

## ANOTHER POSITIVE SURPRISE FOR GDP IN 2Q23

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- **Another positive surprise for GDP growth.** After posting a strong result in 1Q22, 2Q23 GDP data pointed to a deceleration to +0.9% QoQ-sa (+3.4% YoY). However, this result was well above our estimate of +0.1% QoQ-sa (+2.3% YoY) and market consensus of +0.3% QoQ-sa (+2.7% YoY). Despite the end of the massive contribution from farm output, all supply sectors surprised on the upside.
- **Supply sectors beat our expectations, with mostly positive signals in the composition.** Services GDP increased 0.6% QoQ-sa (our call: +0.2% QoQ-sa), marking the twelfth gain in a row, an acceleration compared to 1Q23. Digging into the details, financials (+1.3% QoQ-sa), other services (+1.3% QoQ-sa), and transport (+0.9% QoQ-sa) were the highlights. Information (+0.7% QoQ-sa), and rents (+0.5% QoQ-sa) also posted positive figures. Regarding the industrial sector, data pointed to a +0.9% QoQ-sa increase (our call: +0.2% QoQ-sa), offsetting the -0.1% QoQ-sa variation in 1Q23. Zooming in on the details, mining was the main highlight (+1.8% QoQ-sa), but cyclical sectors like manufacturing (+0.3% QoQ-sa) and construction (+0.7% QoQ-sa) also posted positive results. Lastly, farm output decreased 0.9% QoQ-sa (our call: -1.6% QoQ-sa), after an astonishing +21.0% QoQ-sa growth in 1Q23.
- **On the demand side, a recovery for domestic absorption at the margin (+1.0% QoQ-sa), as the external sector contributed negatively.** Household consumption increased 0.9% QoQ-sa (our call: +0.8% QoQ-sa) and marked the seventh gain in a row, reflecting a still resilient labor market. Moreover, investments inched up 0.1% QoQ-sa (our call: -0.7% QoQ-sa) after a 3.4% QoQ-sa decrease in 1Q23, still reflecting the continued loss of steam in construction and persistent weakening in machines and equipment. Government consumption had a +0.7% QoQ-sa variation (our call: -0.5% QoQ-sa). Lastly, the external sector posted a negative contribution: despite 2.9% QoQ-sa growth in exports (our call: +3.0% QoQ-sa), imports have posted a 4.5% QoQ-sa increase (our call: +4.0% QoQ-sa).
- **This performance implies a 3.1% carryover to 2023, but the outlook for 2H23 remains negative.** Our 2023 GDP growth forecast of 1.9% is currently under revision, with risks tilted to the upside. Still, the outlook for negative GDP variations throughout 2H23 remains, as the surprise in 2Q23 has set the bar high for new positive variations at the margin (QoQ contractions in 3Q23 and 4Q23 continue to be the most likely scenario, in our view). We still see substantial risks on both sides for economic activity ahead. On the downside, financial conditions continue at critically restrictive levels and could still have a larger than expected impact on cyclical segments. A steeper and more rapid global deceleration could be an additional headwind, in our view. On the upside, labor market indicators have been showing high resilience of late, and a continuation of these conditions could mean an additional impulse for broad economic activity.

