is currently on a recovery trajectory.** Combined with a tendency of adaptation to restrictions seen around the world, the sector also benefits from better mobility conditions (Chart 2). Based on data from the UK and U.S.<sup>1</sup>, the sector is still 4% to 5% below pre-pandemic levels, on average. However, the most impacted sectors are still a long way from their starting point, recording massive drops of over 40% in specific segments of the culture, recreation and food services areas. The end of restrictions imposed by the pandemic will naturally allow these sectors to quickly advance as of June, which will surely carry on throughout the third quarter.

<sup>1</sup> Data for the U.S. service sector based on a proxy built according to job market data. We used the "Private Service Providing" component in *Nonfarm Payrolls* data and built an index-number starting before the pandemic, in Feb/20. Due to the massive lag in relation to the last data available (March 2021), data regarding Israel were not used for the service sector.

**Chart 2: Indicators of mobility and evolution of the services sector (US and UK)**

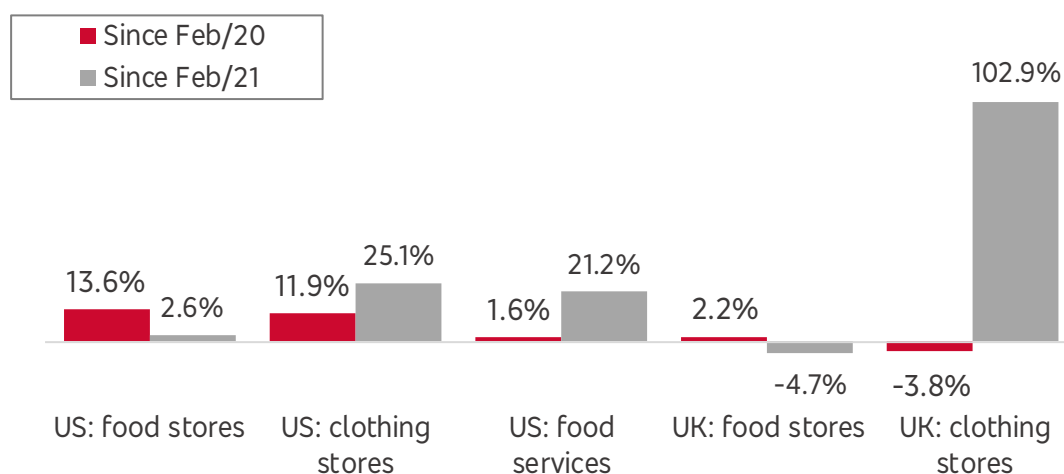


Source: Google, Bloomberg, Bradesco

**Throughout the reopening process, the advancement of services could limit the performance of some consumption of goods.** While nearly all retail sales segments dropped in the first few months of the pandemic, there was an important advance in food and supermarket sales, replacing consumption in restaurants, for example. More recently, however, this same segment shows lower growth rates – or even reduction –, contrasting with the performance of sectors that now benefit from the reopening process (Chart 3). In this reopening process, on the one hand, the service sector tends to outperform average retail results in the next few months. On the other hand, the overall performance of retail sales is somewhat limited in its growth rate, given the deceleration of sectors initially benefitted (e.g. supermarket sales, computer sales). However, despite the more limited growth, retail tends to advance in the first few months of reopening, although it has already surpassed pre-pandemic levels still in 2020. Some retail sectors may be particularly benefitted, such as clothing and footwear.

**Chart 3: Performance of sales segments in recent months (US and UK)**

Data from May compared to pre-pandemic levels and accrued data from the last 3 months

