

4Q22 GDP SHRANK 0.2% QoQ-SA

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- **After GDP lost steam in 3Q22, 4Q22's data pointed to a weak -0.2% QoQ-sa (+1.9% YoY) figure and confirmed that broad activity entered into negative territory in 4Q22.** This result was in line with our estimate of -0.2% QoQ-sa (+2.0% YoY) and market consensus of -0.2% QoQ-sa (+2.2% YoY), and broke a healthy streak of five consecutive GDP gains since COVID-19's resurgence in 2Q21. In annual terms, Brazil's economy ended 2022 posting strong growth of 2.9% (+5.0% in 2021 and -3.3% in 2020), well above the estimates made in the beginning of the year (market consensus was roughly at 0.2%). A preliminary estimate for the output gap suggests that the Brazilian economy is currently running approximately 1.3% above its potential.
- **Supply sectors slightly beat our expectation, though (still) with a weak composition.** Services GDP inched up 0.2% QoQ-sa (our call: 0% QoQ-sa) and marked the tenth gain in a row, albeit with a clear deceleration pace. Digging into the details, retail (-0.9% QoQ-sa), public services (-0.5% QoQ-sa) and transports (+0.2% QoQ-sa) were the lowlights, in our view, although with a few positive surprises. On the other side, information and communication (+1.8% QoQ-sa) and other services (+0.9% QoQ-sa) continued to show positive figures. In annual terms, services activities ended 2022 at 4.2% growth (+5.2% in 2021). Regarding the industrial sector, data pointed to a 0.3% QoQ-sa decline (our call: -0.4% QoQ-sa) and broke a healthy streak of three consecutive gains. Zooming in on the details, cyclical sectors like manufacturing (-1.4% QoQ-sa) and construction (-0.7% QoQ-sa) tumbled at the margin, while non-cyclical mining steep climb (+2.5% QoQ-sa) brought resilience and avoided a worse result. In annual terms, industrial activities posted 1.6% growth in 2022 (+4.8% in 2021). Lastly, farm output inched up 0.3% QoQ-sa (our call: -0.9% QoQ-sa) and broke a string of three consecutive declines, marking a 1.7% decline in 2022 (+0.3% in 2021) and consolidating a gloomy biennium 2021-22.
- **On the demand side, domestic absorption stayed virtually flat at the margin, and the external sector boosted activity.** Household consumption inched up 0.3% QoQ-sa (our call: -0.4% QoQ-sa) and marked the sixth gain in a row, reflecting ambiguity between a continued weakening in goods consumption and some resilience (albeit softening) in services consumption. Moreover, investments tumbled 1.1% QoQ-sa (our call: -1.1% QoQ-sa) after two gains in a row, and likely reflected that construction is losing steam and machines and equipment are seeing persistent weakening. Conversely, government consumption inched up 0.3% QoQ-sa (our call: +0.5% QoQ-sa). Lastly, the external sector posted a solid contribution amid strong 3.5% QoQ-sa growth of exports (our call: +2.8% QoQ-sa) in tandem with import's 1.9% QoQ-sa tumble (our call: -5.5% QoQ-sa).
- **This result places the economy 4.1% above the pre-pandemic mark (set at 4Q19) and implies a tepid 0.2% carryover to 2022.** The dynamic presented throughout 4Q22 highlights that financial conditions are stifling cyclical activities, and the outlook for 2023 remains challenging amid a tight BCB policy and an expected global growth deceleration. January's available data point to mixed signals: both FGV's industrial confidence and manufacturing PMI remain below the neutral level, and regarding the tertiary sector, FGV's confidence data (for households, services, and retail) remain well below the neutral mark. Conversely, services PMI shows an expansionary trend, while our proprietary indicator (IGet) climbed in the month. For GDP, we forecast +0.5% QoQ-sa growth in 1Q23 and 0.8% growth in full-year 2023.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

