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+5511 3553 7495**STRONG GDP DATA (AGAIN)**

- **GDP expanded 0.4% QoQ-sa (+3.6% YoY) in 3Q22, below market consensus of +0.6% QoQ-sa (+3.7% YoY) and our estimate of +0.9% QoQ-sa (+4.2% YoY), but with the series being considerably revised (as usual in 3Q releases), in this case to the upside.** This result means that the Brazilian economy has grown at a strong quarterly rate for the past year and places the economy 4.5% above the pre-pandemic benchmark set at 4Q19 (our call: +4.0%). Moreover, actual GDP exceeded the peak reached in 1Q14 (just before Brazil's worst recession in about a century) by 1.4% (our call: +0.6%). We calculate carryovers of +3.1% and +0.4% to 2022 and 2023, respectively. A preliminary estimate for the output gap suggests that the Brazilian economy is running circa 1.5% above its potential.
- **On the supply side, strong figures for industry and services, while farm output disappointed (but with a significant downward revision in the historical series).** Services continued to strengthen, climbing 1.1% QoQ-sa (our call: +0.8% QoQ-sa), marking the ninth gain in a row, while the industrial sector jumped 0.8% QoQ-sa (our call: +0.3% QoQ-sa), marking a healthy streak of three consecutive gains. However, farm output disappointed, shrinking 0.9% QoQ-sa (our call: +2.5% QoQ-sa).
- **On the demand side, domestic absorption continued to strengthen, partially offset by the external sector.** Household consumption expanded 1.0% QoQ-sa (our call: +0.5% QoQ-sa), delivering a healthy streak of five consecutive gains, while government spending jumped +1.3% QoQ-sa (our call: +0.9% QoQ-sa). Investments posted a new positive print with an increase of 2.8% QoQ-sa (our call: +1.7% QoQ-sa). Meanwhile, the external sector contributed negatively to overall activity, with exports expansion of +3.6% QoQ-sa (our call: +2.6% QoQ-sa) being insufficient to offset the strong growth of +5.8% QoQ-sa for imports (our call: +3.4% QoQ-sa).
- **Despite the strong headline GDP, the effects of a tighter monetary policy started to kick in throughout the quarter.** Indeed, we saw a substantial contribution to 3Q22 growth from non-cyclical segments like rents, public services, and information services (benefiting significantly from tax cuts in the period), while cyclical activities like manufacturing and retail had already begun to show the first impact of a contractionary monetary policy. The available coincident indicators for 4Q22 point to a continued loss of steam among cyclical activities. Our 4Q22 GDP growth tracking stands at +0% QoQ-sa (+2.3% YoY). That said, we see upside risks to our current 2.8% GDP growth forecast for 2022. For 2023, our baseline scenario contemplates 0.7% growth, but owing mainly to positive carryover from this year's growth and to strong growth for non-cyclical commodity sectors like farm output, reflecting an all-time-high forecast for the grain harvest. We continue to expect a slowdown in domestic demand in cyclical components, stemming mainly from an expected softening in the global economy and the effects of a tight monetary policy from the Central Bank (BCB).



Figure 1 – GDP Breakdown

	3Q22e		3Q22		Roll 4Q	4Q19*	2022**	2023**	
	Weights	% YoY	% QoQ	% YoY	%	%	%	%	
GDP	100%	4.2	0.9	3.6	0.4	3.0	4.5	3.1	0.4
Supply									
Taxes	15%	2.0	0.6	3.3	1.3	1.8	5.5	2.0	0.0
Farm Output	7%	9.5	2.5	3.2	-0.9	-1.3	1.2	-1.0	-0.4
Industry	19%	2.2	0.3	2.8	0.8	0.8	4.1	1.7	0.8
Mining	23%	-5.0	-1.8	-2.6	-0.1	-0.9	-2.9	-2.4	0.4
Manufacturing	51%	1.8	0.3	1.7	0.1	-2.1	0.9	0.2	0.5
Construction	14%	6.0	0.2	6.6	1.1	8.8	16.4	7.3	0.9
Utilities	12%	13.0	-0.4	11.2	0.6	8.1	11.2	10.3	0.5
Services	59%	4.1	0.8	4.5	1.1	4.4	6.0	4.2	0.9
Retail	21%	2.0	0.2	2.0	-0.1	-0.7	4.9	1.2	0.6
Transports	6%	12.7	2.7	8.8	1.0	10.1	9.3	8.4	1.1
Information	5%	5.0	2.9	6.9	3.6	7.6	22.4	5.0	2.7
Financial	9%	1.5	0.2	1.7	1.5	-0.1	3.2	0.0	0.7
Other Services	23%	10.6	1.5	9.8	1.4	11.6	10.1	11.0	1.4
Rents	14%	0.5	0.1	3.2	1.4	2.2	7.1	2.2	0.9
Public Services	24%	1.2	0.6	1.5	1.1	2.4	-0.4	1.7	0.3
Demand									
Consumption	61%	4.5	0.5	4.6	1.0	3.7	3.5	4.2	1.0
Government	19%	1.1	0.9	1.0	1.3	2.5	1.8	1.4	0.4
Investments	19%	3.5	1.7	5.0	2.8	0.8	20.2	1.0	2.3
Exports	20%	6.3	2.6	8.1	3.6	3.5	8.0	4.6	1.0
Imports	19%	7.4	3.4	10.6	5.8	0.4	9.6	2.2	4.8

