

**SAI CONTRACTS IN JUNE****Gabriel Couto\***  
gabriel.couto@santander.com.br**Raul Rocco\***  
raul.rocco@santander.com.br

- **Santander's monthly activity index (SAI) showed a contraction in June economic activity.** The SAI generated a reading of -0.08 points, below May's positive reading of 0.01 points (revised from -0.09) and the first negative reading since October 2021. After a positive 1Q23 GDP performance, this SAI result reinforces our view that domestic activity has likely returned to a decelerating trend from 2Q23.
- **Zooming in on the details, goods-related sectors remained weak, while agriculture contributed negatively once again.** The industrial reading was negative, at -0.05 points, after a positive figure in May. The retail component printed another negative contribution, at -0.02 points, while cyclical services continued to contribute positively, +0.04 points, but below May's figure (+0.09). The labor market remained close to neutral, +0.01 points. Lastly, the farm output component contributed negatively, -0.06 points, which marked the second negative contribution after the end of its positive influence on the index over the summer as a result of record grain crops.
- **Available data for July point to further negative readings.** Looking at the tertiary sector, FGV's economic confidence data for households, services, and retail remain below the neutral threshold, while our proprietary data (IGet) suggest contractions in both retail sales and in services rendered to families. Looking at industry, both FGV's industrial confidence and PMI manufacturing remain below the neutral threshold.
- **Financial conditions remain highly restrictive, but with some improvement at the margin.** Santander's financial conditions indicator reached 0.64 points in July (down slightly from 0.68 points in June). Excluding oil prices from the analysis, financial conditions reached 0.83 points in July (also down from 0.93 points in June). These figures will continue to pose challenges to cyclical activities this year.
- **In the short term, our 2Q23 GDP growth tracking stands at +0.0% QoQ-sa.** Our 2023 GDP growth forecast stands at +1.9%. We continue to see signs of deceleration for economic activity ahead, as more cyclical segments indicate a slowing trend owing to highly restrictive financial conditions. In addition, we expect the positive impact of the record summer crops to be limited to 1Q23 and the beginning of 2Q23.

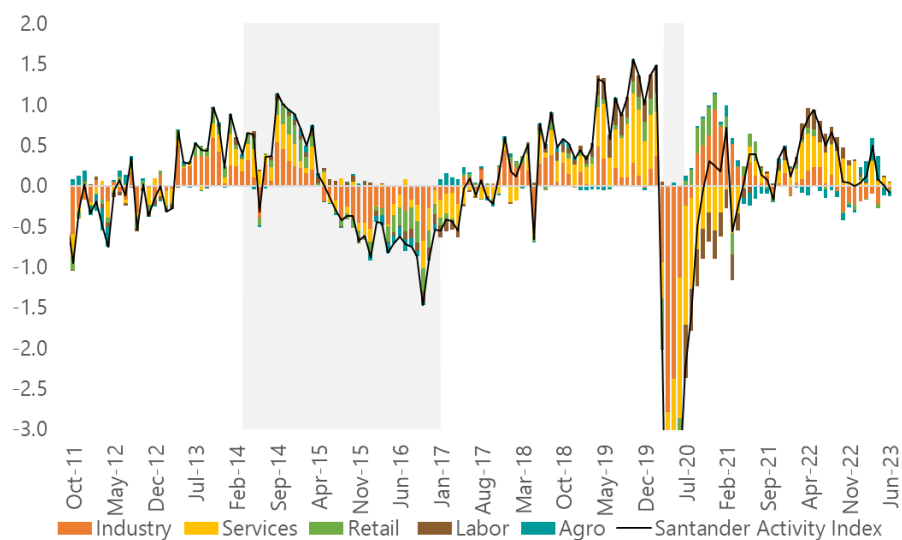


Figure 1 – Santander's Activity Index Breakdown

Santander Activity Index							
	Weights	Headline				Change	
		Apr-23	May-23	Jun-23		May-23	Jun-23
<b>SAI</b>	<b>100%</b>	<b>0.09</b>	<b>0.01</b>	<b>-0.08</b>	↓	<b>-0.08</b>	<b>-0.09</b>
Industry	20%	-0.22	0.02	-0.05	↓	0.24	-0.07
Services	28%	0.06	0.09	0.04	↓	0.02	-0.05
Retail	14%	-0.06	-0.03	-0.02	↑	0.03	0.01
Labor	25%	0.02	0.01	0.01	↓	-0.01	0.00
Farm Output	13%	0.28	-0.08	-0.06	↑	-0.37	0.02
<b>Goods Sector</b>	<b>34%</b>	<b>-0.28</b>	<b>-0.01</b>	<b>-0.07</b>	↓	<b>0.27</b>	<b>-0.06</b>
<b>Services Sector</b>	<b>54%</b>	<b>0.09</b>	<b>0.10</b>	<b>0.05</b>	↓	<b>0.01</b>	<b>-0.05</b>

Sources: Bloomberg, IBGE, Santander.