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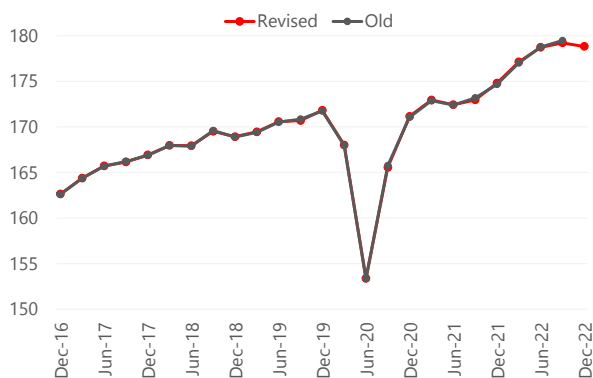
Figure 1 – GDP Breakdown

	4Q22e		4Q22		2022	4Q19*	2023**	
	% YoY	% QoQ	% YoY	% QoQ	%	%	%	
GDP	100%	2.0	-0.2	1.9	-0.2	2.9	4.1	0.2
Supply								
Taxes	15%	1.0	-0.8	2.4	0.2	2.1	5.4	0.9
Farm Output	7%	-3.0	-0.9	-2.9	0.3	-1.7	0.6	-0.2
Industry	19%	2.6	-0.4	2.6	-0.3	1.6	3.6	0.5
Mining	23%	1.3	2.4	1.4	2.5	-1.7	-0.2	2.4
Manufacturing	51%	0.5	-1.7	1.0	-1.4	-0.3	-0.9	-0.7
Construction	14%	3.9	0.0	3.2	-0.7	6.9	15.8	0.3
Utilities	12%	9.0	-1.4	10.8	-0.4	10.1	10.6	0.2
Services	59%	3.0	0.0	3.3	0.2	4.2	6.0	0.9
Retail	21%	0.9	-1.8	2.1	-0.9	0.8	3.1	-0.1
Transports	6%	5.2	0.0	5.3	0.2	8.4	9.4	1.2
Information	5%	5.0	1.9	4.9	1.8	5.4	24.9	4.2
Financial	9%	1.0	0.0	2.4	0.9	0.4	4.2	1.4
Other Services	23%	7.5	-0.2	8.3	0.9	11.1	11.1	2.1
Rents	14%	1.5	-0.5	3.2	0.7	2.5	7.9	1.5
Public Services	24%	1.0	0.5	-0.3	-0.5	1.5	-1.0	-0.1
Demand								
Consumption	61%	3.3	-0.4	4.3	0.3	4.3	3.8	1.2
Government	19%	0.5	0.0	0.5	0.3	1.5	2.1	0.6
Investments	19%	3.5	-1.1	3.5	-1.1	0.9	19.1	1.4
Exports	20%	10.7	2.8	11.7	3.5	5.5	12.8	3.8
Imports	19%	0.0	-5.5	4.6	-1.9	0.8	7.1	2.9

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

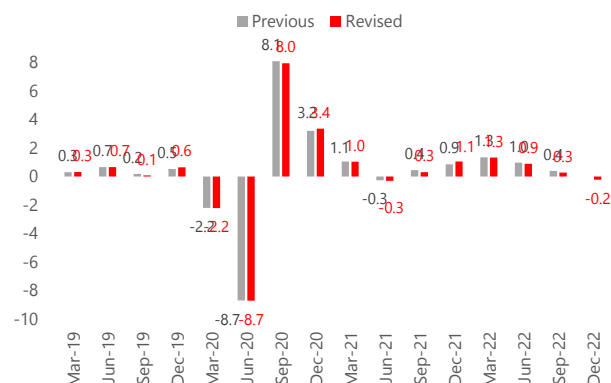
For details on Santander's economic activity outlook, please refer to our last reports¹.

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



Sources: IBGE, Santander.

Figure 3 – GDP (sa, % QoQ)



Sources: IBGE, Santander.