Sources: IBGE, Santander estimates. * We set up our pre-crisis mark at 4Q19. ** Carryover calculated to 2022 and 2023.

Strong growth for the Brazilian economy for a year now. Real GDP expanded 0.4% QoQ-sa (+3.6% YoY) in 3Q22, below market consensus of +0.6% QoQ-sa (+3.7% YoY) and our estimate of +0.9% QoQ-sa (+4.2% YoY)¹, but with the series being considerably revised (as usual in 3Q releases), this time to the upside. This result means that the Brazilian economy has grown at a strong quarterly rate for the past year and places the economy 4.5% above the pre-pandemic benchmark set at 4Q19 (our call: +4.0%). Moreover, actual GDP exceeded the peak seen in 1Q14 (just before Brazil's worst recession in about a century) by 1.4% (our call: +0.6%). We calculate carryovers of +3.1% and +0.4% to 2022 and 2023, respectively.

On the supply side, widespread growth among subsectors. The breakdown points to growth at the margin for 9 of the 12 subsectors (excluding taxes). Total services continued to strengthen, climbing 1.1% QoQ-sa (our call: +0.8% QoQ-sa), marking a healthy streak of nine consecutive gains, with services related to firms in the spotlight. Zooming in on the details, information services climbed 3.6% QoQ-sa (our call: +2.9% QoQ-sa), benefiting substantially from the tax cuts in telecommunication during the quarter (which are not expected to continue in 4Q22), while transportation jumped 1.0% QoQ-sa (our call: +2.7% QoQ-sa), delivering an encouraging streak of nine consecutive gains, owing mainly to growth in freight transport as opposed to people transport. Retail inched down 0.1% QoQ-sa (our call: +0.2% QoQ-sa), in the wake of a sequential weakening in goods-related sectors in the quarter, while other services provided to families continued to strengthen by increasing 1.4% QoQ-sa (our call: +1.5% QoQ-sa), amid the consolidation of the economy's reopening. Rents and public services (both non-cyclical segments) surprised to the upside, jumping 1.0% QoQ-sa (our call: +0.1% QoQ-sa) and +1.1% QoQ-sa (our call: +0.6% QoQ-sa), respectively. Regarding the secondary sector, industrial GDP expanded 0.8% QoQ-sa (our call: +0.3% QoQ-sa), decelerating in comparison to a strong 1H22. Following its strong performance in the previous quarters, manufacturing inched up 0.1% QoQ-sa (our call: +0.3% QoQ-sa), in line with weakening goods demand in the period and likely reflecting rising interest rates. Conversely, mining surprised to the upside, declining only 0.1% QoQ-sa (our call: -1.8% QoQ-sa), while construction continued to strengthen with an increase of 1.1% QoQ-sa (our call: +0.2% QoQ-sa), despite the retreat in building employment figures in the period. Lastly, farm output disappointed, shrinking 0.9% QoQ-sa (our call: +2.5% QoQ-sa).

