

AFTER FIVE CONSECUTIVE GAINS, WE EXPECT WEAK GDP PERFORMANCE IN 4Q22

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- **After GDP lost steam in 3Q22, Santander's monthly activity index anticipated that broad activity entered into negative territory in 4Q22.** We are maintaining our 4Q22 GDP growth forecast at -0.2% QoQ-sa, as presented in our most recent scenario update (February 9), with risks slightly tilted to the downside. If our projection is on the mark, GDP would break a healthy streak of five consecutive gains since COVID-19's resurgence in 2Q21, in the wake of the economy's reopening consolidation. In annual terms, we expect Brazil's economy to have ended 2022 posting strong growth of 2.9% (+5.0% in 2021 and -3.3% in 2020).
- **For the supply side, we forecast a weak composition among key sectors.** After a healthy streak of nine consecutive gains for the services sector, we forecast stability (0% QoQ-sa). In our view, retail (-1.8% QoQ-sa), other services (-0.5% QoQ-sa) and transports (0% QoQ-sa) should be the lowlights. Conversely, public services (+0.5% QoQ-sa) and information (+1.9% QoQ-sa) should contribute positively, per our projections. In annual terms, we expect the services sector to have ended 2022 at 4.1% growth (+5.2% in 2021). For industry, after three gains in a row, we forecast a 0.4% QoQ-sa retreat, owing mainly to a steep decline in manufacturing (-1.7% QoQ-sa) and stability in construction (0% QoQ-sa), while mining should bring some resilience (+2.4% QoQ-sa). In annual terms, we expect industry to have posted 1.6% growth in 2022 (+4.8% in 2021). Lastly, we expect a weak figure for farm output (-0.9% QoQ-sa), which would be the second decline in a row and imply a 1.8% decline in 2022 (+0.3% in 2021).
- **On the demand side, we forecast shrinking domestic absorption.** We expect household consumption to have shrunk 0.4% QoQ-sa, breaking a string of five consecutive gains, owing mainly to a decline in goods consumption and softening in services consumption. We also expect investments to have declined 1.1% QoQ-sa, after two gains in a row, owing to construction growth losing steam, and continued weakening in machines and equipment. In contrast, we expect a solid contribution from the external sector, as expanding exports (+2.8% QoQ-sa) worked in favorable tandem with imports' tumble (-5.5% QoQ-sa).
- **The official data will be available this week (Thursday, March 2).** If our projections are met, the result would imply a slight 0.2% carryover for 2022 and would place the economy 4.2% above the pre-pandemic mark (we have set the mark at 4Q19). However, the dynamics presented throughout 4Q22 highlights that financial conditions continue to stifle cyclical activities, and the outlook for 2023 remains challenging amid a tight BCB policy and an expected global growth deceleration. We forecast 0.8% GDP growth in 2023, with a slowdown in domestic demand and in cyclical supply components, but we also expect strong growth for non-cyclical farm output, reflecting an all-time high forecast for the grain harvest.



Figure 1 – GDP Projections Breakdown*

	3Q22			4Q22e		Roll 4Q	4Q19*	2023**
	Weights	% YoY	% QoQ	% YoY	% QoQ	%	%	%
GDP	100%	3.6	0.4	2.0	-0.2	2.9	4.2	0.2
Supply								
Taxes	15%	3.3	1.3	1.0	-0.8	1.7	4.6	0.3
Farm Output	7%	3.2	-0.9	-3.0	-0.9	-1.8	0.3	-1.1
Industry	19%	2.8	0.8	2.6	-0.4	1.6	3.6	0.5
Mining	23%	-2.6	-0.1	1.3	2.4	-1.7	-2.9	0.4
Manufacturing	51%	1.7	0.1	0.5	-1.7	-0.5	0.9	0.5
Construction	14%	6.6	1.1	3.9	0.0	7.1	16.4	0.9
Utilities	12%	11.2	0.6	9.0	-1.4	9.7	11.2	0.5
Services	59%	4.5	1.1	3.0	0.0	4.1	6.0	0.9
Retail	21%	2.0	-0.1	0.9	-1.8	0.5	4.9	0.6
Transports	6%	8.8	1.0	5.2	0.0	8.4	9.3	1.1
Information	5%	6.9	3.6	5.0	1.9	5.5	22.4	2.7
Financial	9%	1.7	1.5	1.0	0.0	0.1	3.2	0.7
Other Services	23%	9.8	1.4	7.5	-0.2	10.9	10.1	1.4
Rents	14%	3.2	1.4	1.5	-0.5	2.1	7.1	0.9
Public Services	24%	1.5	1.1	1.0	0.5	1.9	-0.4	0.3
Demand								
Consumption	61%	4.6	1.0	3.3	-0.4	4.0	3.5	1.0
Government	19%	1.0	1.3	0.5	0.0	1.5	1.8	0.4
Investments	19%	5.0	2.8	3.5	-1.1	0.9	20.2	2.3
Exports	20%	8.1	3.6	10.7	2.8	5.3	8.0	1.0
Imports	19%	10.6	5.8	0.0	-5.5	-0.4	9.6	4.8

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 Special Report: "Forecasting Probability of Recession in Brazil with Financial Conditions"** – January 04, 2023 – Available on: <https://bit.ly/Std-special-010423>

Santander Brazil Special Report: "A Breakdown of Brazilian Financial Conditions" – January 19, 2023 – Available on: <https://bit.ly/Std-special-011923>

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>

Santander Brazil Economic Activity: "Prévia de fevereiro aponta crescimento da atividade varejista" – February 24, 2023 – Available (in Portuguese) on: <https://bit.ly/Std-IGET-p-fev23>



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