

AGRICULTURAL SECTOR LEADS STRONG 1Q23 GDP GROWTH

Felipe Kotinda*
felipe.kotinda@santander.com.br
+5511 3553-8071

- **After posting weak GDP in 4Q22, 1Q23 data pointed to a strong +1.9% QoQ-sa (+4.0% YoY).** This result was significantly above our estimate and market consensus of +1.2% QoQ-sa (+3.0% YoY) and broke a streak of three consecutive decelerations in QoQ-sa variations, on the heels of a massive contribution from farm output, following record volume for summer grain crops. A preliminary estimate for the output gap suggests that the Brazilian economy is currently running approximately 3.2% above its potential.
- **Supply sectors slightly beat our expectation, though (still) with a weak composition.** Services GDP inched up 0.6% QoQ-sa (our call: +0.4% QoQ-sa), marking the tenth gain in a row and a rebound from the recent decelerating trend. Digging into the details, financials (1.2% QoQ-sa), transport (1.2% QoQ-sa), retail (0.3% QoQ-sa), and public services (0.5% QoQ-sa) were the highlights. On the other side, information (-1.4% QoQ-sa) and other services (-0.5% QoQ-sa) posted negative figures. Regarding the industrial sector, data pointed to a 0.1% QoQ-sa decline (our call: +0.7% QoQ-sa), breaking a healthy streak of three consecutive gains. Zooming in on the details, cyclical sectors like manufacturing (-0.6% QoQ-sa) and construction (-0.8% QoQ-sa) fell at the margin, while non-cyclical mining rose (2.3% QoQ-sa), showing resilience and avoiding a worse result. Lastly, farm output jumped an astonishing 21.6% QoQ-sa (our call: +7.5% QoQ-sa), breaking a string of three consecutive declines. Ex-agro GDP increased +0.3 QoQ-sa (+2.6% YoY).
- **On the demand side, domestic absorption was weak at the margin (-0.5% QoQ-sa, or 1.9%QoQ-saar). Inventories contributed to 1.3 p.p. of the GDP result.** In our view, this is probably a sign of a positive supply shock on an economy that is in a cooling cycle. Household consumption inched up 0.2% QoQ-sa (our call: +1.5% QoQ-sa) and marked the sixth gain in a row (albeit decelerating), reflecting divergence between a continued weakening in goods consumption and some resilience in services consumption. Moreover, investments tumbled 3.4% QoQ-sa (our call: -1.7% QoQ-sa) after two gains in a row, which likely reflected a loss of steam in construction and persistent weakening in machines and equipment. Conversely, government consumption inched up 0.3% QoQ-sa (our call: +0.7% QoQ-sa). Lastly, the external sector posted a solid contribution amid -0.4% QoQ-sa growth in exports (in line with our call) in tandem with imports' 7.1% QoQ-sa tumble (our call: -7.4% QoQ-sa).
- **This performance places the economy 6.4% above the pre-pandemic mark (set at 4Q19) and implies a strong 2.4% carryover to 2023, although we expect the agricultural sector to give back its gains in the next readings.** Thus, our 2023 GDP forecast is currently under revision with risks tilted to the upside. However, we still believe that the dynamics seen since 4Q22 highlight that financial conditions are stifling cyclical activities, and the outlook for 2023 remains challenging amid a tight policy from the Brazilian Central Bank (BCB) and an expected deceleration in global growth.