¹ Santander Brazil Economic Activity: "Stronger GDP Growth Expected for 3Q22 – November 22, 2022 – Available on: <https://bit.ly/Std-GDP-p-3Q22>

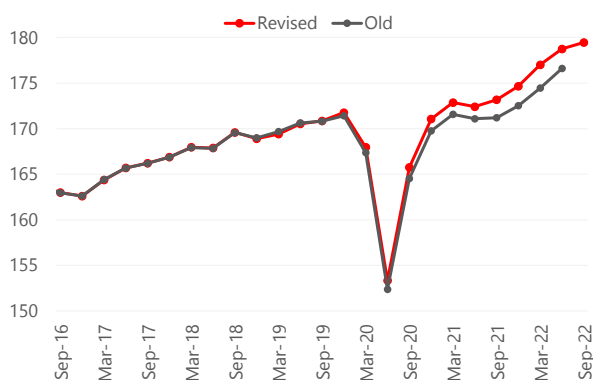


On the demand side, continued strengthening of domestic absorption but with the external sector slightly weighing on activity. Household consumption expanded 1.0% QoQ-sa (our call: +0.5% QoQ-sa) and delivered a healthy streak of five consecutive gains, likely reflecting resilience in consumption services and in income-related goods, while credit-related goods showed significant sequential weakening. Government spending expanded +1.3% QoQ-sa (our call: +0.9% QoQ-sa). Investments posted a new positive print with a jump of 2.8% QoQ-sa (our call: +1.7% QoQ-sa), reflecting strengthening in both domestic capital goods absorption and the construction sector. Meanwhile, the external sector contributed negatively to overall activity, with exports expansion of +3.5% QoQ-sa (our call: +2.6% QoQ-sa) being insufficient to offset the strong growth of +5.8% QoQ-sa seen in imports (our call: +3.4% QoQ-sa).

Despite the strong headline GDP in 3Q22, the effects of a tighter monetary policy started to kick in throughout the quarter. Indeed, we saw a substantial contribution to 3Q22 growth from non-cyclical segments like rents, public services, and information services (benefiting significantly from tax cuts in the period, which are not expected to continue in 4Q22), while cyclical activities like manufacturing (+0.1%) and retail (-0.1%) had already begun to show the first impact of a contractionary monetary policy. The available coincident indicators for 4Q22 (IGet family², vehicles production, heavy vehicles toll flow, etc.,) point to a continued loss of steam from cyclical activities. Our 4Q22 GDP growth tracking stands at 0 % QoQ-sa (+2.3% YoY). That said, we see upside risks to our current 2.8% GDP growth forecast for 2022. For 2023, our baseline scenario contemplates 0.7% growth, but owing mainly to a strong carryover from this year's growth and to strong growth for non-cyclical commodity sectors like farm output, reflecting an all-time-high forecast for the grain harvest. We continue to expect a slowdown in domestic demand in cyclical components, stemming mainly from an expected softening in the global economy (along with declining commodities prices) and the effects of a tight BCB policy.

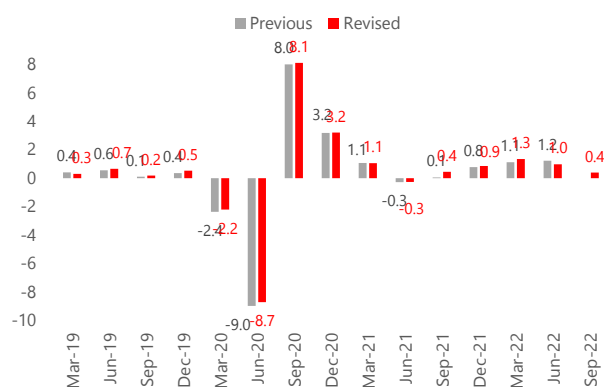
For details on Santander's economic activity outlook, please refer to our last reports³.

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



Sources: IBGE, Santander.

Figure 3 – GDP (sa, % QoQ)



Sources: IBGE, Santander.

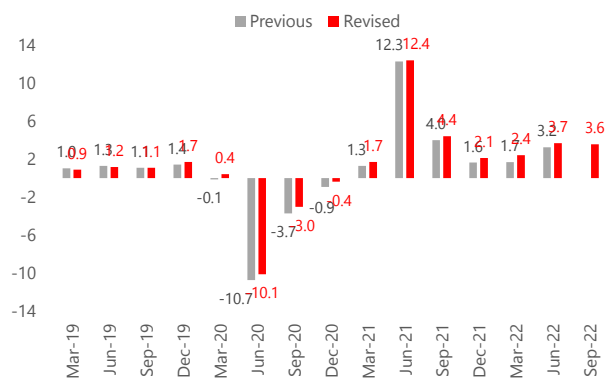
² Santander Brazil Economic Activity: “Varejo segue fraco em novembro” – November 17, 2022 – Available on (in Portuguese): <https://bit.ly/Std-IGET-p-nov22>