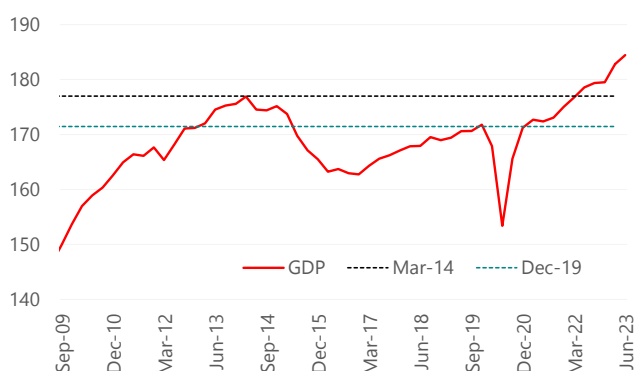


Figure 1 – GDP Breakdown

	2Q23e		2Q23		Roll 4Q	4Q19*	2023**	
	% YoY	% QoQ	% YoY	% QoQ	%	%	%	
<b>GDP</b>	<b>100%</b>	<b>2.3</b>	<b>0.1</b>	<b>3.4</b>	<b>0.9</b>	<b>3.2</b>	<b>7.4</b>	<b>3.1</b>
<b>Supply</b>								
<b>Farm Output</b>	<b>7%</b>	<b>15.0</b>	<b>-1.6</b>	<b>17.0</b>	<b>-0.9</b>	<b>11.2</b>	<b>19.3</b>	<b>18.4</b>
<b>Industry</b>	<b>19%</b>	<b>0.5</b>	<b>0.2</b>	<b>1.5</b>	<b>0.9</b>	<b>2.2</b>	<b>4.6</b>	<b>1.2</b>
Mining	23%	6.5	0.5	8.8	1.8	3.5	5.0	7.2
Manufacturing	51%	-2.6	0.0	-1.7	0.3	0.0	-1.3	-1.2
Construction	14%	-1.5	-0.6	0.3	0.7	2.9	15.6	0.1
Utilities	12%	4.5	0.2	4.8	0.4	8.1	13.8	4.1
<b>Services</b>	<b>59%</b>	<b>1.7</b>	<b>0.2</b>	<b>2.3</b>	<b>0.6</b>	<b>3.3</b>	<b>7.3</b>	<b>1.9</b>
Retail	21%	0.8	0.6	0.1	0.1	1.5	3.6	0.4
Transports	6%	4.5	0.7	3.4	0.9	5.6	11.8	3.2
Information	5%	3.7	0.7	3.8	0.7	5.6	23.3	2.5
Financial	9%	2.5	0.0	6.9	1.3	3.9	7.8	4.6
Other Services	23%	1.5	0.1	2.4	1.3	6.2	11.4	2.0
Rents	14%	2.5	0.2	2.8	0.5	3.0	8.7	2.0
Public Services	24%	1.0	0.0	1.6	0.4	0.8	0.3	0.8
<b>Demand</b>								
<b>Consumption</b>	<b>61%</b>	<b>2.5</b>	<b>0.8</b>	<b>3.0</b>	<b>0.9</b>	<b>3.9</b>	<b>5.6</b>	<b>2.6</b>
<b>Government</b>	<b>19%</b>	<b>1.0</b>	<b>-0.5</b>	<b>2.9</b>	<b>0.7</b>	<b>1.4</b>	<b>3.3</b>	<b>1.7</b>
<b>Investments</b>	<b>19%</b>	<b>-3.6</b>	<b>-0.7</b>	<b>-2.6</b>	<b>0.1</b>	<b>1.7</b>	<b>14.7</b>	<b>-2.4</b>
<b>Exports</b>	<b>20%</b>	<b>12.5</b>	<b>3.0</b>	<b>12.1</b>	<b>2.9</b>	<b>9.8</b>	<b>16.5</b>	<b>6.7</b>
<b>Imports</b>	<b>19%</b>	<b>1.4</b>	<b>4.0</b>	<b>2.1</b>	<b>4.5</b>	<b>4.9</b>	<b>4.4</b>	<b>0.3</b>

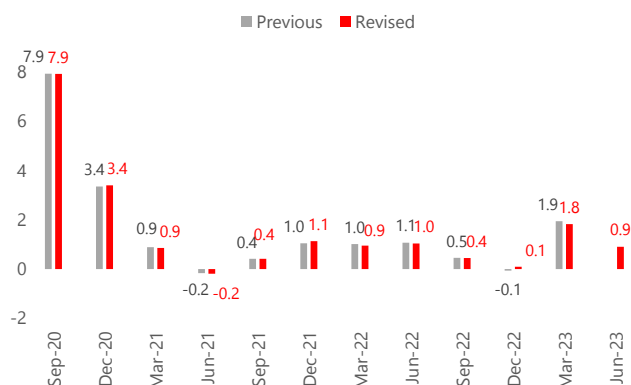
Sources: IBGE, Santander estimates. \* We set up our pre-crisis mark at 4Q19. \*\* Carryover calculated to 2023.

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



Sources: IBGE, Santander.

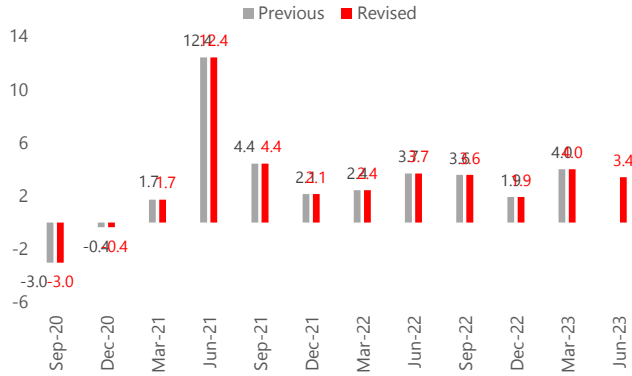
Figure 3 – GDP (sa, % QoQ)



Sources: IBGE, Santander.