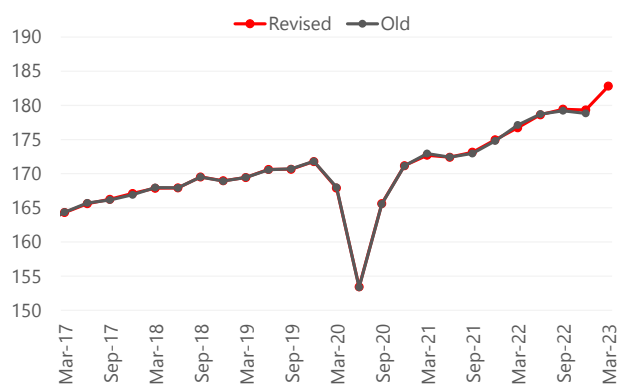


Figure 1 – GDP Breakdown

	4Q22		1Q23e		2022	4Q19*	2023**	
	% YoY	% QoQ	% YoY	% QoQ	%	%	%	
GDP	100%	1.9	-0.1	4.0	1.9	2.9	6.4	2.4
Supply								
Farm Output	7%	-2.9	-0.9	18.8	21.6	-1.7	21.0	19.9
Industry	19%	2.6	-0.3	1.9	-0.1	1.6	3.5	0.3
Mining	23%	1.4	2.2	7.7	2.3	-1.7	2.2	4.8
Manufacturing	51%	1.0	-1.5	-0.9	-0.6	-0.3	-1.6	-1.5
Construction	14%	3.2	-0.6	1.5	-0.8	6.9	14.7	-0.5
Utilities	12%	10.8	1.8	6.4	1.7	10.1	13.5	4.0
Services	59%	3.3	0.2	2.9	0.6	4.2	6.6	1.5
Retail	21%	2.1	-0.8	1.6	0.3	0.8	3.5	0.3
Transports	6%	5.3	0.3	5.1	1.2	8.4	10.9	2.5
Information	5%	4.9	0.9	6.8	-1.4	5.4	22.3	1.9
Financial	9%	2.4	1.2	4.6	1.2	0.4	6.0	3.2
Other Services	23%	8.3	0.5	4.3	-0.5	11.1	10.4	1.3
Rents	14%	3.2	0.5	2.8	0.3	2.5	8.1	1.6
Public Services	24%	-0.3	-0.3	0.4	0.5	1.5	-0.1	0.5
Demand								
Consumption	61%	4.3	0.4	3.5	0.2	4.3	4.1	1.4
Government	19%	0.5	0.3	1.2	0.3	1.5	2.4	1.0
Investments	19%	3.5	-1.3	0.8	-3.4	0.9	14.8	-2.4
Exports	20%	11.7	3.3	7.0	-0.4	5.5	12.3	3.5
Imports	19%	4.6	-3.1	2.2	-7.1	0.8	-1.9	-5.7

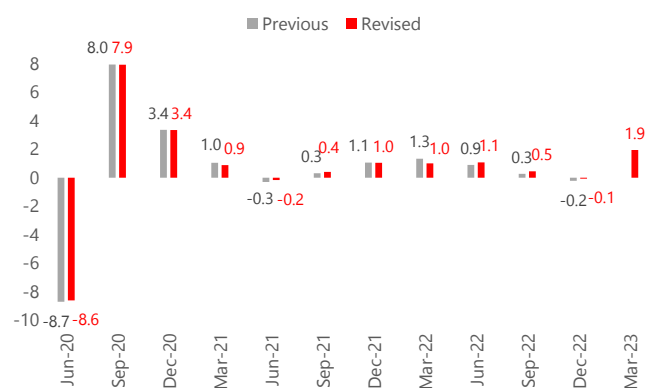
Sources: IBGE, Santander estimates. * We set up our pre-crisis mark at 4Q19. ** Carryover calculated to 2023.

Figure 2 – GDP (sa, index 1995 average =100)



Sources: IBGE, Santander.

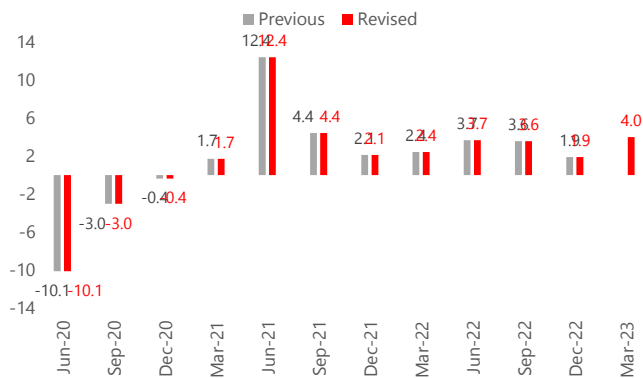
Figure 3 – GDP (sa, % QoQ)



Sources: IBGE, Santander.

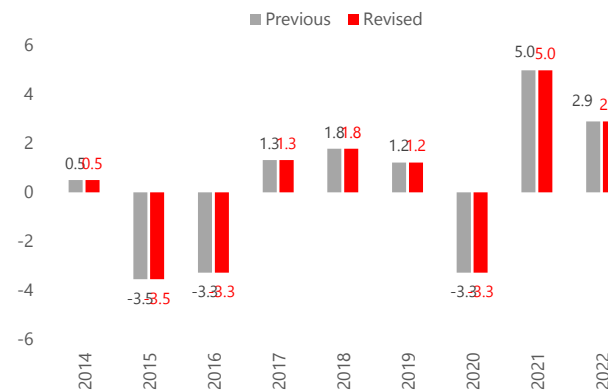


Figure 4 – GDP (nsa, % YoY)