Santander Brazil Economic Activity: “Serviços mostram leve alta prévia de novembro” – November 16, 2022 – Available on (in Portuguese): <https://bit.ly/Std-IGETser-p-nov22>

³ Santander Brazil Economic Activity: “Financial Conditions Remain Critically Restrictive” – November 30, 2022 – Available on: <https://bit.ly/Std-FCI-nov22>

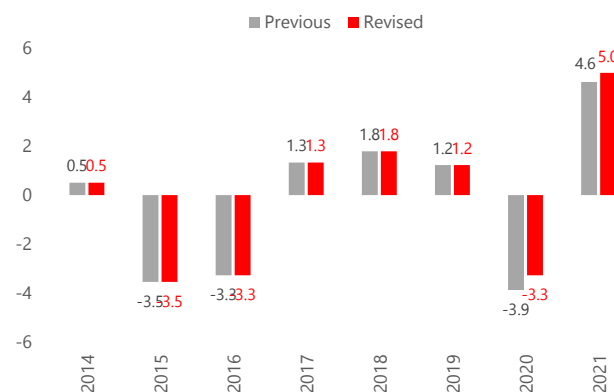


Figure 4 – GDP (nsa, % YoY)



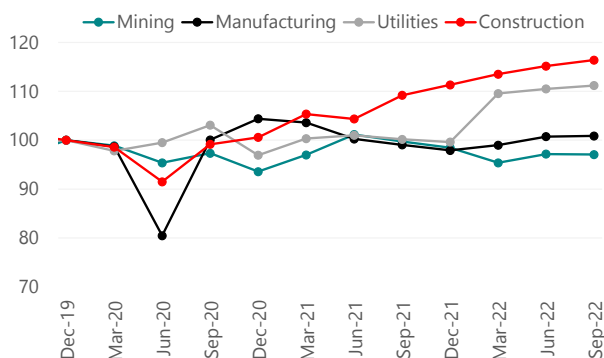
Sources: IBGE, Santander.

Figure 5 – GDP (Full-Year %)



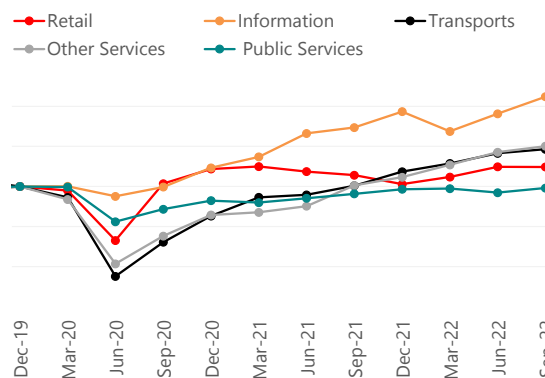
Sources: IBGE, Santander.

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



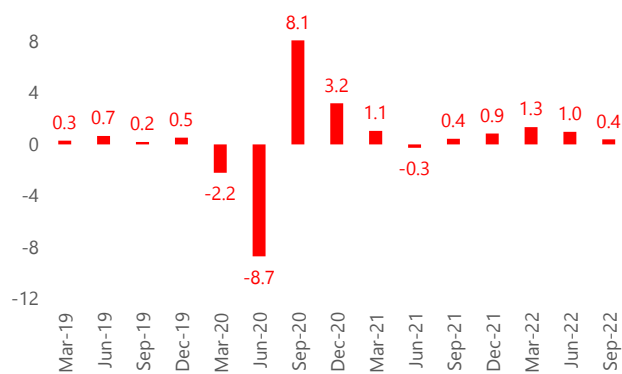
Sources: IBGE, Santander.

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



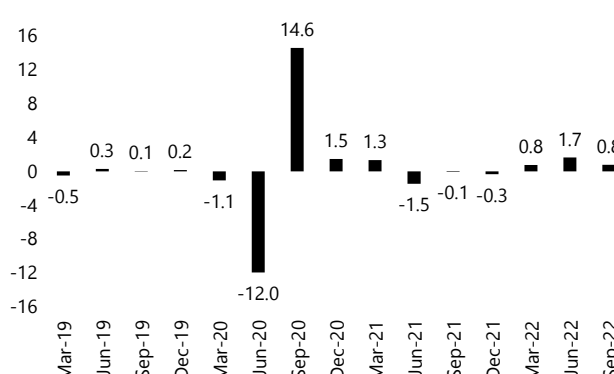
Sources: IBGE, Santander.

