

STRONGER GDP GROWTH EXPECTED FOR 3Q22

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- **Positive surprises in the services sector and a healthy grain harvest throughout 3Q22 have prompted us to revise our 3Q22 GDP growth projection to +0.9% QoQ-sa (from +0.6% in our previous scenario update).** This new forecast highlights a (new) stronger GDP expectation, marking a sturdy streak of four consecutive gains.
- **For the supply side, we forecast widespread growth in key sectors for the second quarter in a row.** We forecast continued strengthening of the services sector (+0.8% QoQ-sa), the ninth gain in a row, while for the industrial sector we forecast a slight growth (+0.3% QoQ-sa) but highlight a clear deceleration over the strong 1H22 performance. Lastly, we expect a positive contribution from farm output (+2.5% QoQ-sa).
- **On the demand side, we continue to forecast the strengthening of domestic demand.** We expect household consumption to expand (+0.5% QoQ-sa) again, delivering a healthy streak of five consecutive gains, reinforced by government spending (+0.9% QoQ-sa). We also expect investments to mark a new positive print (+1.7% QoQ-sa). Conversely, we expect the external sector to record a slight negative contribution to overall activity, per our estimates, as exports expansion (+2.6% QoQ-sa) should be insufficient to offset the strong growth in imports (+3.4% QoQ-sa), in our view.
- **If our projection is met, the result would imply a 3.1% carryover to 2022 and would place the economy 4.0% above the pre-pandemic mark (we have set the mark at 4Q19).** Moreover, GDP would surpass the current all-time high level (1Q14) by 0.6%. Despite the strong headline GDP in 3Q, the effects of a tighter monetary policy started to kick in across the quarter, hitting mainly goods-related sectors (e.g., manufacturing and retail sales). The available coincident indicators for 4Q already point to a continued loss of steam from cyclical activities, and our 4Q22 GDP growth tracking stands at +0% QoQ-sa (+2.9% YoY).
- **The official data will be available next week on Thursday (December 01).** It is worth noting that IBGE usually publishes important revisions in the historical GDP series in its 3Q releases. It is not an easy task to anticipate such movements, so we do not take any specific view about these potential revisions.



Figure 1 – GDP Projections Breakdown*

	2Q22		3Q22e		4Q19*	2022**	2023**	
	Weights	% YoY	% QoQ	% YoY	%	%	%	
GDP	100%	3.2	1.2	4.2	0.9	4.0	3.1	0.8
Supply								
Taxes	15%	1.6	0.7	2.0	0.6	3.5	1.3	0.0
Farm Output	7%	-2.5	0.5	9.5	2.5	2.8	-0.5	1.4
Industry	19%	1.9	2.2	2.0	0.3	2.9	1.4	0.7
Mining	25%	-4.0	2.2	-5.0	-1.8	-4.2	-3.3	-0.4
Manufacturing	51%	0.5	1.7	1.8	0.3	1.1	0.3	0.6
Construction	12%	9.9	2.7	6.0	0.2	12.7	7.1	0.8
Utilities	12%	10.8	3.1	13.0	-0.4	8.6	9.6	0.6
Services	59%	4.5	1.3	4.2	0.8	4.5	3.8	0.7
Retail	22%	1.3	1.7	2.0	0.2	4.1	1.4	0.5
Transports	5%	11.7	3.0	12.7	2.7	14.8	10.2	2.1
Information	5%	4.6	2.9	5.0	2.9	18.4	3.8	2.1
Financial	9%	1.0	1.4	1.5	0.2	4.7	0.5	0.5
Other Services	22%	13.6	3.3	10.6	1.5	6.0	10.9	1.5
Rents	14%	0.5	0.3	0.5	0.1	5.2	0.6	0.1
Public Services	24%	1.1	-0.8	1.2	0.6	-1.6	1.3	0.1
Demand								
Consumption	61%	5.3	2.6	4.5	0.5	2.5	4.0	0.9
Government	19%	0.7	-0.9	1.1	0.9	-0.8	1.1	0.2
Investments	19%	1.5	4.8	3.5	1.7	20.8	0.2	2.0
Exports	20%	-4.8	-2.5	6.3	2.6	6.2	2.9	0.6
Imports	-19%	-1.1	7.6	7.4	3.4	6.7	0.1	3.5