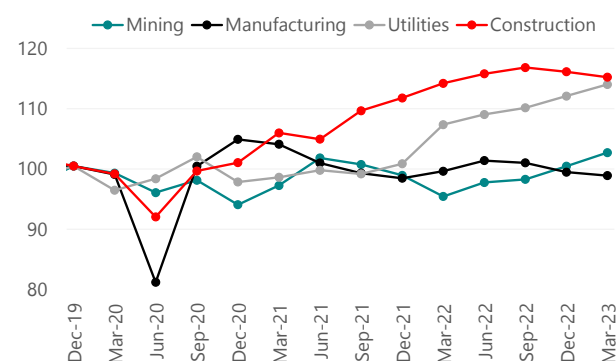
Sources: IBGE, Santander.

Figure 5 – GDP (Full-Year %)



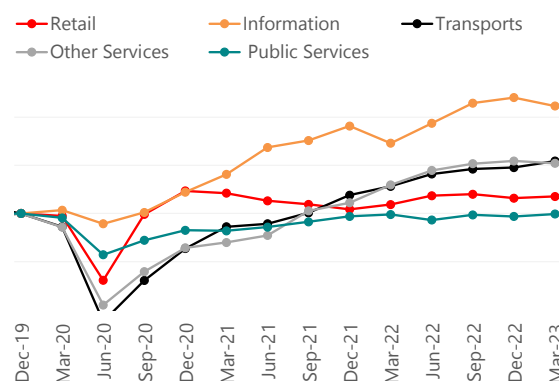
Sources: IBGE, Santander.

Figure 6 – Segments of Industry (sa, 4Q19=100)



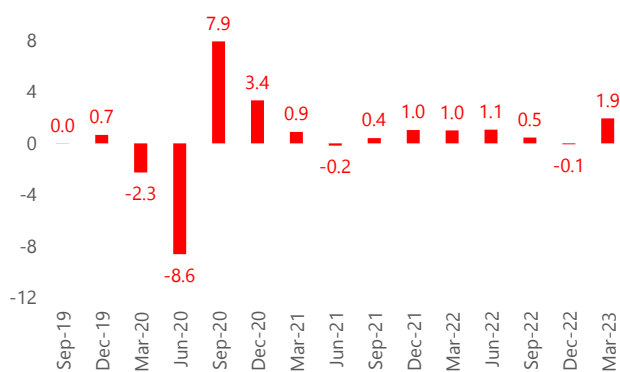
Sources: IBGE, Santander.

Figure 7 – Segments of Services (sa, 4Q19=100)



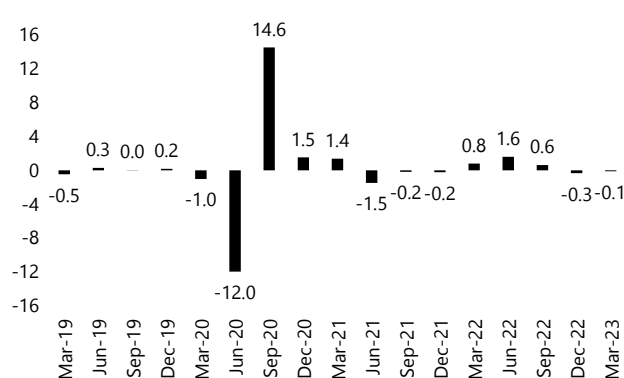
Sources: IBGE, Santander.

Figure 8 – Total GDP (QoQ-sa, %)



Sources: IBGE, Santander.

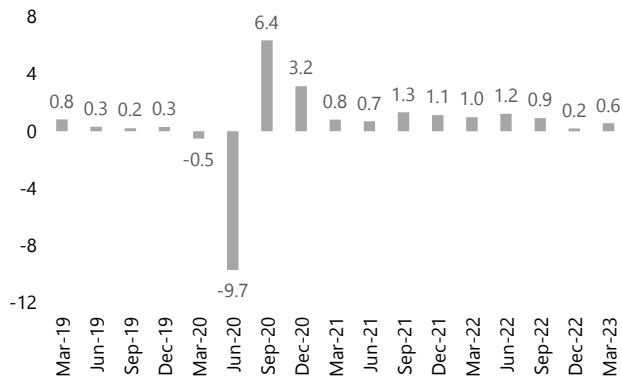
Figure 9 – Industry (QoQ-sa, %)



Sources: IBGE, Santander.

