

SANTANDER ACTIVITY INDEX**AS EXPECTED, ACTIVITY DATA POINT TO A WEAK 4Q22**

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- **Considering December's available data, Santander's monthly activity index (SAI) remains in restrictive territory.** Indeed, the SAI reached -0.07 points, making the three months of October – December 2023 the weakest streak for the index since COVID-19's resurgence between 1Q21 and 2Q21, reinforcing our view that domestic activity entered restrictive territory in the last quarter of 2022.
- **Zooming in on the details, goods-related sectors remain the lowlights, while services show resilience.** The industrial component contributed negatively, -0.21 p.p., marking a weak streak of four consecutive negative figures. The retail component continued to weaken, -0.07 p.p., the third negative print in a row. Conversely, cyclical services continued to contribute positively, +0.20 p.p. at the margin, although we recognize that December's strong result in the services monthly survey was owing mainly to a one-off print in the highly volatile other services segment. The labor market component also contributed positively, +0.03 p.p., but showed a clear deceleration. Lastly, the farm output component gave back its previous result and contributed negatively, -0.02 p.p.
- **January's available data point to mixed signals.** For industry, both FGV's industrial confidence index and manufacturing PMI remain below the neutral threshold, suggesting a continued negative trend for industrial activities. Regarding the tertiary sector, FGV's economic confidence data (for households, services, and retail) remain well below the neutral threshold, but services PMI shows an expansionary trend. Moreover, our proprietary indicators (IGet, hard data) for services and retail climbed during the month.
- **Financial conditions remain seriously restrictive owing to both domestic and external headwinds.** Considering data available through February 22, Santander's financial conditions indicator reached 1.04 points in the month (from 1.01 points in January), and when we exclude oil prices from the analysis, financial conditions (ex oil) reached 1.26 points (from 1.20 points in December). These figures pose continued challenges to cyclical activities this year.
- **In the short term, our 4Q22 GDP growth tracking stands at -0.2% QoQ-sa.** We forecast GDP growth of 2.9% in 2022 and 0.8% in 2023. We project a slowdown in domestic demand and in cyclical supply components, stemming mainly from the expected global recession and the effects of a tight Brazilian Central Bank policy, but we also expect strong growth for non-cyclical farm output, reflecting an all-time high forecast for the grain harvest.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

U.S. investors' inquiries should be directed to Santander Investment at (212) 350-0707.

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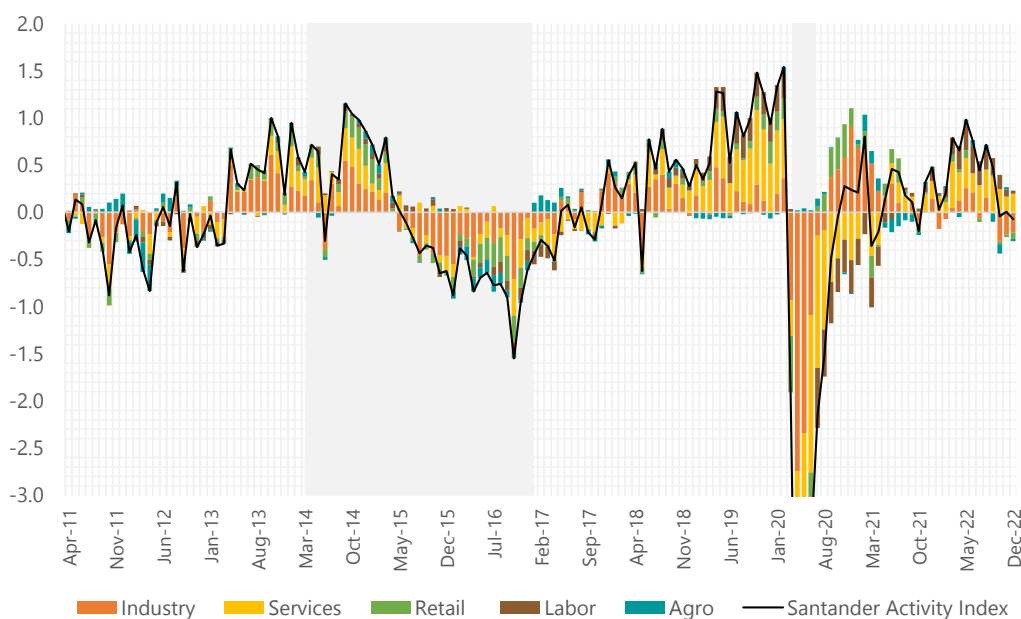
For details on Santander's economic activity outlook, please refer to our last reports¹.