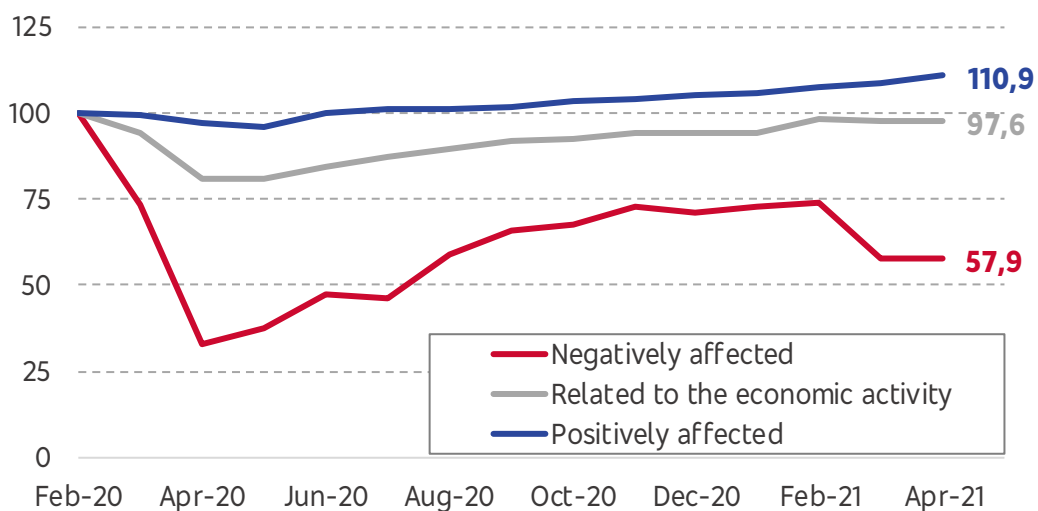


Source: Bloomberg, Bradesco

**Much like the service sector, the industry faces challenges to recover its pre-pandemic levels.** After overcoming the initial shock caused by the health crisis, in the margin, the sector's performance has been more determined by the lack of supplies than the recovery in mobility. On average, in the US and UK the industry is still 1% to 3% below the pre-pandemic level. The most affected sectors by the shortage of supplies, such as production of transportation equipment, have been showing a slower recovery, approximately 20% to 30% behind pre-pandemic levels. Since the supply of inputs may still take several months until it returns to normal, this recovery process is expected to be much more gradual and less correlated to the complete economic reopening process.

**Brazil has similar dynamics. In general, the service sector has been recovering, albeit still very differently among segments.** While the sectors benefitted by the pandemic are 10% above their levels in February 2020, the most impacted sectors<sup>2</sup> are still more than 40% below pre-pandemic levels (Chart 4). Although retail sales are still 1% above pre-pandemic levels, segments such as supermarket sales have been dropping in the margin<sup>3</sup>, and tend to partially offset the advancement seen in the most impacted sectors over the next few months, which are expected to recover. Finally, manufacturing is also struggling with the shortage of production supplies. Until April, the sector accumulated a 4% drop compared to late 2020 and, even in this month of June, several automakers have been reporting temporary manufacturing interruptions due to the shortage of semiconductors, for example.

**Chart 4: Evolution of service segments in Brazil since the beginning of the pandemic.**  
Index based on data from the Monthly Service Survey (Feb/20 = 100)



Source: IBGE, Bradesco

<sup>2</sup> Categories were divided based on the following classification:

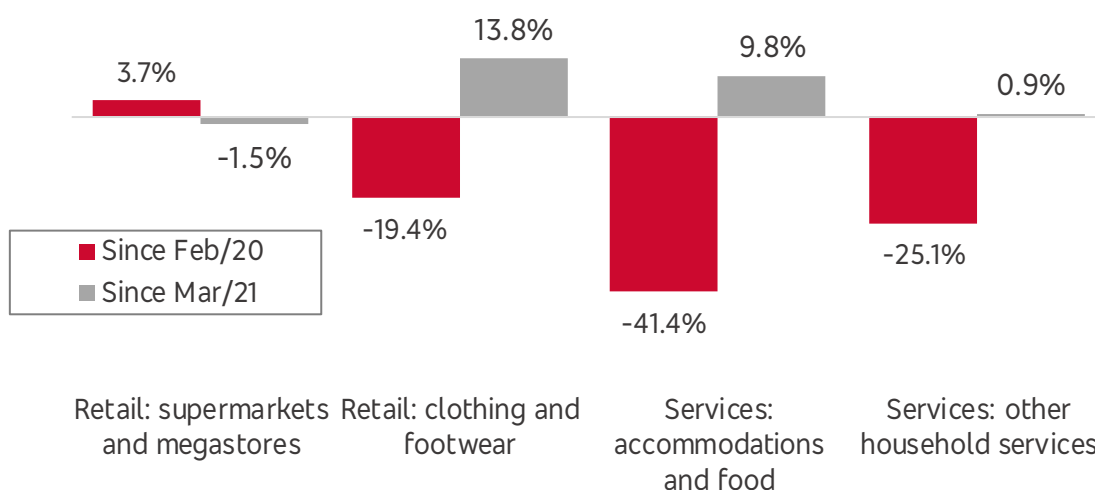
- Negatively affected activities: Services to households + Air transport
- Positively affected: Information and communication services + Storage, Transportation and mail support services
- Activities related to economic activity: Audiovisual, editing and news agencies services + Professional, administrative and complementary services + Land transport + Water transport + Other services

<sup>3</sup> It is important to note that the reduction in supermarket sales takes place amidst a context of accelerating inflation. Historically, inflation has been negatively correlated with and evolution of sales in the segment, even in real terms. However, the dynamics of the pandemic suggest some relationship with the process of closing and reopening the economy.

