

**ALL IN ALL, SOLID 4Q21 GDP GROWTH EXPECTED**

**Lucas Maynard\***  
lucas.maynard.da.silva@santander.com.br  
+5511 3553 7495

- **We expect solid 4Q21 GDP growth (+0.4% QoQ-sa).** December's release of IBC-Br capped a 4Q21 that was stronger than anticipated, mainly owing to the continued recovery of mobility-related services activities and to a farm rebound (after 3Q21's steep plummet). Following a weak start to 4Q21, after October's tepid figures, the positive surprises seen in the remaining months prompted us to raise our projection to +0.4% (from +0.2%) since our last scenario update.
- **On the supply side, we expect a continued rebound of the services sector (+0.7% QoQ-sa), as the health crisis subsides and mobility returns to "normal".** Moreover, following 3Q21's sharp tumble, we expect farm output to rebound (+5.7% QoQ-sa) as the grain crop is harvested regularly and cattle slaughter begins to normalize following 3Q21's disruptions in meat imports from China. In contrast, industry should continue to weigh on activity (-1.4% QoQ-sa), reflecting the continued weakening of manufacturing, reinforced by weak mining figures (-1.7% QoQ-sa). In annual terms, we expect industry and services to end 2021 with 4.4% and 4.8% growth, respectively, while we foresee farm output printing virtual stability (-0.2%).
- **On the demand side, we expect decelerating growth in household consumption (+0.3% QoQ-sa).** Even considering the ambiguity between services and goods spending, and the high inflation environment, the continued strengthening in the services to families segment should boost private consumption in the period. Moreover, we expect government spending to expand (+0.7% QoQ-sa) as the public services provision normalizes (notably health and education services). Conversely, investments should retreat at the margin (-1.3% QoQ-sa). Regarding the external sector, we expect a negative contribution, with exports lowering (-2.6% QoQ-sa) and more than offsetting the virtual stability expected for imports (-0.1% QoQ-sa). In annual terms, we see private and government consumption expanding 3.4% and 1.9%, respectively, while we see investments climbing 16.1%. Exports and imports should expand 5.6% and 12.1% in 2021, respectively.
- **If our projection is met, this result would be consistent with 4.6% growth in 2021.** Moreover, it would place the economy 0.3% above the pre-pandemic mark (4Q19) and imply a 0.1% carryover to 2022. For 2022, we forecast 0.7% GDP growth, mainly supported by the mechanical contribution from the services reopening and the strength of less cyclical commodity-related sectors.



Figure 1 – GDP Projections Breakdown\*

	3Q21		4Q21e		2021e	2020	4Q19*
	% YoY	% QoQ	% YoY	% QoQ	%	%	%
<b>GDP</b>	<b>4.0</b>	<b>-0.1</b>	<b>1.4</b>	<b>0.4</b>	<b>4.6</b>	<b>-3.9</b>	<b>0.3</b>
<b>Supply</b>							
Farm Output	-9.0	-8.0	-1.0	5.7	-0.2	3.8	0.2
Industry	1.3	0.0	-1.5	-1.4	4.4	-3.4	-0.3
Mining	3.5	-0.4	5.5	-1.7	3.3	1.3	-0.7
Manufacturing	-0.7	-1.0	-6.0	-1.9	4.8	-4.4	-1.4
Construction	10.9	3.9	10.0	0.0	9.1	-6.3	6.5
Utilities	-4.6	-1.1	1.6	0.3	0.1	-0.3	-0.4
Services	5.8	1.1	3.6	0.7	4.8	-4.3	0.6
<b>Demand</b>							
Consumption	4.2	0.9	1.5	0.3	3.4	-5.4	-1.8
Government	3.5	0.8	2.5	0.7	1.9	-4.5	-1.5
Investments	18.8	-0.1	-0.5	-1.3	16.1	-0.5	16.5
Exports	4.0	-9.8	2.9	-2.6	5.6	-1.8	-1.3
Imports	20.6	-8.3	2.7	-0.1	12.1	-9.8	-2.8

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

**Activity indexes releases highlighted a stronger-than-anticipated 4Q21.** December's release of IBC-Br<sup>1</sup> capped a 4Q21 that was stronger than expected, mainly owing to the continued recovery of mobility-related services activities (including those activities not well captured by timely indexes, like health and education services) and to a farm rebound (after the sharp plummet seen in 3Q21). Following a weak start of 4Q, after October's tepid figures seen both in goods-related and services activities, the positive surprises released in the remaining months of the quarter prompted us to raise our projection to +0.4% (from +0.2%) since our last scenario update.

**We expect the maintenance in the heterogenic composition of overall GDP seen since 2Q21.** On the supply side, we expect a continued rebound of the services sector (+0.7% QoQ-sa), as the health crisis subsides and mobility returns to "normal". Indeed, we expect mobility-related segments like other services and public services, which accounts for roughly 30% of GDP and considers activities like leisure, restaurants, health and educational services, to be the highlights, repeating the pattern of the previous quarter. This result would place the services sector 0.6% above the pre-pandemic mark. Moreover, following 3Q21's sharp tumble (the consequence of historically bad climate conditions), we expect farm output to rebound (+5.7% QoQ-sa) as the grain crop is harvested regularly and cattle slaughter begins to normalize following 3Q21's disruptions in meat imports from China. On the other hand, industry should continue to weigh on activity (-1.4% QoQ-sa), reflecting the continued weakening of manufacturing reinforced by weak figures in mining (-1.7% QoQ-sa). Moreover, we expect a softening in the recent upward trend for the construction sector (0% QoQ-sa), along with a positive rebound in utilities (+0.3% QoQ-sa), owing mainly to a lower relative use of thermoelectric plants (with lower added value) in the period. This result would place industry 0.3% below the pre-pandemic mark, the first negative print since 4Q20. In annual terms, we expect industry and services to end 2021 with 4.4% and 4.8% growth, respectively, while we foresee farm output printing virtual stability (-0.2%).

