

AFTER A STRONG 1Q23, WE EXPECT A FLATTISH GDP PERFORMANCE IN 2Q23

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- **After a strong result in 1Q23, we expect a deceleration in GDP growth in 2Q23.** We are revising our 2Q23 GDP growth forecast to +0.1% QoQ-sa, slightly above the figure presented in our most recent scenario update (+0.0% QoQ-sa). If our projection is on the mark, it would imply an important deceleration in QoQ-sa variations, on the heels of the diminishing effects from the massive contribution of farm output in 1Q23, following the record volume for summer grain crops. In annual terms, while we expect Brazil's economy to post a 1.9% growth result in 2023 (+2.9% in 2022 and +5.0% in 2021), we acknowledge some risks: on the upside, a still resilient labor market may continue to boost domestic demand; on the downside, the still tight financial conditions could have an even larger-than-expected weight on cyclical activities.
- **For the supply side, we forecast tepid performances among sectors, with a negative contribution from farm output.** We expect a contraction in farm output (-1.6% QoQ-sa), but not enough to offset the strong result seen in 1Q23 (+21.6% QoQ-sa). After accelerating in 1Q23, we forecast deceleration (+0.2% QoQ-sa) for the services sector. In our view, transport (+0.7% QoQ-sa), information (+0.7% QoQ-sa), and retail (+0.6% QoQ-sa) should be the highlights. Conversely, public services (0.0% QoQ-sa) and financial services (0.0% QoQ-sa) should have the smallest contributions, per our projections. For industry, after a retreat in 1Q23, we forecast a 0.2% QoQ-sa expansion, owing mainly to mining (+0.5% QoQ-sa). We project a flat result in manufacturing (+0.0% QoQ-sa), while construction could post a decrease (-0.6% QoQ-sa). We expect utilities to post a 0.2% MoM-sa growth.
- **On the demand side, we forecast divergent performances between the components.** We expect household consumption to increase 0.8% QoQ-sa, the eighth gain in a row, following gains in both services and goods consumption. We expect investments to decline 0.7% QoQ-sa, the third contraction in a row, owing to construction growth losing steam, and continued weakening in machines and equipment. We also expect a negative contribution from the external sector, with hefty expansions in both exports (+3.0% QoQ-sa) and imports (+4.0% QoQ-sa). It is important to note that, although farm output had its impact concentrated in the first quarter, agricultural exports tend to be concentrated in the second quarter. Therefore, our proxy for inventories may report increased volatility in 1H23, contributing positively in 1Q23 and negatively in 2Q23.
- **The official data will be available next week (Friday, September 1).** If our projections are met, the result would imply a 2.5% carryover for 2023 and would place the economy 6.5% above the pre-pandemic mark (we have set the mark at 4Q19). However, we believe financial conditions will continue to stifle cyclical activities, and the outlook for 2023 remains challenging amid a tight Brazil Central Bank (BCB) policy and an expected global growth deceleration. We forecast 1.9% GDP growth in 2023, with a slowdown in cyclical supply components, but we also expect strong growth for non-cyclical farm output, reflecting all-time high results for the grain harvest.



Figure 1 – GDP Projections Breakdown*

	1Q23		2Q23e		Roll 4Q	4Q19*	2023**	
	% YoY	% QoQ	% YoY	% QoQ	%	%	%	
GDP	100%	4.0	1.9	2.3	0.1	3.3	6.5	2.5
Supply								
Taxes	15%	3.0	-0.1	0.8	0.0	2.7	5.2	0.7
Farm Output	7%	18.8	21.6	15.0	-1.6	6.0	19.0	18.4
Industry	19%	1.9	-0.1	0.5	0.2	2.4	3.7	0.5
Mining	23%	7.7	2.3	6.5	0.5	0.5	2.7	5.2
Manufacturing	51%	-0.9	-0.6	-2.6	0.0	0.6	-1.6	-1.5
Construction	14%	1.5	-0.8	-1.5	-0.6	5.3	14.0	-0.9
Utilities	12%	6.4	1.7	4.5	0.2	9.4	13.8	4.2
Services	59%	2.9	0.6	1.7	0.2	3.9	6.9	1.6
Retail	21%	1.6	0.3	0.8	0.6	1.8	4.2	0.8
Transports	6%	5.1	1.2	4.5	0.7	7.5	11.7	3.1
Information	5%	6.8	-1.4	3.7	0.7	5.7	23.2	2.4
Financial	9%	4.6	1.2	2.5	0.0	1.8	6.0	3.2
Other Services	23%	4.3	-0.5	1.5	0.1	9.1	10.5	1.3
Rents	14%	2.8	0.3	2.5	0.2	2.8	8.4	1.8
Public Services	24%	0.4	0.5	1.0	0.0	0.7	-0.1	0.5
Demand								
Consumption	61%	3.5	0.2	2.5	0.8	4.5	5.0	2.0
Government	19%	1.2	0.3	1.0	-0.5	0.9	1.9	0.6
Investments	19%	0.8	-3.4	-3.6	-0.7	2.7	14.0	-2.9
Exports	20%	7.0	-0.4	12.5	3.0	5.2	15.7	5.8
Imports	19%	2.2	-7.1	1.4	4.0	4.2	2.0	-2.9

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

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

¹ Santander Brazil Economic Activity: "Fourth Easing in a Row for Financial Conditions in July" – July 27, 2023 – Available on: <https://tinyurl.com/Std-FCI-jul23>

Santander Brazil Economic Activity: "SAI Contracts in June" – August 22, 2023 – Available on: <https://tinyurl.com/Std-SAI-aug23>

Santander Brazil Economic Activity: "Increasing our 2024 GDP Growth Forecast" – August 16, 2023 – Available on: <https://tinyurl.com/Std-chart-econact-aug23>



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