

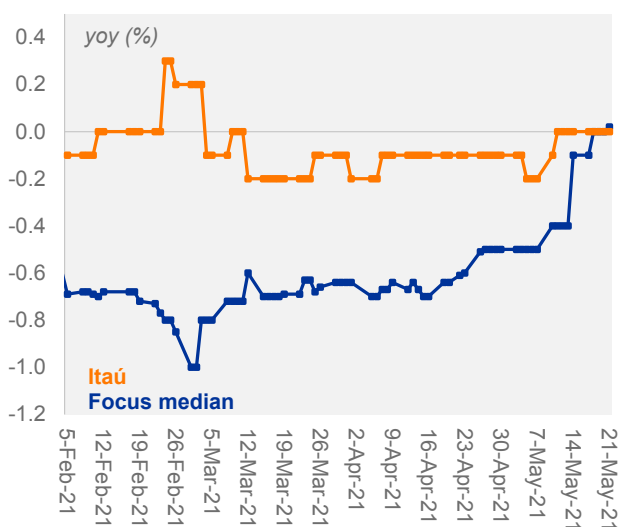
We forecast 5% GDP growth in 2021

- ▶ We revised our 2021 GDP growth forecast to 5.0% from 4.0%.
- ▶ Economic activity continued to expand in 1Q21, as we expected. The normalization in the household savings rate, significant global economic growth with rising commodity prices, and the industrial inventory cycle are supporting the economic recovery.
- ▶ After dropping in March, mobility and spending on services have been recovering faster than we expected, leading to a substantial revision in our 2Q21 GDP forecast to +0.6% qoq/sa from -0.1% qoq/sa.
- ▶ The possibility of new pandemic waves poses a risk, but we understand that the economic impact would be moderate, as in the second wave. Moreover, advancing vaccination reduces risks related to the virus dynamics in the second half of the year.

GDP growth continues during 1H21

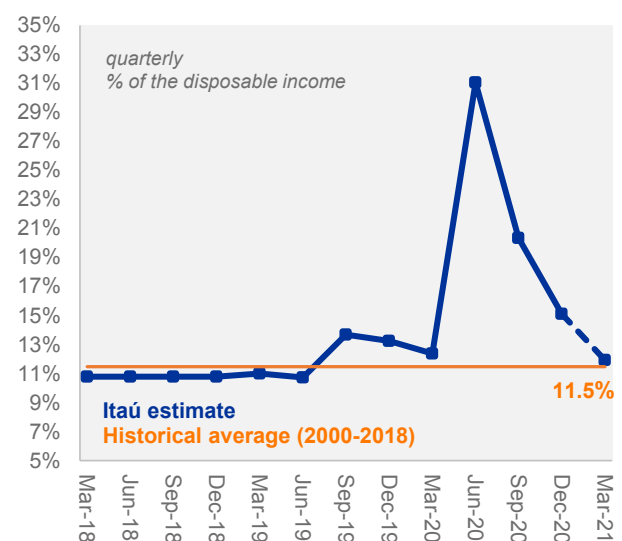
We forecast 1Q21 GDP growth of +0.6% qoq/sa (0.0% yoy). The official figures will be released next Tuesday, June 1. We have been significantly above market consensus in our assessment of economic activity at the beginning of the year (see graph). As we expected, economic activity did not suffer significantly from the reduction in emergency aid benefits. The drop in the household savings rate (from very high levels last year, see graph), significant global growth with rising commodity prices, and the industrial inventory cycle are supporting the economic recovery. The normalization in the household savings rate boosts consumer spending, while rising commodity prices have a positive effect on investments. Additionally, low industrial inventory levels at the end of last year contributed to maintain production at high robust levels, despite the slowdown in demand – by the way, the recovery in some parts of industry could have been even stronger in the absence of the global shortage of some basic inputs.