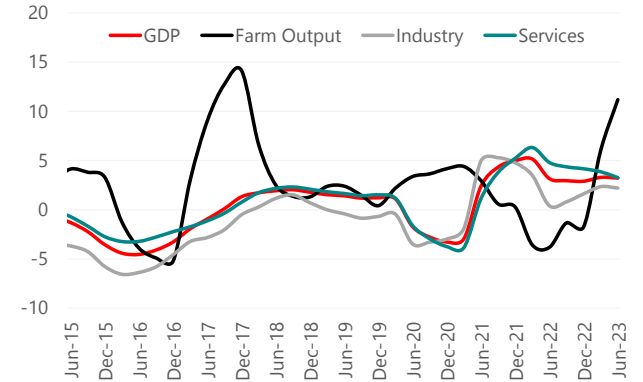


**Figure 4 – GDP (nsa, % YoY)**



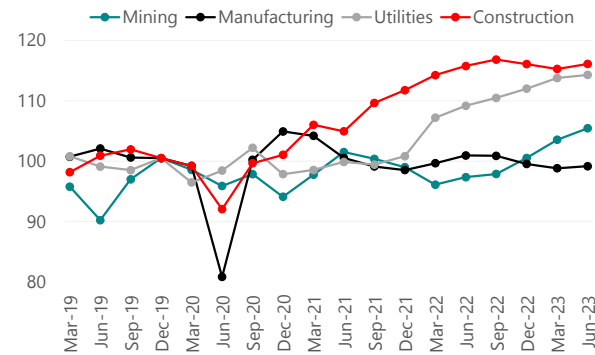
Sources: IBGE, Santander.

**Figure 5 – GDP (4Q accumulated %)**



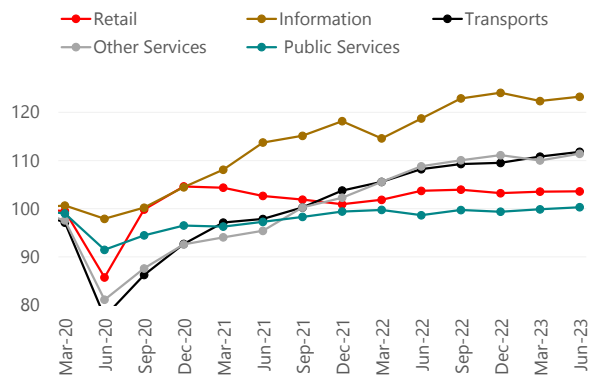
Sources: IBGE, Santander.

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



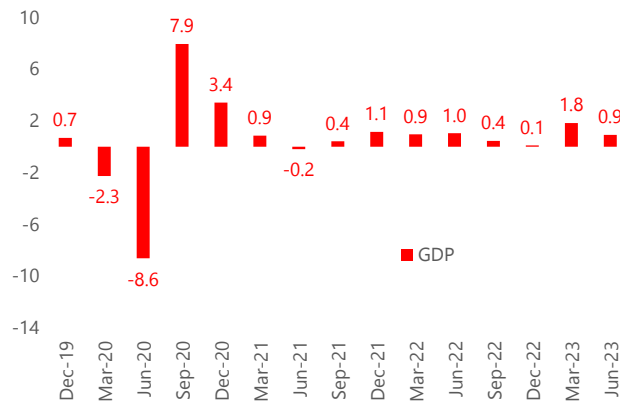
Sources: IBGE, Santander.

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



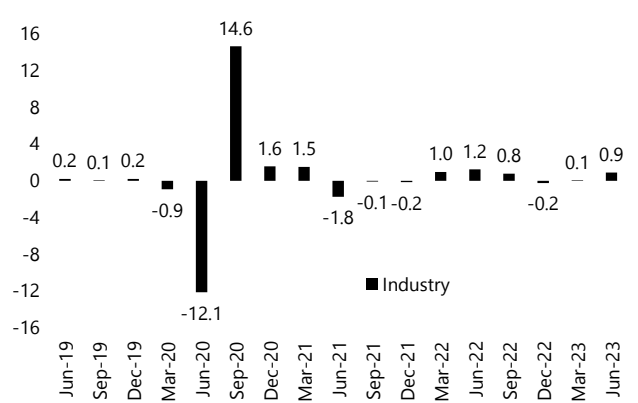
Sources: IBGE, Santander.