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

Stronger GDP growth expected for 3Q22. The services sector surprised to the upside across the quarter and services provided to firms were in the spotlight, albeit we recognize some spurious growth owned to relevant tax cuts in the period that boosted real revenues in some segments (which we expect to partially bounce back in 4Q). Moreover, a healthy crop of corn and sugarcane after the crop destruction seen last year should boost 3Q22 farm output, in our view.

On the supply side, we forecast widespread growth among key sectors. We forecast continued strengthening of the services sector (+0.8% QoQ-sa), the ninth gain in a row and reaching an all-time high level. In the breakdown, we expect a new strong figure for information services (+2.9% QoQ-sa), strongly benefited by the tax cuts in telecommunication seen across the quarter, as for transportation, which should mark the ninth gain in a row (+2.7% QoQ-sa) owing mainly to transportation services related to farm output. Additionally, our forecasts for retail (+0.2% QoQ-sa) and other services provided to families (+1.5% QoQ-sa) highlight a clear softening over the strong 1H22 performance, likely reflecting the first effects of a tight monetary policy. We also expect a positive contribution from the industrial sector (+0.3% QoQ-sa) but details highlight a significant deceleration in comparison to 1H22. Indeed, following a strong performance in the previous quarter, we expect virtual stability for manufacturing (+0.3% QoQ-sa) and construction (+0.2% QoQ-sa), while for utilities (-0.4% QoQ-sa) and mining (-1.8% QoQ-sa) we already expect sequential weakening. Lastly, we expect farm output to show a solid growth (+2.5% QoQ-sa) amid a healthy crop of corn and sugarcane in the period.

On the demand side, we anticipate continued strengthening of domestic demand. We expect household consumption to expand again (+0.5% QoQ-sa), delivering a healthy streak of five consecutive gains since 2Q21 but now owing mainly to services consumption, while goods consumption showed continued weakening across 3Q. Government spending should contribute positively (0.9% QoQ-sa), rebounding the previous drop as public services normalize. We expect to see investments climbing at the margin (+1.7% QoQ-sa), marking the second gain in a row but now owing mainly to higher capital goods domestic absorption (notably machines and equipment, also related to the agriculture sector). Conversely, we expect the external sector to record a slight negative



contribution to overall activity, per our estimates, as exports expansion (+2.6% QoQ-sa) should be not enough to offset the strong growth in imports (+3.4% QoQ-sa).

If our projection is met, it would imply a 3.1% carryover to 2022 and would place the economy 4.0% above the pre-pandemic benchmark (4Q19). Moreover, GDP would surpass the current all-time high level (1Q14) by 0.6%. Despite the strong headline GDP in 3Q, the effects of a tighter monetary policy started to kick in across the quarter, hitting mainly goods-related sectors like manufacturing and retail sales. Additionally, farm output (a non-cyclical sector with spillovers through the agro-industrial chain and income) and information services (benefited through tax cuts) cushioned these cyclical effects, but these elements will not repeat in 4Q. Indeed, available coincident indicators for 4Q (IGet family¹, vehicles production, heavy vehicles toll flow, etc.,) point to a continued loss of steam from cyclical activities, and our 4Q22 GDP growth tracking stands at +0% QoQ-sa (+2.9% YoY).

For details on Santander's economic activity outlook, please refer to our last reports².

¹ **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>

² **Santander Brazil Economic Activity: “Chartbook: A Better Outlook for 2023”** – October 21, 2022 – Available on: <https://bit.ly/Std-chart-econact-oct22>

Santander Brazil Economic Activity: “Financial Conditions Continue to Worse in October” – October 19, 2022 – Available on: <https://bit.ly/Std-FCI-oct22>



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