Figure 8 – Total GDP (QoQ-sa, %)



Sources: IBGE, Santander.

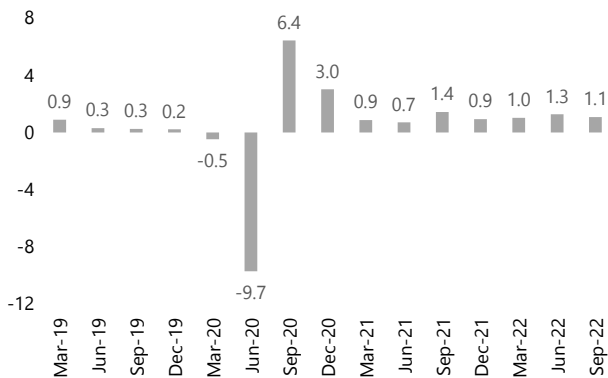
Figure 9 – Industry (QoQ-sa, %)



Sources: IBGE, Santander.

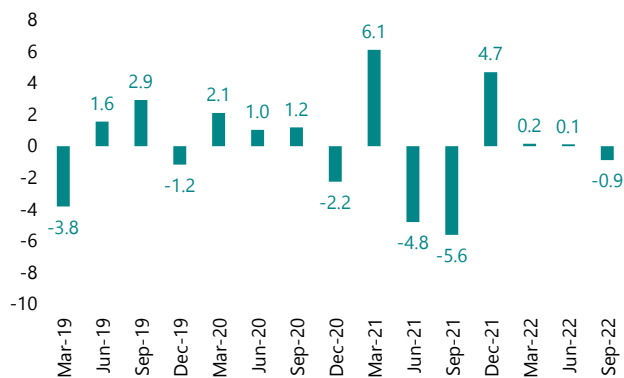


Figure 10 – Services (QoQ-sa, %)



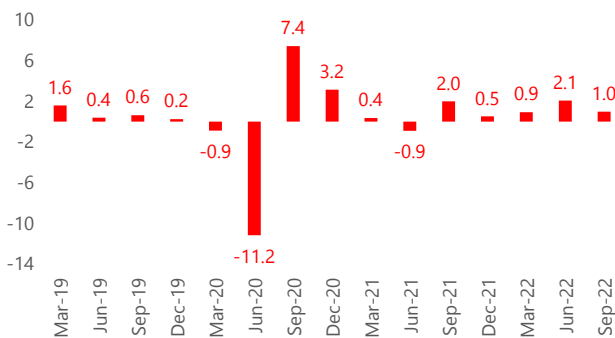
Sources: IBGE, Santander.

Figure 11 – Farm Output (QoQ-sa, %)



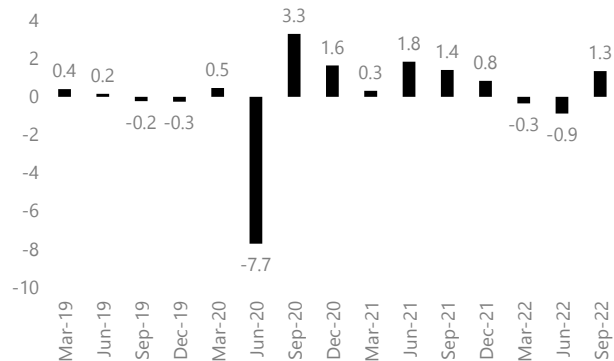
Sources: IBGE, Santander.

Figure 12 – Household Consumption (QoQ-sa, %)



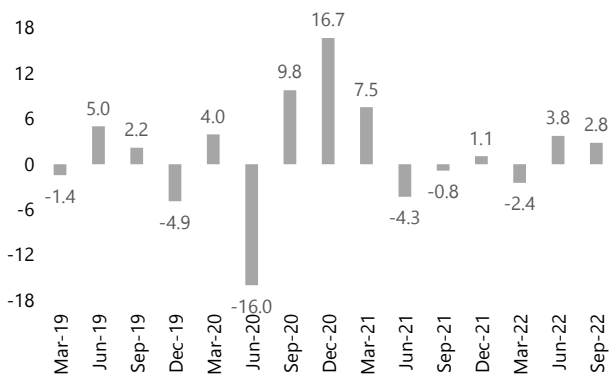
Sources: IBGE, Santander.