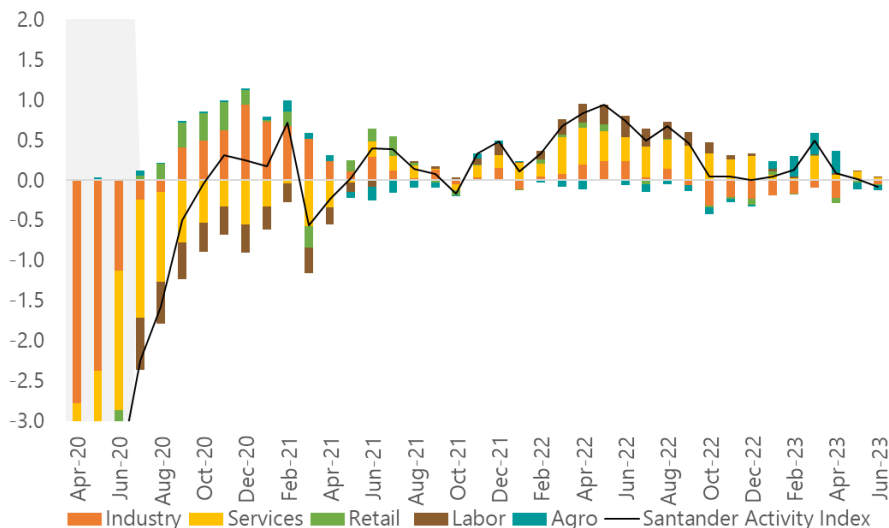
Figure 2 – Santander's Activity Index (from 2011 to 2023)



Sources: IBGE, FGV, Santander.

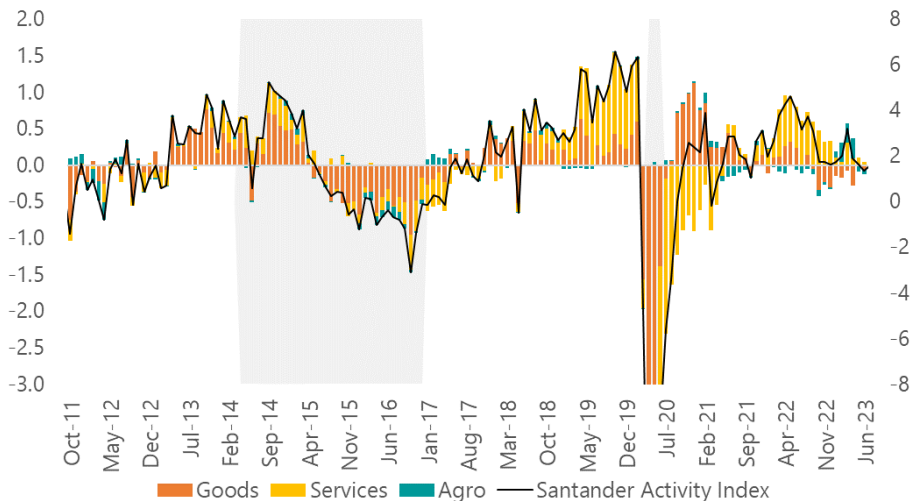


**Figure 3 – Santander's Activity Index (from 2020 to 2023)**



Sources: IBGE, FGV, Santander.

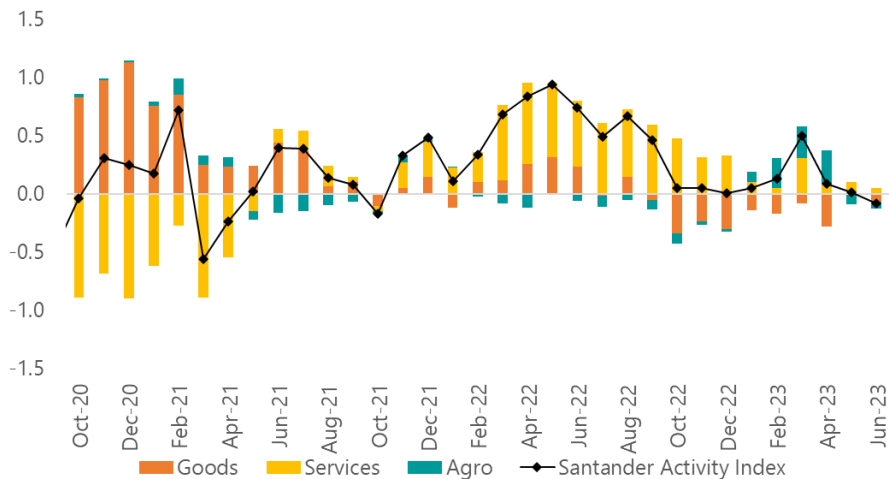
**Figure 4 – Santander's Activity Index Breakdown (from 2011 to 2023)**



Sources: IBGE, FGV, Santander.