¹ **Santander Brazil Economic Activity: "Foreign and Domestic Headwinds Continue to Tighten Financial Conditions"** – February 23, 2023 – Available on: <https://bit.ly/Std-FCI-feb23>

Santander Brazil Economic Activity: "Serviços mostram crescimento na prévia de fevereiro" – February 24, 2023 – Available (in Portuguese) on: <https://bit.ly/Std-IGETser-p-fev23>

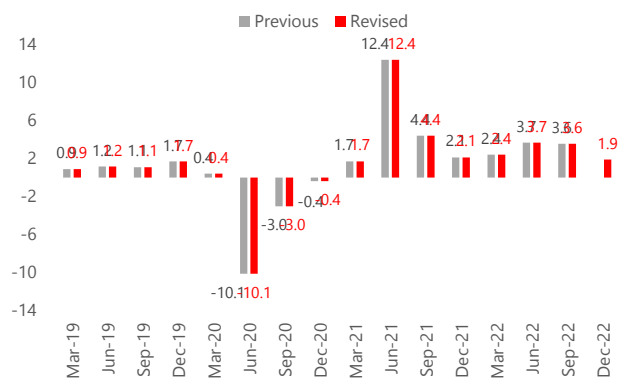
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Santander Brazil Economic Activity: "GDP Preview: After Five Consecutive Gains, We Expect Weak GDP Performance in 4Q22" – February 28, 2023 – Available on: <https://bit.ly/Std-GDP-p-4Q22>

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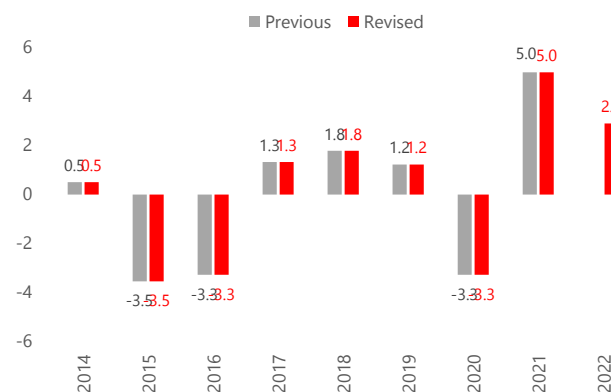


Figure 4 – GDP (nsa, % YoY)



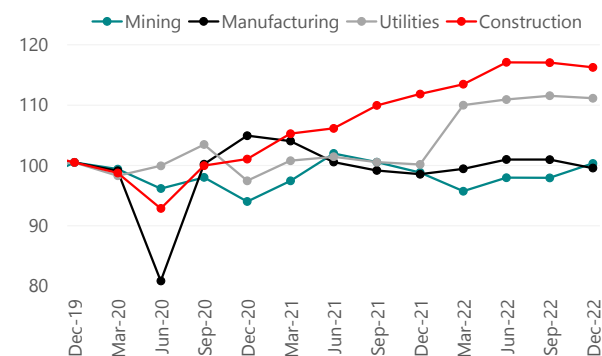
Sources: IBGE, Santander.

Figure 5 – GDP (Full-Year %)



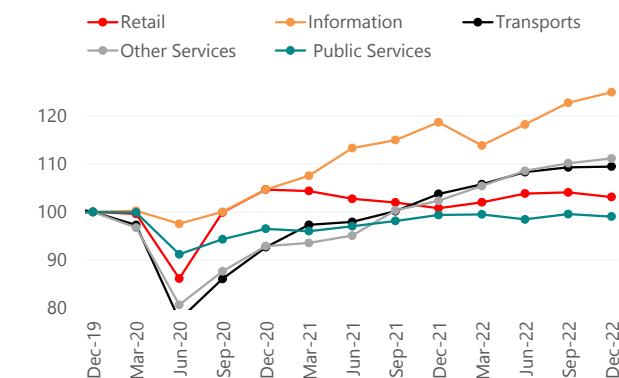
Sources: IBGE, Santander.

