

## POSITIVE EXPECTATIONS FOR GDP GROWTH IN 1Q22

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- **The widespread healthy activity figures seen in the first quarter topped our already optimistic expectations, prompting us to revise our 1Q22 GDP Growth projection to +0.9% QoQ-sa (from +0.5% in the previous scenario update).** This figure not only reinforces our view of resilient economic growth in 2022 but also implies significant upside risks to our 0.7% forecast for GDP growth this year.
- **For the supply-side, we forecast widespread growth in key sectors, something not seen since 1Q21.** We expect the services sector to continue its rebound (+0.7% QoQ-sa), owing mainly to the economy's reopening process consolidation (though the upsurge in COVID cases due to the Omicron variant delayed this process). We also see the industrial sector contributing positively (+0.9% QoQ-sa) following persistent weakening since 2Q21. Moreover, we (still) expect farm output to expand (+0.6% QoQ-sa) at the margin.
- **On the demand side, we see a continued strengthening of domestic demand, with the external sector lending a hand.** Household consumption has been inching up again (+0.8% QoQ-sa), reinforced by government spending (+0.5%). Investments are also regaining strength (+1.0% QoQ-sa), while the external sector is expected to contribute positively, with growth in exports (+6.4% QoQ-sa) more than offsetting increased imports (+1.0% QoQ-sa).
- **If our projection is met, this result would imply a 1.2% carryover to 2022 and would place the economy 1.4% above the pre-pandemic mark (4Q19).** Regarding the 2Q22 outlook, the positive carryover led by March's data, along with our proprietary indicators for the tertiary sector (IGet family) and economic confidence data, point to a likely positive figure this quarter. And if accurate, these projections imply that the risks of economic contraction in full-year 2022 would likely vanish, but we caution that the delayed effects of a tight monetary policy could start to hit the economy in 2H22.
- **Currently, our official forecast for 2022 stands at +0.7%, with risks clearly tilted to the upside.** Regarding 2023, we forecast a 0.3% retreat of real activity, with risks tilted to the downside.



Figure 1 – GDP Projections Breakdown\*

	4Q21		1Q22e		Roll 4Q	4Q19*	Carry **	
	Weights	% YoY	% QoQ	% YoY	% QoQ	%	%	%
<b>GDP</b>	<b>100%</b>	<b>1.7</b>	<b>0.5</b>	<b>1.6</b>	<b>0.9</b>	<b>4.7</b>	<b>1.4</b>	<b>1.2</b>
<b>Supply</b>								
Taxes	14.9%	2.2	0.4	2.0	1.1	6.3	3.1	1.4
<b>Farm Output</b>	<b>6.9%</b>	<b>-0.8</b>	<b>5.8</b>	<b>-5.6</b>	<b>0.6</b>	<b>-4.0</b>	<b>1.7</b>	<b>0.2</b>
<b>Industry</b>	<b>18.9%</b>	<b>-1.3</b>	<b>-1.2</b>	<b>-0.3</b>	<b>0.9</b>	<b>3.6</b>	<b>0.6</b>	<b>-0.3</b>
Mining	25.0%	4.5	-2.4	3.0	0.7	4.5	-1.0	0.7
Manufacturing	51.2%	-6.9	-2.5	-5.2	1.0	1.8	-1.8	-2.3
Construction	11.7%	12.2	1.5	12.0	2.8	12.1	11.4	6.7
Utilities	12.2%	0.7	-0.2	1.8	0.4	-0.2	-1.1	-0.3
<b>Services</b>	<b>59.4%</b>	<b>3.3</b>	<b>0.5</b>	<b>3.0</b>	<b>0.7</b>	<b>5.6</b>	<b>1.9</b>	<b>1.8</b>
Retail	21.9%	-2.9	-2.0	-1.5	1.6	4.0	1.4	-0.6
Transports	5.5%	9.3	2.6	10.5	2.8	14.0	8.5	6.2
Information	4.9%	13.8	3.4	7.0	-3.3	12.7	13.9	1.6
Financial	8.7%	-0.4	0.0	-0.3	0.0	-0.5	3.7	-0.1
Other Services	21.7%	9.7	2.1	10.0	0.7	12.3	-0.7	5.0
Rents	13.6%	0.2	-0.4	-1.0	-0.4	1.0	3.6	-0.7
Public Services	23.6%	2.0	1.0	1.5	0.3	2.9	-1.4	1.5
<b>Demand</b>								
<b>Consumption</b>	<b>61.0%</b>	<b>2.1</b>	<b>0.7</b>	<b>2.4</b>	<b>0.8</b>	<b>4.6</b>	<b>-0.5</b>	<b>1.8</b>
<b>Government</b>	<b>19.1%</b>	<b>2.8</b>	<b>0.8</b>	<b>4.2</b>	<b>0.5</b>	<b>4.0</b>	<b>-0.2</b>	<b>1.9</b>
<b>Investments</b>	<b>19.2%</b>	<b>3.4</b>	<b>0.4</b>	<b>-1.0</b>	<b>1.0</b>	<b>11.9</b>	<b>18.1</b>	<b>0.0</b>
<b>Exports</b>	<b>20.1%</b>	<b>3.3</b>	<b>-2.4</b>	<b>10.0</b>	<b>6.4</b>	<b>7.9</b>	<b>5.3</b>	<b>2.3</b>
<b>Imports</b>	<b>-19.1%</b>	<b>3.7</b>	<b>0.5</b>	<b>-1.8</b>	<b>1.0</b>	<b>9.6</b>	<b>1.1</b>	<b>-1.5</b>