**Looking ahead, the service sector tends to recover throughout the second half of the year, as most of the population is vaccinated and mobility increases.** Assuming that negatively affected activities recover their pre-pandemic levels, the average revenue of the service sector would grow approximately 7%. Similarly, the recovery of the service component in GDP figures to the same level of the last quarter of 2019 would incorporate approximately 1.2 p.p. to the growth forecast for 2021. Therefore, if there are no supply restrictions, either due to the shortage of supplies, in the industry's case, or rationing risks, we believe there is a positive bias for our 2021 growth forecast.

### Chart 5: Performance of sales segments in recent months (Brazil)

Data for April compared to pre-pandemic levels and March/21



Source: IBGE, Bradesco

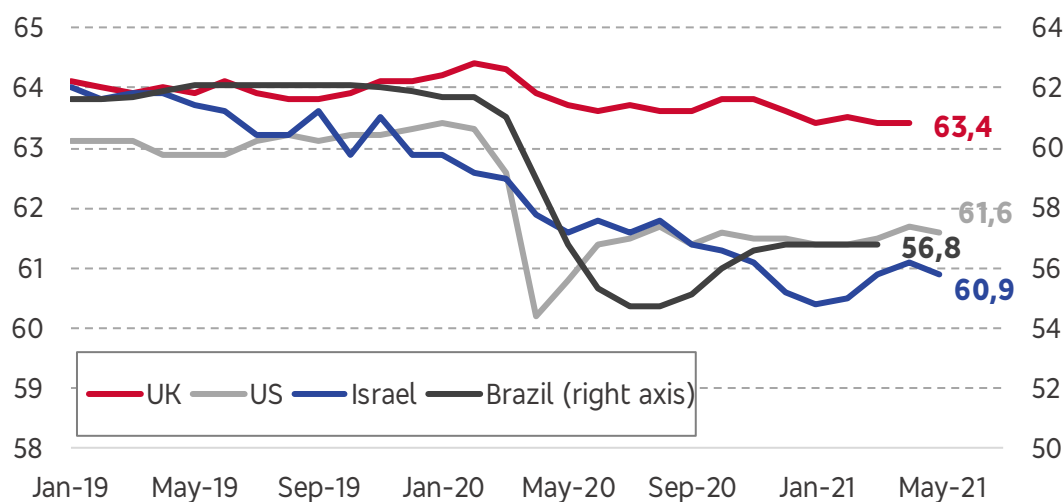
**International experience also shows that the job market's recovery continues, but is still incomplete.** The job market has been reacting more intensely in recent months, especially in the U.S. In general, however, employment still hovers around 2% to 5% below pre-pandemic levels. And the distribution of employment recovery is still quite heterogeneous, following a similar logic than the one previously described. In the U.S., for example, while employment in the segment of financial activities virtually recovered pre-pandemic levels, the leisure segment is still 15% below the mark. Naturally, the job market debate in the U.S. is permeated by doubts surrounding labor supply, possibly restricted by income transfers, which will remain in effect until the end of the third quarter.

**However, even outside the U.S., the employment rate still hasn't regained its pre-pandemic levels.** The workforce is still between 1 and 2 p.p. below the level recorded in early 2020, both in the UK and in Israel. Therefore, this phenomenon is not exclusive to Brazil, which still struggles with an employment rate nearly 5 p.p. below pre-pandemic levels (Chart 6). Despite the extensive debate regarding the actual state of recovery of Brazil's job market, there is very little doubt regarding the reduction of the participation rate. Leading indicators for the second quarter suggest a fast-paced evolution of the service sector, which should benefit the recovery of employment in the informal sector. With the reopening, this movement tends to deepen throughout the second half of the year.

<sup>2</sup> Despite the difficulties faced by the IBGE to monitor Brazil's job market, an exercise recently published by the Central Bank of Brazil still suggests a scenario of slow recovery of job supply until the end of the first quarter

### Chart 6: Job market participation rate

% of pop. working or looking for a job compared to total pop. at an active age



Source: Bloomberg, Bradesco

**In general, international experience suggests a continuing recovery trend in the sectors most impacted by restriction measures, and a gradual improvement in the job market.** However, the difficulties caused by more structural issues, such as the shortage of supplies for the industry, will still take more time to be solved. Similarly, the return of the participation rate to pre-pandemic levels will also take longer. Despite the relatively slower evolution of numbers related to the pandemic, mobility in Brazil is slightly below that of countries where vaccination rollout is much more advanced. Similarly, the sectoral dynamics are equivalent, with part of the improvement in certain segments still pending recovery. Therefore, we expect most of the additional benefits of a full economic reopening to be felt between the middle of the second and end of the third quarters, when the country will have vaccinated most of the adult population, even if only with a single dose.

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