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



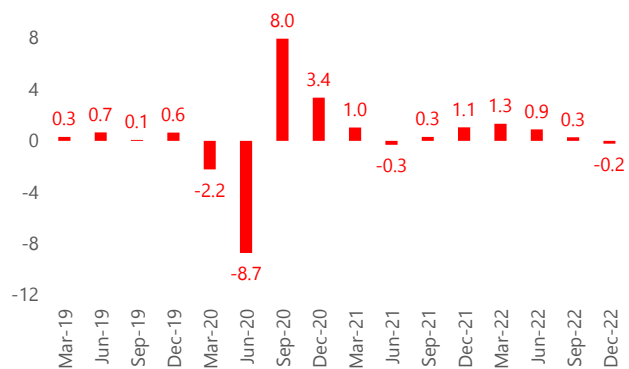
Sources: IBGE, Santander.

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



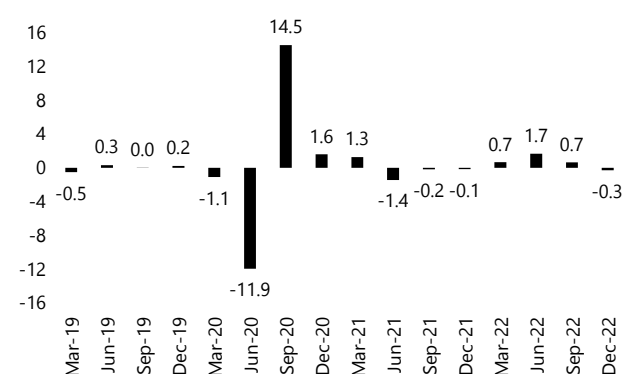
Sources: IBGE, Santander.

Figure 8 – Total GDP (QoQ-sa, %)



Sources: IBGE, Santander.

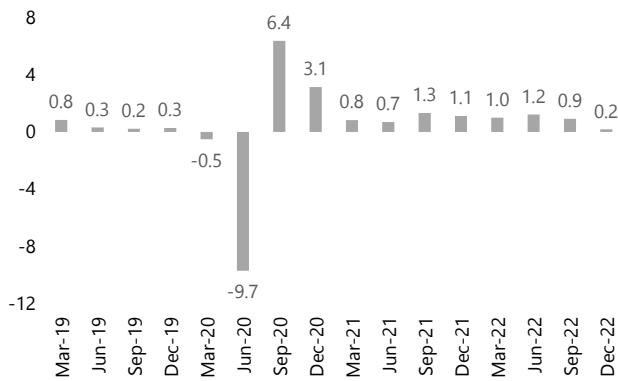
Figure 9 – Industry (QoQ-sa, %)



Sources: IBGE, Santander.

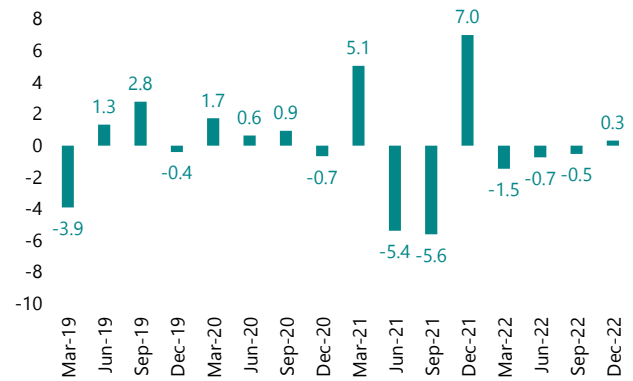


Figure 10 – Services (QoQ-sa, %)



Sources: IBGE, Santander.

Figure 11 – Farm Output (QoQ-sa, %)



Sources: IBGE, Santander.