**Figure 8 – Total GDP (QoQ-sa, %)**



Sources: IBGE, Santander.

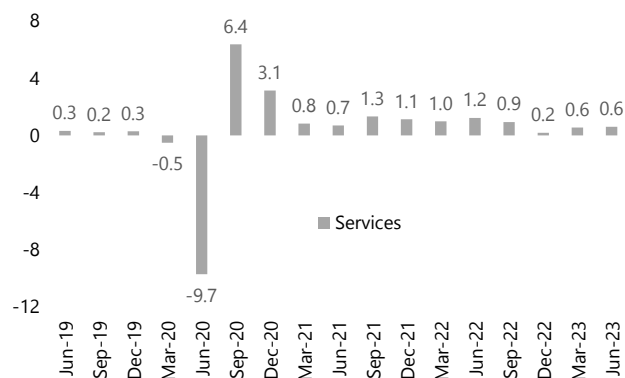
**Figure 9 – Industry (QoQ-sa, %)**



Sources: IBGE, Santander.

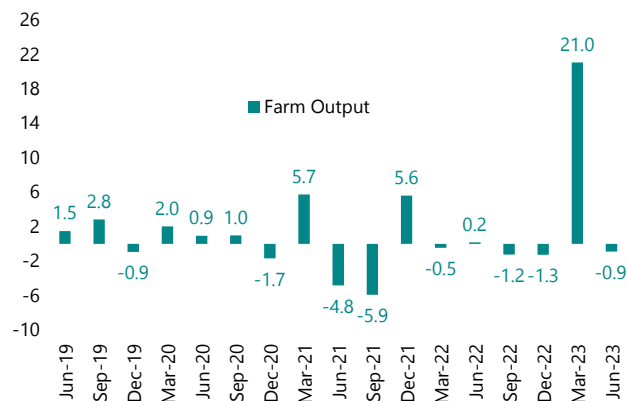


Figure 10 – Services (QoQ-sa, %)



Sources: IBGE, Santander.

Figure 11 – Farm Output (QoQ-sa, %)



Sources: IBGE, Santander.