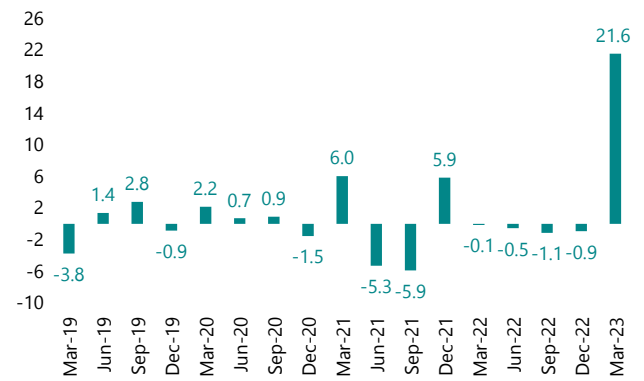


Figure 10 – Services (QoQ-sa, %)



Sources: IBGE, Santander.

Figure 11 – Farm Output (QoQ-sa, %)



Sources: IBGE, Santander.

Figure 12 – GDP Quarterly Contributions

	% QoQ-sa							Quarterly Contributions (p.p)						
	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1
GDP	0.4	1.0	1.0	1.1	0.5	-0.1	1.9	0.4	1.0	1.0	1.1	0.5	-0.1	1.9
Supply														
Taxes	0.7	0.0	1.1	1.0	1.1	0.2	-0.8	0.1	0.0	0.2	0.1	0.1	0.0	-0.1
Farm Output	-5.9	5.9	-0.1	-0.5	-1.1	-0.9	21.6	-0.3	0.2	0.0	0.0	-0.1	0.0	2.2
Industry	-0.2	-0.2	0.8	1.6	0.6	-0.3	-0.1	0.0	0.0	0.2	0.3	0.1	-0.1	0.0
Mining	-1.1	-1.8	-3.6	2.4	0.5	2.2	2.3	-0.1	-0.1	-0.1	0.1	0.0	0.1	0.1
Manufacturing	-1.7	-0.8	1.2	1.8	-0.4	-1.5	-0.6	-0.2	-0.1	0.1	0.2	0.0	-0.2	-0.1
Construction	4.5	2.0	2.2	1.4	0.9	-0.6	-0.8	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Utilities	-0.6	1.7	6.5	1.6	1.0	1.8	1.7	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Services	1.3	1.1	1.0	1.2	0.9	0.2	0.6	0.8	0.7	0.6	0.7	0.5	0.1	0.3
Retail	-0.7	-1.0	1.0	1.8	0.3	-0.8	0.3	-0.1	-0.1	0.1	0.2	0.0	-0.1	0.0
Transports	2.3	3.6	1.8	2.4	0.9	0.3	1.2	0.1	0.1	0.0	0.1	0.0	0.0	0.0
Information	1.3	2.6	-3.0	3.6	3.5	0.9	-1.4	0.0	0.1	-0.1	0.1	0.1	0.0	0.0
Financial	-0.7	0.8	-1.0	-0.2	2.3	1.2	1.2	0.0	0.0	-0.1	0.0	0.1	0.1	0.1
Other Services	5.4	1.7	3.6	2.8	1.3	0.5	-0.5	0.7	0.2	0.5	0.4	0.2	0.1	-0.1
Rents	0.3	0.8	0.1	0.8	1.4	0.5	0.3	0.0	0.1	0.0	0.1	0.1	0.0	0.0
Public Services	1.1	1.2	0.4	-1.1	1.1	-0.3	0.5	0.1	0.2	0.0	-0.1	0.1	0.0	0.1
Demand														
Consumption	1.8	0.6	1.2	1.9	0.8	0.4	0.2	1.1	0.4	0.8	1.2	0.5	0.3	0.1
Government	1.4	0.8	-0.4	-0.7	1.3	0.3	0.3	0.2	0.2	-0.1	-0.1	0.2	0.1	0.1
Investments	-1.1	0.4	-1.3	3.5	2.3	-1.3	-3.4	-0.2	0.1	-0.2	0.6	0.5	-0.2	-0.6
Exports	-8.8	-1.2	8.0	-2.4	4.2	3.3	-0.4	-1.8	-0.2	1.5	-0.5	0.9	0.6	-0.1
Imports	-7.0	1.0	-1.6	6.7	4.7	-3.1	-7.1	1.3	-0.2	0.3	-1.2	-1.0	0.6	1.2
MEMO (Contribution)														
Inventories (proxy)	-	-	-	-	-	-	-	-0.2	0.9	-1.3	1.1	-0.6	-1.4	1.3
Domestic	-	-	-	-	-	-	-	1.1	0.6	0.5	1.7	1.2	0.1	-0.5
External	-	-	-	-	-	-	-	-0.5	-0.4	1.8	-1.7	-0.1	1.2	1.1

Sources: IBGE, Santander.