Figure 12 – GDP Quarterly Contributions

	% QoQ-sa							Quarterly Contributions (p.p)						
	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4
GDP	-0.3	0.3	1.1	1.3	0.9	0.3	-0.2	-0.3	0.3	1.1	1.3	0.9	0.3	-0.2
Supply														
Taxes	-1.7	0.7	0.0	1.1	1.0	1.1	0.2	-0.2	0.1	0.0	0.2	0.1	0.1	0.0
Farm Output	-5.4	-5.6	7.0	-1.5	-0.7	-0.5	0.3	-0.5	-0.3	0.2	-0.1	-0.1	0.0	0.0
Industry	-1.4	-0.2	-0.1	0.7	1.7	0.7	-0.3	-0.3	0.0	0.0	0.1	0.4	0.1	-0.1
Mining	4.7	-1.4	-1.7	-3.2	2.4	0.0	2.5	0.2	-0.1	-0.1	-0.1	0.1	0.0	0.1
Manufacturing	-3.4	-1.4	-0.6	0.9	1.6	0.0	-1.4	-0.3	-0.2	-0.1	0.1	0.2	0.0	-0.2
Construction	0.8	3.6	1.7	1.5	3.2	0.0	-0.7	0.0	0.1	0.0	0.0	0.1	0.0	0.0
Utilities	0.6	-0.9	-0.4	9.9	0.8	0.6	-0.4	0.0	0.0	0.0	0.3	0.0	0.0	0.0
Services	0.7	1.3	1.1	1.0	1.2	0.9	0.2	0.4	0.8	0.7	0.6	0.7	0.5	0.1
Retail	-1.5	-0.7	-1.2	1.2	1.8	0.2	-0.9	-0.2	-0.1	-0.1	0.1	0.2	0.0	-0.1
Transports	0.6	2.3	3.6	1.9	2.4	0.9	0.2	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Information	5.4	1.5	3.2	-4.1	3.8	3.8	1.8	0.2	0.0	0.1	-0.1	0.1	0.1	0.1
Financial	-0.1	-1.0	0.6	-0.2	-0.3	1.7	0.9	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Other Services	1.6	5.5	2.0	3.0	3.0	1.5	0.9	0.2	0.7	0.3	0.4	0.4	0.2	0.1
Rents	0.5	0.3	0.9	-0.1	0.9	1.4	0.7	0.0	0.0	0.1	0.0	0.1	0.1	0.1
Public Services	1.1	1.1	1.3	0.1	-1.0	1.1	-0.5	0.1	0.1	0.2	0.0	-0.1	0.1	-0.1
Demand														
Consumption	-0.9	2.0	0.5	1.0	2.0	1.0	0.3	-0.6	1.2	0.4	0.6	1.3	0.6	0.2
Government	1.9	1.3	0.8	-0.3	-0.8	1.2	0.3	0.4	0.2	0.2	-0.1	-0.1	0.2	0.1
Investments	-4.0	-0.9	0.6	-2.2	4.1	2.6	-1.1	-0.7	-0.2	0.1	-0.4	0.7	0.5	-0.2
Exports	10.7	-9.0	-1.4	8.5	-2.2	3.7	3.5	2.4	-1.8	-0.3	1.6	-0.5	0.8	0.7
Imports	-2.7	-6.5	1.5	-3.1	7.1	5.5	-1.9	0.5	1.2	-0.3	0.6	-1.3	-1.1	0.4
MEMO (Contribution)														
Inventories (proxy)	-	-	-	-	-	-	-	-2.2	-0.3	1.0	-1.0	0.8	-0.7	-1.3
Domestic	-	-	-	-	-	-	-	-0.9	1.3	0.6	0.1	1.9	1.3	0.0
External	-	-	-	-	-	-	-	2.8	-0.7	-0.6	2.2	-1.8	-0.4	1.0

Sources: IBGE, Santander.