Figure 1 – Santander's Activity Index Breakdown

Santander Activity Index							
	Weights	Headline			Change		
		Oct-22	Nov-22	Dec-22	Nov-22	Dec-22	
SAI	100%	-0.04	0.01	-0.07	↓	0.05	-0.08
Industry	20%	-0.31	-0.23	-0.21	↑	0.08	0.02
Services	28%	0.25	0.17	0.20	↑	-0.08	0.03
Retail	14%	-0.02	-0.03	-0.07	↓	0.00	-0.04
Labor	25%	0.15	0.07	0.03	↓	-0.07	-0.04
Farm Output	13%	-0.10	0.03	-0.02	↓	0.13	-0.05
Goods Sector	34%	-0.34	-0.26	-0.28	↓	0.07	-0.02
Services Sector	54%	0.40	0.24	0.23	↓	-0.15	-0.01

Sources: Bloomberg, IBGE, Santander.

Figure 2 – Santander's Activity Index (from 2011 to 2022)



Sources: IBGE, FGV, Santander.

¹ Santander Brazil Economic Activity: "Foreign and Domestic Headwinds Continue to Tighten Financial Conditions" – February 23, 2023 – Available on: <https://bit.ly/Std-FCI-feb23>

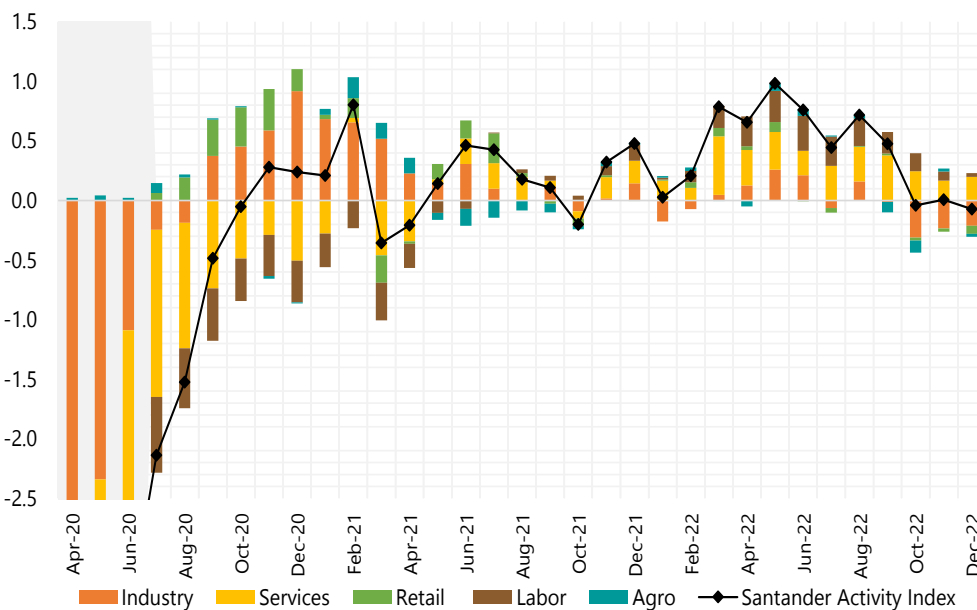
Santander Brazil Economic Activity: "Broad Activity Remains in Negative Territory" – January 19, 2023 – Available on: <https://bit.ly/Std-SAI-nov22>

Santander Brazil Special Report: "A Breakdown of Brazilian Financial Conditions" – January 19, 2023 – Available on: <https://bit.ly/Std-special-011923>

Santander Brazil Special Report: "Forecasting Probability of Recession in Brazil with Financial Conditions" – January 04, 2023 – Available on: <https://bit.ly/Std-special-010423>