Figure 13 – Government Consumption (QoQ-sa, %)



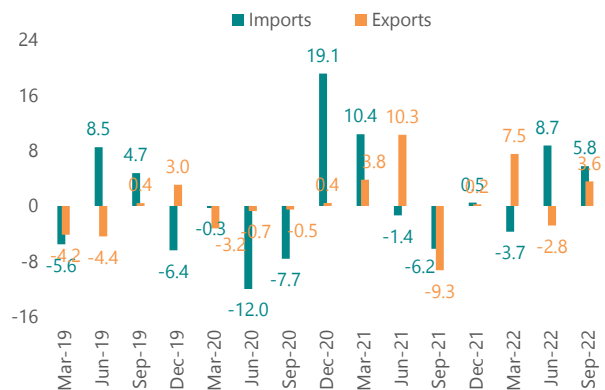
Sources: IBGE, Santander.

Figure 14 – Investments (QoQ-sa, %)



Sources: IBGE, Santander.

Figure 15 – External Sector (QoQ-sa, %)



Sources: IBGE, Santander.



Figure 18 – GDP Quarterly Contributions

	% QoQ-sa							Quarterly Contributions (p.p)						
	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3
GDP	1.1	-0.3	0.4	0.9	1.3	1.0	0.4	1.1	-0.3	0.4	0.9	1.3	1.0	0.4
Supply														
Taxes	2.2	-1.6	0.9	-0.2	0.9	1.2	1.3	0.3	-0.2	0.1	0.0	0.1	0.2	0.2
Farm Output	6.1	-4.8	-5.6	4.7	0.2	0.1	-0.9	0.8	-0.4	-0.3	0.2	0.0	0.0	-0.1
Industry	1.3	-1.5	-0.1	-0.3	0.8	1.7	0.8	0.2	-0.3	0.0	-0.1	0.1	0.3	0.2
Mining	3.7	4.3	-1.4	-1.3	-3.1	1.9	-0.1	0.1	0.2	-0.1	-0.1	-0.1	0.1	0.0
Manufacturing	-0.7	-3.2	-1.2	-1.1	1.1	1.8	0.1	-0.1	-0.3	-0.1	-0.1	0.1	0.2	0.0
Construction	4.7	-0.9	4.6	1.9	2.0	1.5	1.1	0.1	0.0	0.1	0.1	0.1	0.0	0.0
Utilities	3.5	0.7	-0.8	-0.6	10.0	0.8	0.6	0.1	0.0	0.0	0.0	0.3	0.0	0.0
Services	0.9	0.7	1.4	0.9	1.0	1.3	1.1	0.5	0.4	0.8	0.6	0.6	0.7	0.6
Retail	0.6	-1.2	-0.9	-2.2	1.8	2.5	-0.1	0.1	-0.1	-0.1	-0.3	0.2	0.3	0.0
Transports	5.0	0.6	2.3	3.5	2.0	2.4	1.0	0.2	0.0	0.1	0.1	0.1	0.1	0.0
Information	2.6	5.4	1.3	3.5	-4.2	3.9	3.6	0.1	0.2	0.0	0.1	-0.1	0.1	0.1
Financial	0.0	0.1	-1.3	1.1	-0.7	-0.3	1.5	0.0	0.0	-0.1	0.1	0.0	0.0	0.1
Other Services	0.7	1.6	5.4	2.1	3.0	3.0	1.4	0.1	0.2	0.7	0.3	0.4	0.4	0.2
Rents	0.2	0.5	0.3	0.9	-0.1	0.8	1.4	0.0	0.0	0.0	0.1	0.0	0.1	0.1
Public Services	-0.5	1.1	1.1	1.2	0.2	-1.0	1.1	-0.1	0.2	0.1	0.2	0.0	-0.1	0.1
Demand														
Consumption	0.4	-0.9	2.0	0.5	0.9	2.1	1.0	0.2	-0.5	1.2	0.3	0.6	1.3	0.6
Government	0.3	1.8	1.4	0.8	-0.3	-0.9	1.3	0.1	0.3	0.3	0.2	-0.1	-0.2	0.2
Investments	7.5	-4.3	-0.8	1.1	-2.4	3.8	2.8	1.4	-0.8	-0.2	0.2	-0.4	0.7	0.6
Exports	3.8	10.3	-9.3	0.2	7.5	-2.8	3.6	0.6	2.3	-1.9	0.0	1.4	-0.6	0.8
Imports	10.4	-1.4	-6.2	0.5	-3.7	8.7	5.8	-1.9	0.2	1.1	-0.1	0.7	-1.6	-1.2
MEMO (Contribution)														
Inventories (proxy)	-	-	-	-	-	-	-	0.6	-1.8	-0.1	0.2	-0.9	1.4	-0.6
Domestic	-	-	-	-	-	-	-	1.7	-1.0	1.3	0.7	0.1	1.8	1.4
External	-	-	-	-	-	-	-	-1.3	2.5	-0.8	-0.1	2.1	-2.2	-0.4

Sources: IBGE, Santander.