Figure 13 – GDP Yearly Contributions

	% YoY							Yearly Contributions (p.p)						
	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4
GDP	12.4	4.4	2.1	2.4	3.7	3.6	1.9	12.4	4.4	2.1	2.4	3.7	3.6	1.9
Supply														
Taxes	16.4	6.1	1.3	0.5	2.1	3.3	2.4	2.2	0.9	0.2	0.1	0.3	0.4	0.3
Farm Output	0.0	-7.9	-0.3	-5.2	-0.9	3.2	-2.9	0.0	-0.4	0.0	-0.5	-0.1	0.2	-0.1
Industry	16.5	1.2	-0.6	-1.2	2.1	2.8	2.6	3.4	0.3	-0.1	-0.2	0.4	0.6	0.5
Mining	6.2	2.8	5.0	-2.0	-3.7	-2.6	1.4	0.3	0.2	0.2	-0.1	-0.2	-0.1	0.1
Manufacturing	24.9	-1.1	-6.1	-4.7	0.5	1.7	1.0	2.6	-0.1	-0.6	-0.5	0.1	0.2	0.1
Construction	14.3	10.3	10.5	7.8	10.3	6.6	3.2	0.4	0.3	0.3	0.2	0.3	0.2	0.1
Utilities	1.7	-2.6	2.6	9.1	9.5	11.2	10.8	0.0	-0.1	0.1	0.2	0.2	0.2	0.2
Services	11.3	6.3	4.1	4.1	4.7	4.5	3.3	6.4	3.6	2.5	2.4	2.7	2.6	2.1
Retail	20.0	2.1	-3.9	-2.5	1.4	2.0	2.1	2.4	0.3	-0.5	-0.3	0.2	0.3	0.3
Transports	26.9	15.5	11.8	8.9	10.9	8.8	5.3	0.9	0.5	0.4	0.2	0.3	0.2	0.1
Information	16.0	15.1	13.5	5.7	4.3	6.88	4.9	0.5	0.4	0.4	0.2	0.1	0.2	0.2
Financial	-1.2	-2.4	0.2	-0.9	-1.6	1.7	2.4	-0.1	-0.1	0.0	-0.1	-0.1	0.1	0.2
Other Services	17.7	14.5	10.3	12.5	14.1	9.8	8.3	2.3	1.9	1.4	1.6	1.8	1.3	1.2
Rents	2.3	1.8	2.0	1.7	1.9	3.2	3.2	0.2	0.1	0.2	0.1	0.1	0.2	0.3
Public Services	6.3	4.0	3.1	3.6	1.4	1.5	-0.3	0.9	0.5	0.5	0.5	0.2	0.2	0.0
Demand														
Consumption	10.2	4.7	2.0	2.5	5.7	4.6	4.3	6.0	2.9	1.3	1.6	3.5	2.9	2.8
Government	7.1	5.3	4.4	3.9	0.9	1.0	0.5	1.3	1.0	0.9	0.6	0.2	0.2	0.1
Investments	32.1	18.9	3.2	-6.4	1.5	5.0	3.5	5.9	3.7	0.6	-1.2	0.3	1.0	0.7
Exports	14.4	4.1	3.3	8.7	-4.6	8.1	11.7	3.2	0.8	0.6	1.7	-1.0	1.7	2.2
Imports	20.1	20.9	3.0	-10.6	-1.0	10.6	4.6	-3.5	-3.8	-0.6	2.0	0.2	-2.2	-0.9
MEMO (Contribution)														
Inventories (proxy)	-	-	-	-	-	-	-	-0.4	-0.1	-0.7	-2.2	0.5	0.0	-3.0
Domestic	-	-	-	-	-	-	-	13.2	7.5	2.8	1.0	4.0	4.1	3.5
External	-	-	-	-	-	-	-	-0.4	-3.0	0.0	3.6	-0.8	-0.5	1.4

Sources: IBGE, Santander.



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