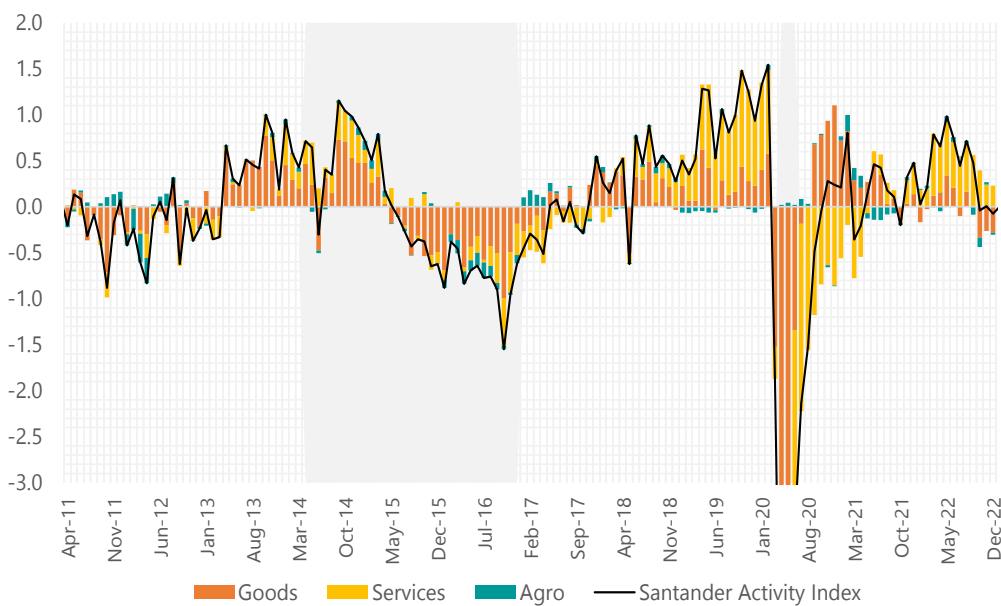


Figure 3 – Santander's Activity Index (from 2020 to 2022)



Sources: IBGE, FGV, Santander.

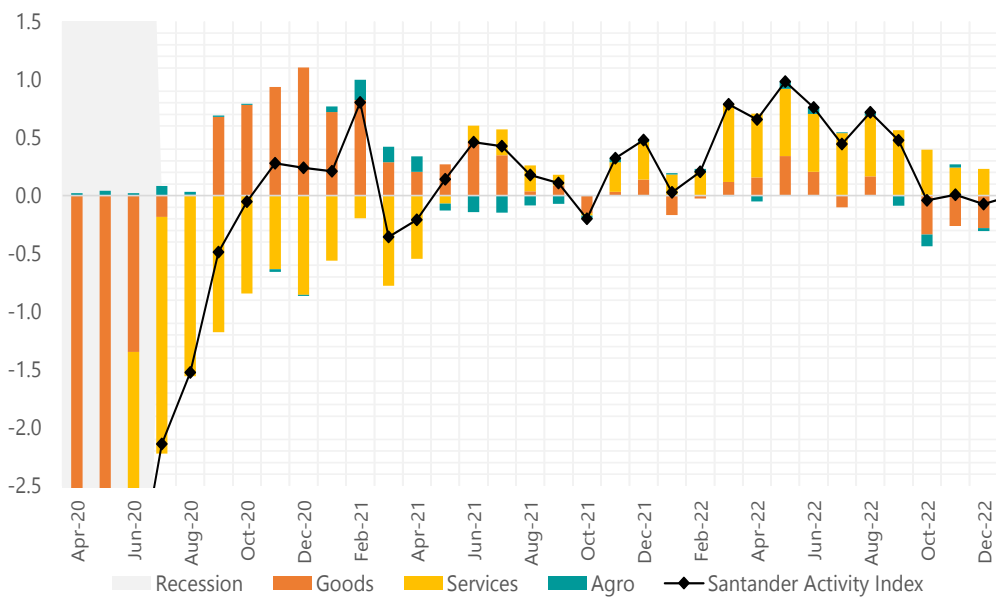
Figure 4 – Santander's Activity Index Breakdown (from 2011 to 2022)



Sources: IBGE, FGV, Santander.