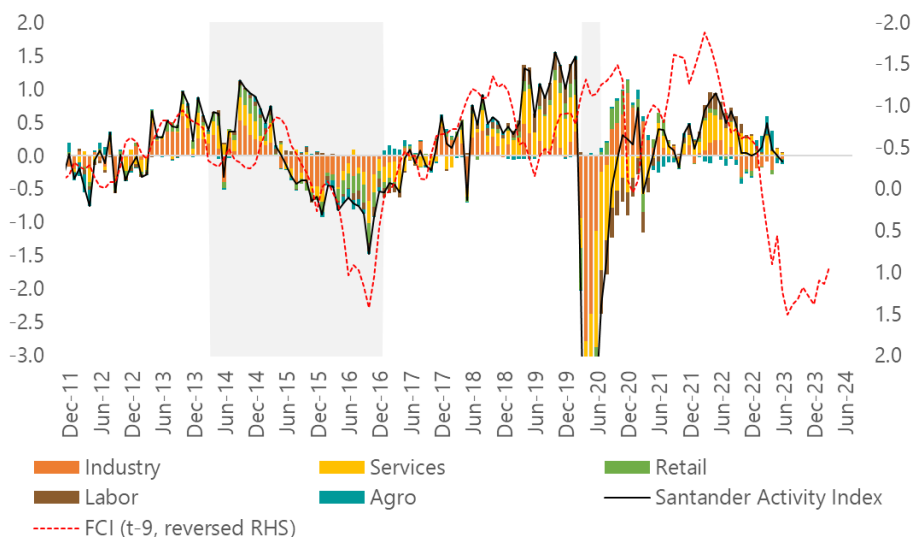


**Figure 5 – Santander's Activity Index Breakdown (from 2020 to 2022)**



Sources: IBGE, FGV, Santander.

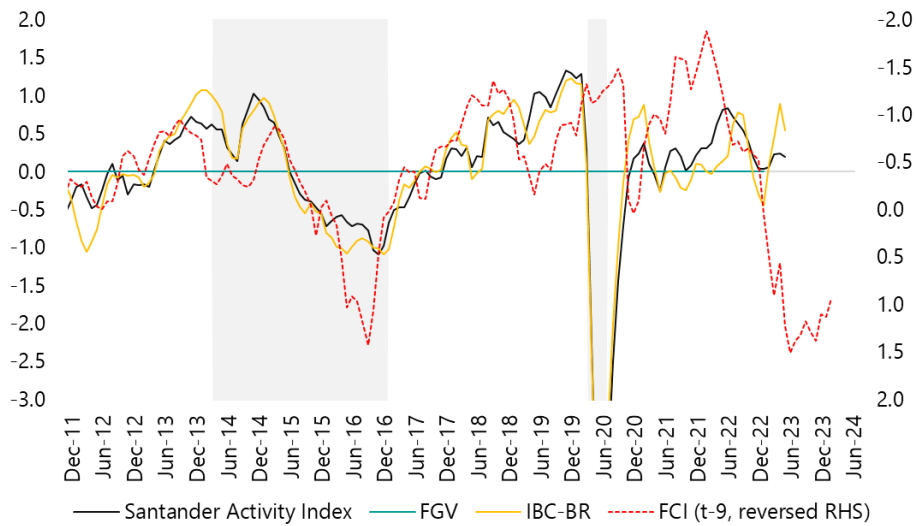
**Figure 6 – Santander's Activity Index vs. Financial Conditions Indicator (from 2011 to 2023)**



Sources: IBGE, FGV, Bloomberg, Santander.



**Figure 7 – SAI vs. IBC-Br and Financial Conditions Indicator (from 2011 to 2023)**



Sources: IBGE, FGV, BCB, Bloomberg, Santander. \*SAI and BCB's IBC-Br are presented in 3-month moving average.



## 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
Adriano Valladao Ribeiro*	Economist – Inflation	adriano.ribeiro@santander.com.br	5511-3553-7495
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Henrique Danyi Correia*	Economist – Credit / Monetary Policy	henrique.danyi@santander.com.br	5511-3553-7350
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
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327
Ana Julia Carvalho*	Economist – Special Projects	ana.carvalho.silva@santander.com.br	5511-3553-8071

### Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Rodrigo Park *	Economist – Argentina	rpark@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
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Aline de Souza Cardoso*	Head, Brazil	aline.souza.cardoso@santander.com.br	5511-3553-1684

### Electronic

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