Expectations for 1Q21 GDP converge to 0.0% yoy



Source: BCB, Itaú

Household savings rate declines from high levels



Source: IBGE, Itaú

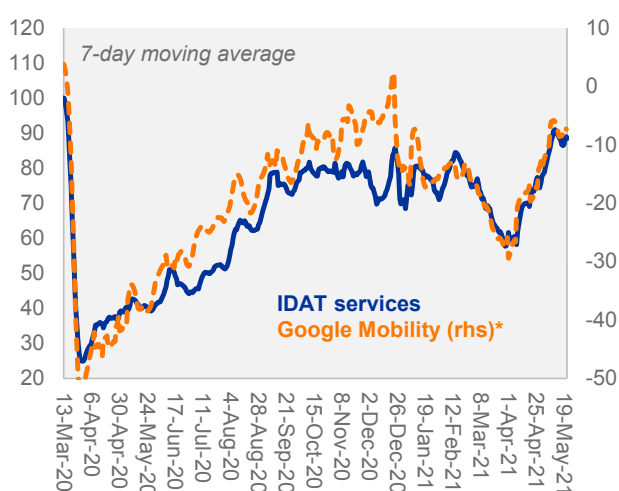
GDP Supply side: YoY growth					
Breakdown	Weight	2Q20	3Q20	4Q20	1Q21*
GDP	100%	-10.9%	-3.9%	-1.1%	0.0%
Services	63%	-10.2%	-4.8%	-2.2%	-1.5%
Public Administration	15%	-8.4%	-5.4%	-3.8%	-4.7%
Other Services	14%	-20.8%	-14.4%	-9.4%	-6.2%
Retail	12%	-14.4%	-1.3%	2.5%	0.4%
Housing	9%	1.8%	2.7%	3.5%	2.9%
Financial	6%	5.7%	6.0%	3.1%	4.8%
Transportation	4%	-20.7%	-10.4%	-4.3%	-0.8%
Information Technology	3%	-3.4%	-1.3%	2.4%	5.2%
Industry	18%	-14.1%	-0.9%	1.2%	2.3%
Manufacturing	10%	-20.9%	-0.2%	5.0%	5.2%
Construction	3%	-13.6%	-7.9%	-4.8%	-2.8%
Utilities	3%	-5.5%	3.8%	1.5%	2.0%
Mining/Extractive	2%	7.1%	1.0%	-6.7%	-2.4%
Agriculture	6%	2.5%	0.4%	-0.4%	0.7%
Taxes	14%	-14.5%	-5.1%	0.2%	1.5%

*Itaú Forecast

Source: IBGE, Itaú

Our estimate for 2Q21 was revised to +0.6% qoq/sa (from -0.1%), mainly due to the rapid recovery in mobility and spending on services. Spending on services that involve social interaction (bars, restaurants, hotels, beauty salons, etc.) struggled in March, but rebounded in April and May (see graphs), as several states eased restrictions on mobility and working hours of various businesses. Regarding the component of the Monthly Service Survey that tracks services provided to households (which has an important correlation with service sector GDP), we forecast seasonally adjusted monthly increases of 11.7% in April and 30.9% in May. Activities related to the consumption of goods (retail sales, industrial production) were only mildly harmed by mobility restrictions, because they involve a lower degree of social interaction, and saw expansion in April and May, according to our estimates. This scenario reinforces our belief that the economic effects of possible new waves of contagion are significantly milder than those seen during the first wave.

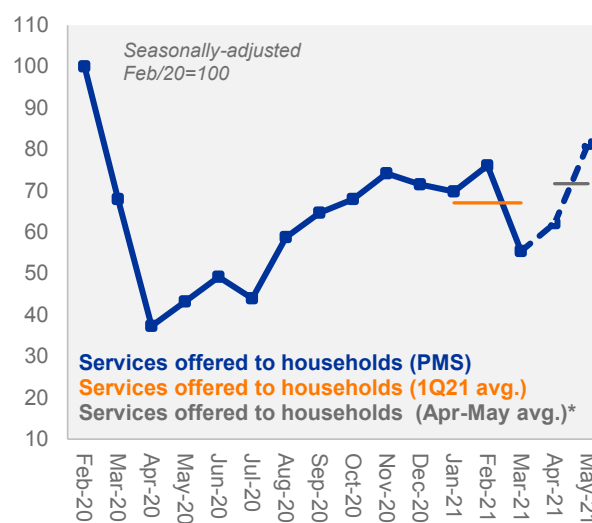
Spending on services recovers with rising mobility



*Mobility in retail and recreation areas, grocery stores and drugstores, parks, transit stations and workplaces.

Source: Google Mobility, Itaú

Services provided to households are rebounding



*Itaú forecasts

Source: IBGE, Itaú

GDP set to grow 5% and unemployment to recede to 12.3% in 2021

Considering our forecasts for 1Q21 and 2Q21 GDP, the statistical carryover for 2021 is already at +4.6%. In other words, even if economic activity were stagnant in 2H21, growth in 2021 would be closer to 5% than to 4%.

We expect GDP growth of 0.7% per quarter in 2H21. We believe that the service sector should continue to expand during the latter half of the year as vaccination progresses (see discussion below).

We also revised our estimate for the year-end unemployment rate to 12.3% from 12.7% due to expectations of higher GDP growth. This forecast involves a greater degree of uncertainty than usual because we implicitly assume that data in the PNAD Continuous survey will become more consistent with our own labor market indicators until the end of the year (see more details [here](#)).