Figure 12 – GDP Quarterly Contributions

	% QoQ-sa							Quarterly Contributions (p.p.)						
	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2
<b>GDP</b>	<b>1.1</b>	<b>0.9</b>	<b>1.0</b>	<b>0.4</b>	<b>0.1</b>	<b>1.8</b>	<b>0.9</b>	<b>1.1</b>	<b>0.9</b>	<b>1.0</b>	<b>0.4</b>	<b>0.1</b>	<b>1.8</b>	<b>0.9</b>
<b>Supply</b>														
Taxes	-0.1	1.2	1.1	0.9	0.1	-0.1	0.0	0.0	0.2	0.1	0.1	0.0	0.0	0.0
<b>Farm Output</b>	<b>5.6</b>	<b>-0.5</b>	<b>0.2</b>	<b>-1.2</b>	<b>-1.3</b>	<b>21.0</b>	<b>-0.9</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.1</b>	<b>2.1</b>	<b>-0.1</b>
<b>Industry</b>	<b>-0.2</b>	<b>1.0</b>	<b>1.2</b>	<b>0.8</b>	<b>-0.2</b>	<b>0.1</b>	<b>0.9</b>	<b>0.0</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.2</b>
Mining	-1.4	-2.9	1.3	0.5	2.7	3.0	1.8	-0.1	-0.1	0.1	0.0	0.1	0.1	0.1
Manufacturing	-0.6	1.2	1.3	-0.1	-1.3	-0.7	0.3	-0.1	0.1	0.1	0.0	-0.2	-0.1	0.0
Construction	1.9	2.2	1.3	0.9	-0.7	-0.7	0.7	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Utilities	1.4	6.4	1.9	1.2	1.4	1.6	0.4	0.0	0.2	0.0	0.0	0.0	0.0	0.0
<b>Services</b>	<b>1.1</b>	<b>1.0</b>	<b>1.2</b>	<b>0.9</b>	<b>0.2</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>	<b>0.5</b>	<b>0.1</b>	<b>0.3</b>	<b>0.4</b>
Retail	-1.0	0.9	1.8	0.2	-0.7	0.3	0.1	-0.1	0.1	0.2	0.0	-0.1	0.0	0.0
Transports	3.5	1.7	2.5	1.0	0.2	1.2	0.9	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Information	2.6	-3.0	3.6	3.5	1.0	-1.4	0.7	0.1	-0.1	0.1	0.1	0.0	0.0	0.0
Financial	1.0	-0.9	-1.0	2.6	1.6	1.3	1.3	0.1	-0.1	-0.1	0.2	0.1	0.1	0.1
Other Services	2.0	3.2	3.1	1.1	1.0	-1.0	1.3	0.3	0.4	0.4	0.2	0.1	-0.1	0.2
Rents	0.8	0.1	0.8	1.4	0.5	0.4	0.5	0.1	0.0	0.1	0.1	0.0	0.0	0.0
Public Services	1.1	0.3	-1.1	1.1	-0.4	0.5	0.4	0.2	0.0	-0.1	0.1	-0.1	0.1	0.1
<b>Demand</b>														
<b>Consumption</b>	<b>0.6</b>	<b>1.4</b>	<b>1.6</b>	<b>0.8</b>	<b>0.4</b>	<b>0.7</b>	<b>0.9</b>	<b>0.4</b>	<b>0.9</b>	<b>1.0</b>	<b>0.5</b>	<b>0.2</b>	<b>0.5</b>	<b>0.6</b>
<b>Government</b>	<b>0.8</b>	<b>-0.3</b>	<b>-1.0</b>	<b>1.5</b>	<b>0.3</b>	<b>0.4</b>	<b>0.7</b>	<b>0.2</b>	<b>0.0</b>	<b>-0.2</b>	<b>0.3</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>Investments</b>	<b>0.6</b>	<b>-1.3</b>	<b>3.7</b>	<b>2.1</b>	<b>-1.2</b>	<b>-3.4</b>	<b>0.1</b>	<b>0.1</b>	<b>-0.2</b>	<b>0.7</b>	<b>0.4</b>	<b>-0.2</b>	<b>-0.6</b>	<b>0.0</b>
<b>Exports</b>	<b>-1.0</b>	<b>8.6</b>	<b>-4.2</b>	<b>5.5</b>	<b>3.5</b>	<b>0.3</b>	<b>2.9</b>	<b>-0.2</b>	<b>1.6</b>	<b>-0.9</b>	<b>1.2</b>	<b>0.7</b>	<b>0.0</b>	<b>0.5</b>
<b>Imports</b>	<b>2.2</b>	<b>-2.2</b>	<b>5.5</b>	<b>5.2</b>	<b>-3.7</b>	<b>-3.9</b>	<b>4.5</b>	<b>-0.4</b>	<b>0.4</b>	<b>-1.0</b>	<b>-1.1</b>	<b>0.7</b>	<b>0.7</b>	<b>-0.7</b>
<b>MEMO (Contribution)</b>														
<b>Inventories (proxy)</b>	-	-	-	-	-	-	-	1.1	-1.7	1.4	-0.8	-1.3	1.2	0.3
<b>Domestic</b>	-	-	-	-	-	-	-	0.6	0.6	1.5	1.2	0.1	-0.1	0.7
<b>External</b>	-	-	-	-	-	-	-	-0.6	2.0	-1.9	0.1	1.4	0.7	-0.2

Sources: IBGE, Santander.