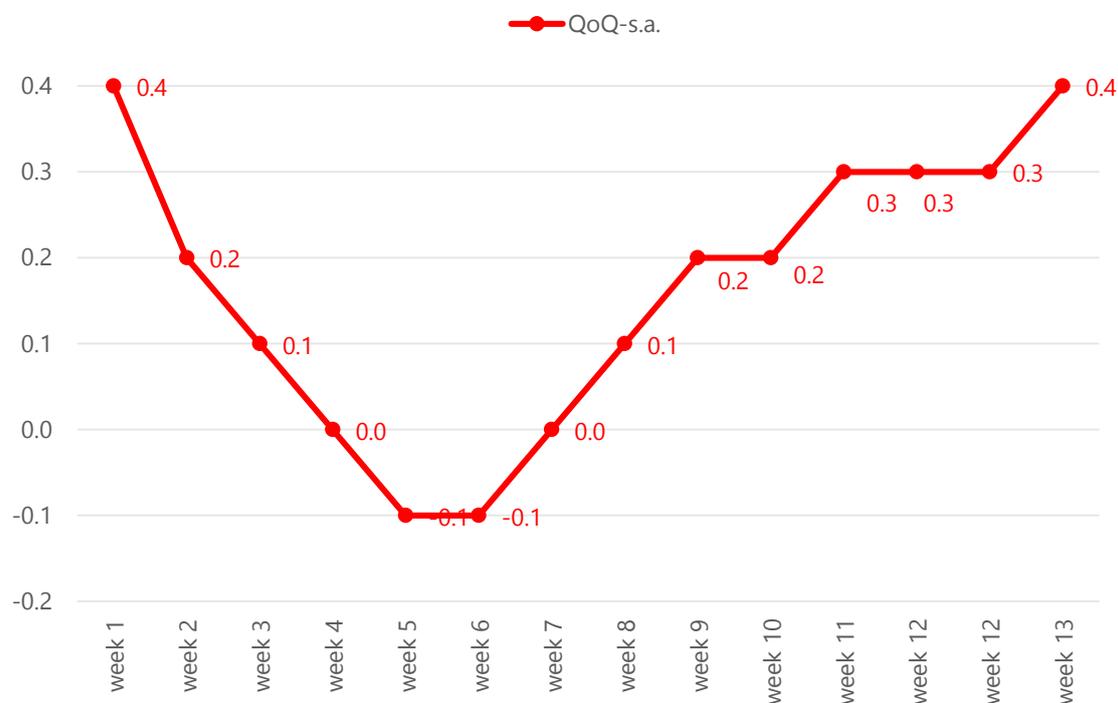
<sup>1</sup> Santander Brazil Economic Activity - "**Broad Activity Continued to Strengthen in December**" – February 11, 2022 - Available on: <https://bit.ly/Std-econact-021122>



**On the demand side, we expect a virtual flattening of domestic demand.** We expect a continued recovery of private consumption (+0.3%), marking the second gain in a row. Even considering the ambiguity between services and goods spending and the high inflation environment, the continued strengthening in the services to families segment should boost private consumption in the period. This result would still place private consumption 1.8% below the pre-pandemic mark. Moreover, we expect government spending to expand (+0.7% QoQ-sa) as public services provision normalizes (notably health and education services), which would be the third gain in a row and would place the segment 1.5% below the pre-pandemic mark. Conversely, investments should retreat at the margin (-1.3% QoQ-sa) for the third month in a row but reaching levels 16.5% above the pre-pandemic mark. Regarding the external sector, we expect a negative contribution, with exports lowering (-2.6% QoQ-sa) more than offsetting the virtual stability expected for imports (-0.1% QoQ-sa). In annual terms, we see private and government consumption expanding 3.4% and 1.9%, respectively, while we see investment climbing 16.1%. Exports and imports should expand 5.6% and 12.1% in 2021, respectively.

**If our projection proves accurate, this result would be consistent with 4.6% growth in 2021.** Moreover, it would place the economy 0.3% above the pre-pandemic mark (4Q19), though with relevant services segments (like other services and public services) still showing idleness relative to 4Q19, which leaves room for further positive contributions to overall GDP as the economy's reopening consolidates. Fourth quarter result would imply a 0.1% carryover to 2022. For 2022, we forecast 0.7% GDP growth, mainly supported by the mechanical contribution from the services reopening, as well as some help from the labor market recovery and the strength in less cyclical commodity-related sectors. These factors are expected to prevail — especially in 1H22 —, but are prone to be outdone by the delayed effects of a tight monetary policy and shaky financial conditions, especially in 2H22. For 2023, we expect the lagged effects of monetary policy to prompt a retreat in real activity: we estimate a 0.2% GDP contraction.

Figure 2 – GDP Tracking Evolution \*



Sources: IBGE, Santander estimates. \* The first print was tracked after the previous GDP release.



## CONTACTS / IMPORTANT DISCLOSURES

### Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

### Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	jcerruti@santander.com.ar	54 11 4341 1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

### Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

### Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684

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