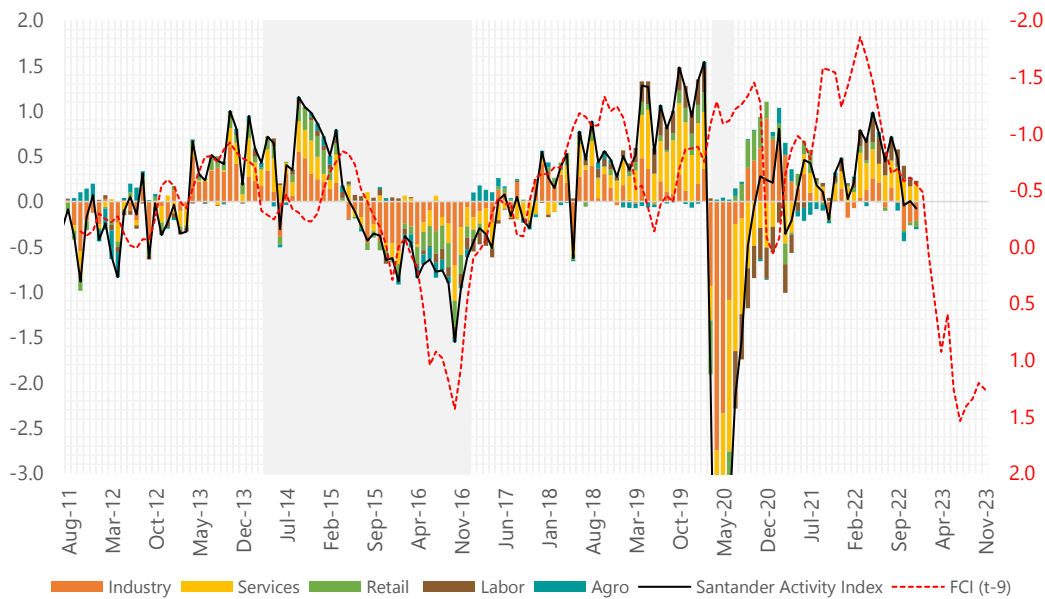


Figure 5 – Santander's Activity Index Breakdown (from 2020 to 2022)



Sources: IBGE, FGV, Santander.

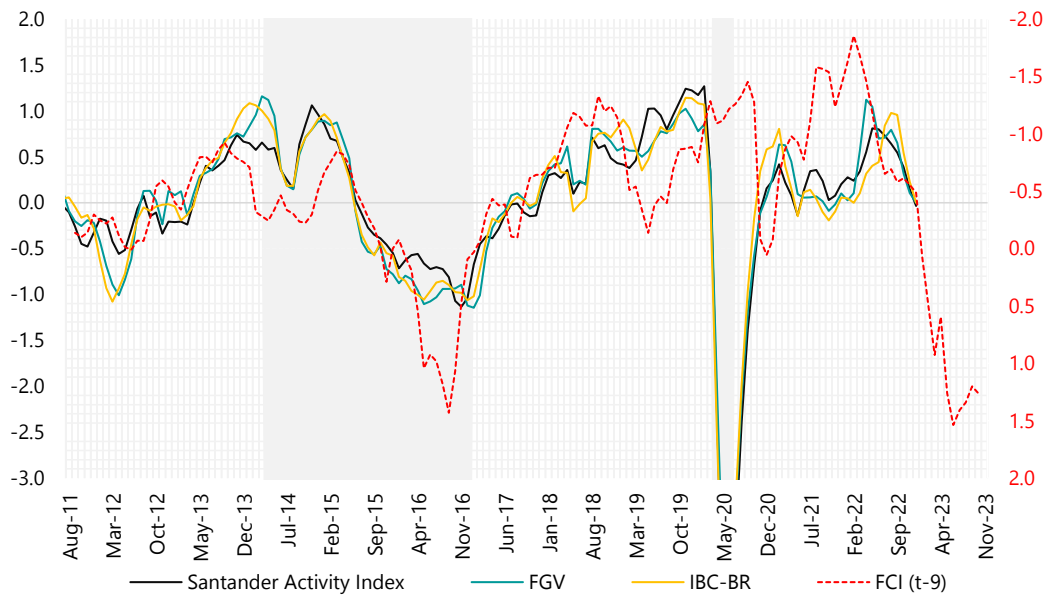
Figure 6 – Santander's Activity Index vs. Financial Conditions Indicator (from 2011 to 2023)



Sources: IBGE, FGV, Bloomberg, Santander.



Figure 7 – SAI vs. Monthly GDP Proxies* and Financial Conditions Indicator (from 2011 to 2023)



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



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