Figure 13 – GDP Yearly Contributions

	% YoY							Yearly Contributions (p.p.)						
	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2
<b>GDP</b>	<b>2.1</b>	<b>2.4</b>	<b>3.7</b>	<b>3.6</b>	<b>1.9</b>	<b>4.0</b>	<b>3.4</b>	<b>2.1</b>	<b>2.4</b>	<b>3.7</b>	<b>3.6</b>	<b>1.9</b>	<b>4.0</b>	<b>3.4</b>
<b>Supply</b>														
Taxes	1.3	0.5	2.1	3.3	2.4	3.0	3.3	0.2	0.1	0.3	0.4	0.3	0.4	0.4
<b>Farm Output</b>	<b>-0.3</b>	<b>-5.2</b>	<b>-0.9</b>	<b>3.2</b>	<b>-2.9</b>	<b>18.8</b>	<b>17.0</b>	<b>0.0</b>	<b>-0.5</b>	<b>-0.1</b>	<b>0.2</b>	<b>-0.1</b>	<b>1.9</b>	<b>1.4</b>
<b>Industry</b>	<b>-0.6</b>	<b>-1.2</b>	<b>2.1</b>	<b>2.8</b>	<b>2.6</b>	<b>1.9</b>	<b>1.5</b>	<b>-0.1</b>	<b>-0.2</b>	<b>0.4</b>	<b>0.6</b>	<b>0.5</b>	<b>0.4</b>	<b>0.3</b>
Mining	5.0	-2.0	-3.7	-2.6	1.4	7.7	8.8	0.2	-0.1	-0.2	-0.1	0.1	0.3	0.3
Manufacturing	-6.1	-4.7	0.5	1.7	1.0	-0.9	-1.7	-0.6	-0.5	0.1	0.2	0.1	-0.1	-0.2
Construction	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	0.0
Utilities	2.6	9.1	9.5	11.2	10.8	6.4	4.8	0.1	0.2	0.2	0.2	0.2	0.1	0.1
<b>Services</b>	<b>4.1</b>	<b>4.1</b>	<b>4.7</b>	<b>4.5</b>	<b>3.3</b>	<b>2.9</b>	<b>2.3</b>	<b>2.5</b>	<b>2.4</b>	<b>2.7</b>	<b>2.6</b>	<b>2.1</b>	<b>1.7</b>	<b>1.4</b>
Retail	-3.9	-2.5	1.4	2.0	2.1	1.6	0.1	-0.5	-0.3	0.2	0.3	0.3	0.2	0.0
Transports	11.8	8.9	10.9	8.8	5.3	5.1	3.4	0.4	0.2	0.3	0.2	0.1	0.1	0.1
Information	13.5	5.7	4.3	6.9	4.9	6.82	3.8	0.4	0.2	0.1	0.2	0.2	0.2	0.1
Financial	0.2	-0.9	-1.6	1.7	2.4	4.6	6.9	0.0	-0.1	-0.1	0.1	0.2	0.3	0.5
Other Services	10.3	12.5	14.1	9.8	8.3	4.3	2.4	1.4	1.6	1.8	1.3	1.2	0.6	0.3
Rents	2.0	1.7	1.9	3.2	3.2	2.8	2.8	0.2	0.1	0.1	0.2	0.3	0.2	0.2
Public Services	3.1	3.6	1.4	1.5	-0.3	0.4	1.6	0.5	0.5	0.2	0.2	0.0	0.0	0.2
<b>Demand</b>														
<b>Consumption</b>	<b>2.0</b>	<b>2.5</b>	<b>5.7</b>	<b>4.6</b>	<b>4.3</b>	<b>3.5</b>	<b>3.0</b>	<b>1.3</b>	<b>1.6</b>	<b>3.5</b>	<b>2.9</b>	<b>2.8</b>	<b>2.2</b>	<b>1.9</b>
<b>Government</b>	<b>4.4</b>	<b>3.9</b>	<b>0.9</b>	<b>1.0</b>	<b>0.5</b>	<b>1.2</b>	<b>2.9</b>	<b>0.9</b>	<b>0.6</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.5</b>
<b>Investments</b>	<b>3.2</b>	<b>-6.4</b>	<b>1.5</b>	<b>5.0</b>	<b>3.5</b>	<b>0.8</b>	<b>-2.6</b>	<b>0.6</b>	<b>-1.2</b>	<b>0.3</b>	<b>1.0</b>	<b>0.7</b>	<b>0.1</b>	<b>-0.4</b>
<b>Exports</b>	<b>3.3</b>	<b>8.7</b>	<b>-4.6</b>	<b>8.1</b>	<b>11.7</b>	<b>7.0</b>	<b>12.1</b>	<b>0.6</b>	<b>1.7</b>	<b>-1.0</b>	<b>1.7</b>	<b>2.2</b>	<b>1.3</b>	<b>2.3</b>
<b>Imports</b>	<b>3.0</b>	<b>-10.6</b>	<b>-1.0</b>	<b>10.6</b>	<b>4.6</b>	<b>2.2</b>	<b>2.1</b>	<b>-0.6</b>	<b>2.0</b>	<b>0.2</b>	<b>-2.2</b>	<b>-0.9</b>	<b>-0.4</b>	<b>-0.3</b>
<b>MEMO (Contribution)</b>														
<b>Inventories (proxy)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-0.7</b>	<b>-2.2</b>	<b>0.5</b>	<b>0.0</b>	<b>-3.0</b>	<b>0.6</b>	<b>-0.5</b>
<b>Domestic</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2.8</b>	<b>1.0</b>	<b>4.0</b>	<b>4.1</b>	<b>3.5</b>	<b>2.5</b>	<b>1.9</b>
<b>External</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0</b>	<b>3.6</b>	<b>-0.8</b>	<b>-0.5</b>	<b>1.4</b>	<b>0.9</b>	<b>2.0</b>

Sources: IBGE, Santander.



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