Figure 13 – GDP Yearly Contributions

	% YoY							Yearly Contributions (p.p)						
	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1
GDP	4.4	2.1	2.4	3.7	3.6	1.9	4.0	4.4	2.1	2.4	3.7	3.6	1.9	4.0
Supply														
Taxes	6.1	1.3	0.5	2.1	3.3	2.4	3.0	0.9	0.2	0.1	0.3	0.4	0.3	0.4
Farm Output	-7.9	-0.3	-5.2	-0.9	3.2	-2.9	18.8	-0.4	0.0	-0.5	-0.1	0.2	-0.1	1.9
Industry	1.2	-0.6	-1.2	2.1	2.8	2.6	1.9	0.3	-0.1	-0.2	0.4	0.6	0.5	0.4
Mining	2.8	5.0	-2.0	-3.7	-2.6	1.4	7.7	0.2	0.2	-0.1	-0.2	-0.1	0.1	0.3
Manufacturing	-1.1	-6.1	-4.7	0.5	1.7	1.0	-0.9	-0.1	-0.6	-0.5	0.1	0.2	0.1	-0.1
Construction	10.3	10.5	7.8	10.3	6.6	3.2	1.5	0.3	0.3	0.2	0.3	0.2	0.1	0.0
Utilities	-2.6	2.6	9.1	9.5	11.2	10.8	6.4	-0.1	0.1	0.2	0.2	0.2	0.2	0.1
Services	6.3	4.1	4.1	4.7	4.5	3.3	2.9	3.6	2.5	2.4	2.7	2.6	2.1	1.7
Retail	2.1	-3.9	-2.5	1.4	2.0	2.1	1.6	0.3	-0.5	-0.3	0.2	0.3	0.3	0.2
Transports	15.5	11.8	8.9	10.9	8.8	5.3	5.1	0.5	0.4	0.2	0.3	0.2	0.1	0.1
Information	15.1	13.5	5.7	4.3	6.9	4.86	6.8	0.4	0.4	0.2	0.1	0.2	0.2	0.2
Financial	-2.4	0.2	-0.9	-1.6	1.7	2.4	4.6	-0.1	0.0	-0.1	-0.1	0.1	0.2	0.3
Other Services	14.5	10.3	12.5	14.1	9.8	8.3	4.3	1.9	1.4	1.6	1.8	1.3	1.2	0.6
Rents	1.8	2.0	1.7	1.9	3.2	3.2	2.8	0.1	0.2	0.1	0.1	0.2	0.3	0.2
Public Services	4.0	3.1	3.6	1.4	1.5	-0.3	0.4	0.5	0.5	0.5	0.2	0.2	0.0	0.0
Demand														
Consumption	4.7	2.0	2.5	5.7	4.6	4.3	3.5	2.9	1.3	1.6	3.5	2.9	2.8	2.2
Government	5.3	4.4	3.9	0.9	1.0	0.5	1.2	1.0	0.9	0.6	0.2	0.2	0.1	0.2
Investments	18.9	3.2	-6.4	1.5	5.0	3.5	0.8	3.7	0.6	-1.2	0.3	1.0	0.7	0.1
Exports	4.1	3.3	8.7	-4.6	8.1	11.7	7.0	0.8	0.6	1.7	-1.0	1.7	2.2	1.3
Imports	20.9	3.0	-10.6	-1.0	10.6	4.6	2.2	-3.8	-0.6	2.0	0.2	-2.2	-0.9	-0.4
MEMO (Contribution)														
Inventories (proxy)	-	-	-	-	-	-	-	-0.1	-0.7	-2.2	0.5	0.0	-3.0	0.6
Domestic	-	-	-	-	-	-	-	7.5	2.8	1.0	4.0	4.1	3.5	2.5
External	-	-	-	-	-	-	-	-3.0	0.0	3.6	-0.8	-0.5	1.4	0.9

Sources: IBGE, Santander.



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreg*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Rodrigo Park *	Economist – Argentina	rpark@santander.com.ar	54-11-4341-1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreg*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Aline de Souza Cardoso*	Head, Brazil	aline.souza.cardoso@santander.com.br	5511-3553-1684

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