Santander
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BRAZIL MACRO

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GDP PREVIEW

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A NEW STRONG GDP FIGURE EXPECTED FOR 2Q22

- **The strong carryover led by March's results, along with healthy prints throughout 2Q22, prompted us to revise our 2Q22 GDP growth to +1.1% QoQ-sa (from +0.7% in our previous scenario update).** This new forecast marks new, strong sequential GDP expectations, confirming a healthy 1H22 outcome and implying significant upside risks to our full-year 2022 GDP forecast of 1.9%.
- **For the supply side**, **we forecast widespread growth in key sectors, something not seen since 1Q21.** We forecast continued strengthening in the services sector (+1.2% QoQ-sa), in the wake of the economy's reopening process consolidation. We also expect the industrial sector to contribute positively (+0.5% QoQ-sa), marking the second gain in a row after the persistent weakening seen since 2Q21. Moreover, we expect farm output to rebound (+2.8% QoQ-sa) from the previous drop.
- **On the demand side, we forecast continued strengthening of domestic demand.** Household consumption should expand (+0.8% QoQ-sa) again, according to our projections, delivering a healthy streak of four consecutive gains, reinforced by government spending (+0.3% QoQ0sa). We expect investments (high volatile segment) to expand at the margin (+2.7% QoQ-sa), partially rebounding from the previous steep decline. Conversely, the external sector should drag down overall activity, per our estimates, as exports decline (-2.7% QoQ-sa) in tandem with increased imports (+5.1% QoQ-sa).
- **If our projection is met, this result would imply a 2.3% carryover to 2022 and would place the economy 2.7% above the pre-pandemic mark (we set at 4Q19).** We expect domestic activity to sour in 2H22 once the effects of a tighter monetary policy start to kick in. In the short term, the tepid carryover led by 2Q22's results, along with weakening indicators in our proprietary IGet family for July and August, corroborates a deceleration.
- **Currently, our 2022 forecast stands at +1.9%, with risks clearly tilted to the upside.** Regarding 2023, we forecast a 0.6% retreat in real activity.

Figure 1 – GDP Projections Breakdown*

		1Q22		2Q22e		Roll 4Q	4Q19*	Carry **
	Weights	% YoY	% QoQ	% YoY	% QoQ	%	%	%
GDP	100%	1.7	1.0	3.1	1.1	4.7	2.7	2.3
Supply								
Taxes	15%	0.5	0.1	2.4	1.2	5.9	3.3	1.2
Farm Output	**7%**	**-8.0**	**-0.9**	**1.5**	**2.8**	**-4.8**	**2.6**	**0.0**
Industry	**19%**	**-1.5**	**0.1**	**-0.2**	**0.5**	**3.3**	**0.3**	**-0.7**
Mining	25%	-2.4	-3.4	-6.6	0.1	3.2	-5.1	-4.5
Manufacturing	51%	-4.7	1.4	0.4	1.7	2.0	0.4	-0.3
Construction	12%	9.0	0.8	7.0	0.8	11.3	10.0	5.0
Utilities	12%	7.6	6.6	3.5	-2.4	1.3	2.9	4.8
Services	**59%**	**3.7**	**1.0**	**4.5**	**1.2**	**5.8**	**3.5**	**3.2**
Retail	22%	-1.5	1.6	1.5	1.8	4.0	3.4	0.8
Transports	5%	9.4	2.1	8.0	0.7	13.7	8.9	6.4
Information	5%	5.5	-5.3	3.0	1.6	12.3	13.5	1.2
Financial	9%	-1.6	-0.7	-1.0	0.0	-0.9	2.8	-1.0
Other Services	22%	12.6	2.2	12.7	2.3	12.9	3.1	8.9
Rents	14%	0.3	0.7	0.2	0.2	1.3	5.0	0.5
Public Services	24%	2.9	0.6	3.8	1.2	3.3	0.0	2.8
Demand								
Consumption	**61%**	**2.2**	**0.7**	**3.0**	**0.8**	**4.6**	**0.1**	**2.2**
Government	**19%**	**3.3**	**0.1**	**2.3**	**0.3**	**3.8**	**-0.3**	**1.8**
Investments	**19%**	**-7.2**	**-3.5**	**-1.5**	**2.7**	**10.1**	**15.8**	**-2.6**
Exports	**20%**	**8.1**	**5.0**	**-5.0**	**-2.7**	**7.4**	**2.7**	**1.2**
Imports	**-19%**	**-11.0**	**-4.6**	**-4.0**	**5.1**	**7.0**	**0.0**	**-4.2**