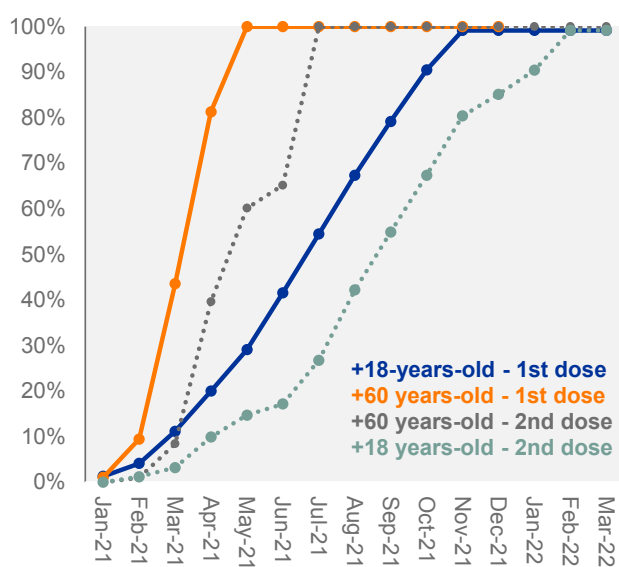
Advancing vaccination

Vaccination progress should allow a return to economic normality by 4Q21.

We believe that all people aged 18 and older will have received their first dose by November (see 1st graph). Although the country relies on the arrival of inputs and vaccines from abroad (a situation that creates short-term bottlenecks), about 600 million doses have been purchased to be delivered until the end of the year. The population aged 18 and older adds up to 158 million people (see 2nd graph).

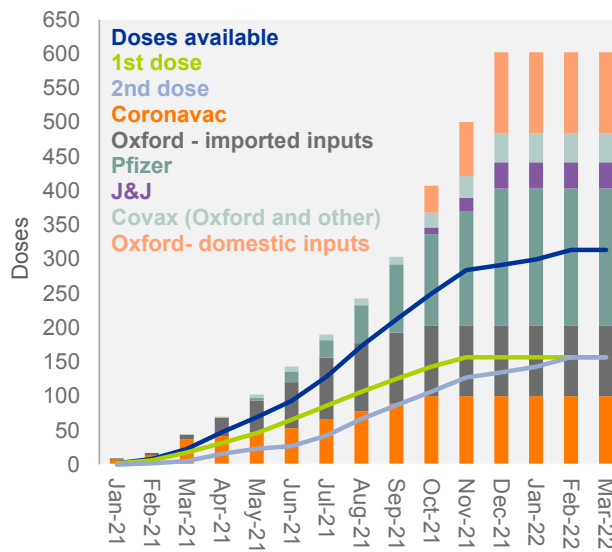
The main risk going forward is the emergence of virus variants that affect the effectiveness of vaccines distributed in Brazil. However, the vaccines available in the country in 2H21 will be more diversified, with different technologies, and there are initial signs that they are able to adapt to new variants.

Population vaccinated with 1st dose in November



Source: Ministry of Health, Itaú

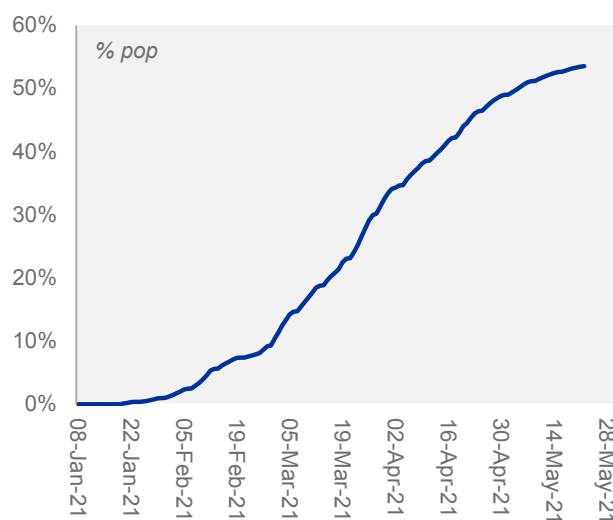
600 million doses for 158 million people aged 18+



Source: Ministry of Health, Itaú

A new wave of Covid-19 cases and hospitalizations is possible in the short term, but vaccination is already producing benefits and the economic impact tends to be milder, as seen in the second wave. The increase in mobility while healthcare systems remain under pressure may require eventual restrictions. However, one must also take into account that vaccines that were already distributed provide some protection to the population. We estimate that for each new case, the chance of death now is around 50% lower than before vaccination began, considering that: (i) among the population aged 60 and older (which represented around 75% of deaths before vaccines), 90% have gotten the first shot and about 50% got the second dose, and (ii) the deployed vaccines' average efficacy against deaths is 55% with the first dose and 87% with the second dose. Thus, the pressure on healthcare systems may not be as intense as in the second wave. Additionally, the economy became better adapted to the pandemic. Therefore, the impact from new mobility restrictions could be modest, as what was seen in March and April.

Chance of death per case is now 50% lower



Hip: 55% efficiency on 1st dose and 87% on 2nd dose

Source: Ministry of Health, Itaú

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