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

**Activity indexes releases topped expectations and marked a stronger-than-anticipated 1Q22.** March's IBGE's releases capped a first quarter that was stronger than expected (even for our already optimistic expectations) for both goods (e.g., industry and retail sales) and services-related sectors, prompting market analysts to both revise their short-term and annual forecasts. Indeed, FOCUS's professional survey marked consensus for 2022 GDP growth at +0.25% in January, with some forecasts pointing to null-growth and a contraction this year; conversely, we had been supporting a resilient forecast of 0.7% GDP growth since last year<sup>1</sup>. All in all, we are revising upward our 1Q22 GDP growth projection to +0.9% QoQ-sa<sup>2</sup> (from +0.5% in the previous scenario update, not only reinforcing our view of resilient economic growth but also implying significant upside risks to our 0.7% forecast for GDP growth this year.

**On the supply side, we foresee a widespread growth among key sectors.** First of all, we still see farm output expanding (+0.6% QoQ-sa), owing to positive figures for livestock and the remaining effects from the recovery seen after 3Q21's grain crop destruction (despite the weak soybean output). Regarding the industrial sector, we should see a positive contribution (+0.9% QoQ-sa) after the continued weakening seen since 2Q21. Our number considers widespread growth among industrial activities, with manufacturing (+1.0% QoQ-sa) and construction (+2.8% QoQ-sa) as the highlights, and with mining partially bouncing back (+0.7% QoQ-sa) from the previous drop. It is worth noting that the construction sector has become surprising positively since 2H21, and we expect it to be an important driver of industry throughout the year. Last but not least, we expect a continued rebound of the services sector (+0.7% QoQ-sa), owing mainly to advances in the economy's reopening consolidation process (

<sup>1</sup> Santander Brazil Economic Activity - "Special Report: Resilience Factors for 2022 GDP Growth" – January 14, 2022 - Available on: <https://bit.ly/Std-special-011422>

<sup>2</sup> Our GDP preview is slightly above our GDP Nowcasting, owing mainly from slight usual differences between top-down and bottom-up approaches, but also from the delay in March's data for IBC-Br (BCB's monthly GDP proxy). Details regarding our GDP Nowcasting methodology can be found on: <https://bit.ly/Std-special-051622>



though the upsurge in COVID cases due to the Omicron variant delayed this process). In the breakdown, transports should continue to strengthen (+2.8% QoQ-sa); at the same, we expect the retail segment to expand (+1.6% QoQ-sa), breaking a gloomy streak of three declines in a row. The strong impact of the Omicron variant outbreak on services to families and the employed population in January led us to forecast tepid figures for other services (+0.7% QoQ-sa) and public services (+0.3% QoQ-sa). Conversely, we expect information services to shrink (-3.3% QoQ-sa), breaking a string of six gains in a row. If our projections are met, these results would place industrial output and services 0.6% and 1.9% above the pre-pandemic mark, also implying carryovers of -0.3% and +1.8% for 2022, respectively.

**On the demand side, we see a continued strengthening of domestic demand, with the external sector lending a hand.** We expect household consumption to inch up again (+0.8% QoQ-sa), marking a streak of three healthy gains, though now stemming mainly from goods consumption, since services provided to families strongly decelerated in 1Q22. In our view, consumption's expansion reflects the spending of savings accumulated during the pandemic, along with government transfers stipends. Moreover, investments are strengthening again (+1.0% QoQ-sa), owing to increasing domestic absorption of capital goods and to the expansion in the construction sector. Government spending should increase again (+0.5%), in our view, as public administration services provision normalizes (notably health and education services). Regarding the external sector, we expect a positive contribution, with growth in exports (+6.4% QoQ-sa) more than offsetting increased imports (+1.0% QoQ-sa). If our projections are met, these results would place household consumptions 0.5% below the pre-pandemic mark, concomitant with government spending remaining 0.2% below it. In contrast, investment would remain 18.1% above its benchmark.

**If our projection proves accurate, this result would imply a 1.2% carryover to 2022 and would place the economy 1.4% above the pre-pandemic mark (4Q19).** Regarding the 2Q22 outlook, the positive carryover led by March's data (retail sales: +1.2%, industry: +0.4%; services: +1.3%), along with our proprietary indicators for the tertiary sector (IGet family) and economic confidence data, point to a likely positive figure this quarter. And if accurate, these projections imply that the risks of economic contraction in full-year 2022 would likely vanish, but we caution that the delayed effects of a tight monetary policy could start to hit the economy in 2H22. Currently, our official forecast for 2022 stands at +0.7%, but with risks clearly tilted to the upside, while for 2023, we forecast a 0.3% retreat for real activity, with risks tilted to the downside. **For details on Santander's activity outlook, please refer to our last chartbook<sup>3</sup>.**

<sup>3</sup> Santander Brazil Economic Activity: "Resilience in 2022, but with Concerns Regarding 2023" – April 19, 2022 – Available on: <https://bit.ly/Std-chart-Econact-apr22>



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