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

Activity releases point to a new strong GDP figure in 2Q22. The strong carryover led by March's results, along with the healthy prints throughout 2Q22, prompted us to revise our 2Q22 GDP growth to +1.1% QoQ-sa (from +0.7% in the previous scenario update). These figures corroborate a strong performance of domestic activity in 1H22, owing mainly to the consolidation of the reopening process, the labor market's stronger-than-expected recovery and increased disposable income (also reflecting anticipated government benefits and stipends). We see significant upside risks to our 1.9% forecast for GDP growth this year.

On the supply side, we forecast widespread growth among key sectors. We expect continued strengthening in the services sector (+1.2% QoQ-sa), in the wake of the economy's reopening process consolidation. In the breakdown, we expect widespread growth, with other services (+2.2% QoQ-sa), retail (+1.8% QoQ-sa) and public services (+1.2% QoQ-sa) as the highlights, reinforced by positive contributions from the rebound of information services (+1.6% QoQ-sa) and the normalization of public services provision (+1.2% QoQ-sa). Regarding the industrial sector, we should see a positive contribution (+0.5% QoQ-sa) after continued weakening since 2Q21. Our number considers continued growth of manufacturing (+1.7% QoQ-sa) and construction (+0.8%), in contrast with the virtual stability expected for mining (+0.1% QoQ-sa) and the partial bounce back of utilities (-2.4% QoQ-sa). Last but not least, we expect farm output to rebound, climbing 2.8% QoQ-sa. In comparison with the pre-pandemic benchmark, all supply sectors would surpass this mark if our estimates prove accurate: the services sectors would rise 3.5%, while industry would surpass the mark by 0.3%.

On the demand side, we anticipate continued strengthening of domestic demand. We expect household consumption to expand again (+0.8% QoQ-sa), marking a healthy streak of four consecutive gains since 2Q21. Both goods and services consumption were boosted in the period, on the heels of the economy's reopening consolidation, a labor market recovery and increasing disposable income. Government spending should contribute positively (0.3% QoQ-sa), as public services normalize. We expect to see investments (high volatile segment) climbing at the margin (+2.7% QoQ-sa), partially rebounding from the previous steep decline. In our view, this QoQ figure should reflect increases in both capital goods absorption and in the construction sector. Conversely, the external sector should drag down overall activity, as exports declines (-2.7% QoQ-sa) at the same time that imports increase (+5.1% QoQ-sa). In comparison with the pre-pandemic benchmark, investments would remain almost 16% above the pre-pandemic benchmark, according to our projections, while household consumption would finally fill its gap to. Conversely, government spending would remain 0.3% below its benchmark.

If our projection proves accurate, this result would imply a 2.3% carryover to 2022 and would place the economy 2.7% above the pre-pandemic benchmark (4Q19). We expect domestic activity to sour in 2H22, once the effects of a tighter monetary policy start to kick in, mainly in 4Q22. In the short term, the tepid carryover led by 2Q22's results, along with the weakening indicators in our proprietary IGet family for July and August, corroborates our view of deceleration. Currently, our forecast for 2022 stands at +1.9%, with risks clearly tilted to the upside. Regarding 2023, we forecast a 0.6% retreat of real activity, with risks tilted to the upside. **For details on Santander's economic activity outlook, please refer to our last reports**[1]**.**

[1] **Santander Brazil Special Report: "*A Model to Forecast Probability of Recession in Brazil*"** – June 08, 2022 – Available on: https://bit.ly/Std-special-060822
Santander Brazil Special Report: "*Resilience Factors for GDP Growth: What Has Changed Since January*" – June 30, 2022 – Available on: https://bit.ly/Std-special-GDP-062922
Santander Brazil Economic Activity: "*Chartbook: Further improvements in 2022, as 2023 remains challenging*" – July 20, 2022 – Available on: https://bit.ly/Std-chart-econact-jul22
Santander Brazil Special Report: "*Tightest Financial Conditions since 2009*" – August 11, 2022 – Available on: https://bit.ly/Std-special-081122

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