Figure 19 – GDP Yearly Contributions

	% YoY							Yearly Contributions (p.p)						
	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3
GDP	1.7	12.4	4.4	2.1	2.4	3.7	3.6	1.7	12.4	4.4	2.1	2.4	3.7	3.6
Supply														
Taxes	2.8	16.4	6.1	1.3	0.5	2.1	3.3	0.4	2.2	0.9	0.2	0.1	0.3	0.4
Farm Output	7.0	0.0	-7.9	-0.3	-5.2	-0.9	3.2	0.9	0.0	-0.4	0.0	-0.5	-0.1	0.2
Industry	3.9	16.5	1.2	-0.6	-1.2	2.1	2.8	0.7	3.4	0.3	-0.1	-0.2	0.4	0.6
Mining	-2.4	6.2	2.8	5.0	-2.0	-3.7	-2.6	-0.1	0.3	0.2	0.2	-0.1	-0.2	-0.1
Manufacturing	5.3	24.9	-1.1	-6.1	-4.7	0.5	1.7	0.5	2.6	-0.1	-0.6	-0.5	0.1	0.2
Construction	5.2	14.3	10.3	10.5	7.8	10.3	6.6	0.2	0.4	0.3	0.3	0.2	0.3	0.2
Utilities	2.3	1.7	-2.6	2.6	9.1	9.5	11.2	0.1	0.0	-0.1	0.1	0.2	0.2	0.2
Services	-0.2	11.3	6.3	4.1	4.1	4.7	4.5	-0.1	6.4	3.6	2.5	2.4	2.7	2.6
Retail	4.9	20.0	2.1	-3.9	-2.5	1.4	2.0	0.5	2.4	0.3	-0.5	-0.3	0.2	0.3
Transports	0.1	26.9	15.5	11.8	8.9	10.9	8.8	0.0	0.9	0.5	0.4	0.2	0.3	0.2
Information	5.8	16.0	15.1	13.5	5.7	4.32	6.9	0.2	0.5	0.4	0.4	0.2	0.1	0.2
Financial	3.7	-1.2	-2.4	0.2	-0.9	-1.6	1.7	0.2	-0.1	-0.1	0.0	-0.1	-0.1	0.1
Other Services	-4.5	17.7	14.5	10.3	12.5	14.1	9.8	-0.6	2.3	1.9	1.4	1.6	1.8	1.3
Rents	2.2	2.3	1.8	2.0	1.7	1.9	3.2	0.2	0.2	0.1	0.2	0.1	0.1	0.2
Public Services	-3.8	6.3	4.0	3.1	3.6	1.4	1.5	-0.5	0.9	0.5	0.5	0.5	0.2	0.2
Demand														
Consumption	-1.3	10.2	4.7	2.0	2.5	5.7	4.6	-0.8	6.0	2.9	1.3	1.6	3.5	2.9
Government	-2.9	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
Investments	15.7	32.1	18.9	3.2	-6.4	1.5	5.0	3.0	5.9	3.7	0.6	-1.2	0.3	1.0
Exports	1.0	14.4	4.1	3.3	8.7	-4.6	8.1	0.2	3.2	0.8	0.6	1.7	-1.0	1.7
Imports	6.9	20.1	20.9	3.0	-10.6	-1.0	10.6	-1.3	-3.5	-3.8	-0.6	2.0	0.2	-2.2
MEMO (Contribution)														
Inventories (proxy)	-	-	-	-	-	-	-	1.1	-0.4	-0.1	-0.7	-2.2	0.5	0.0
Domestic	-	-	-	-	-	-	-	1.8	13.2	7.5	2.8	1.0	4.0	4.1
External	-	-	-	-	-	-	-	-1.1	-0.4	-3.0	0.0	3.6	-0.8	-0.5

Sources: IBGE, Santander.



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