

**BROAD ACTIVITY REMAINS IN NEGATIVE TERRITORY**

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- **Considering November's available data, Santander's monthly activity index (SAI) remains in restrictive territory.** Indeed, the SAI reached -0.06 points and marked two negative prints in a row for the first time since January 2022 (during the Omicron variant outbreak), reinforcing our view that domestic activity entered restrictive territory in 4Q22.
- **Zooming in on the details, goods-related sectors remain the lowlights, while services show some resilience.** The industrial component contributed negatively, -0.24 p.p., marking a streak of three consecutive negative figures. The retail component also contributed negatively, -0.04 p.p., and marked the second negative print in a row. Conversely, cyclical services continued to contribute positively, +0.16 p.p., while the labor market component recorded 0.05 p.p. Despite the still positive figures at the margin, the services group shows a clear deceleration. Lastly, the farm output component improved by increasing its contribution to 0.00 p.p. (from -0.12 p.p. previously).
- **December's available data point to a continued poor performance.** Regarding the tertiary sector, FGV's economic confidence data (for households, services, and retail) remain below the neutral threshold, which suggests continued weakening. Moreover, our proprietary data (IGet) continued to suggest sequential contractions for retail sales and services rendered to families. For industry, both FGV's industrial confidence index and manufacturing PMI remain below the neutral threshold, also suggesting continued weakening for industrial activities. Services activities played a major role in cushioning the first impacts of restrictive financial conditions that began to be felt throughout 3Q22, benefiting from tax cuts and from mobility normalization, but we do not expect these elements to be repeated.
- **Financial conditions remain seriously restrictive owing to both domestic and external headwinds.** Considering data available through January 16, Santander's financial conditions indicator reached 1.08 points in the month (from 1.13 points in December), and when we exclude oil prices from the analysis, financial conditions (ex oil) inched down to 1.34 points (from 1.36 points in December). These figures pose continued challenges to domestic activity (mostly in cyclical activities) this year.
- **In the short term, our 4Q22 GDP growth tracking stands at -0.2% QoQ-sa.** We forecast GDP growth of 3.0% 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 BCB 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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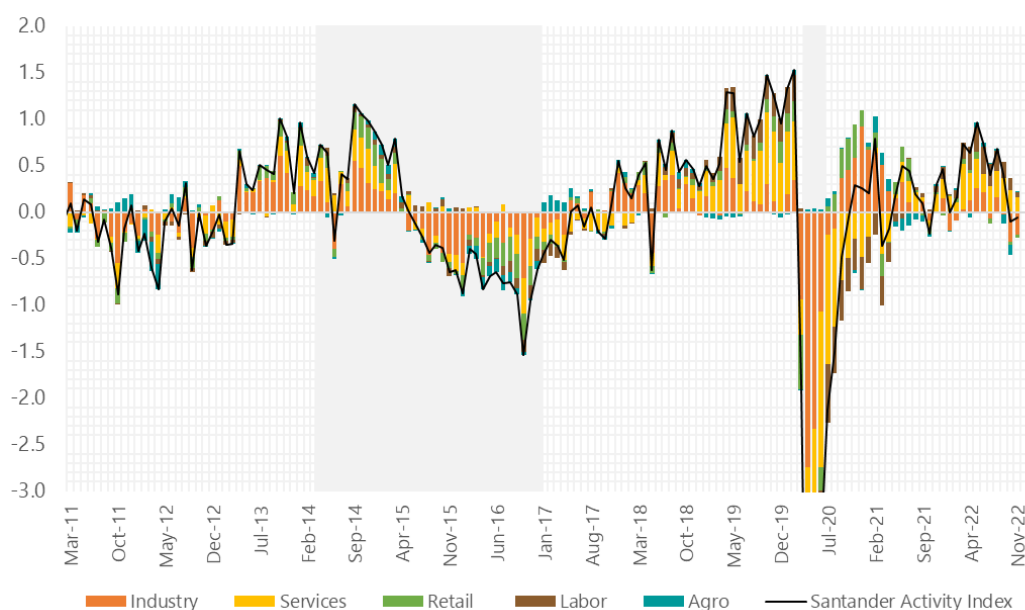
For details on Santander's economic activity outlook, please refer to our last reports<sup>1</sup>.

Figure 1 – Santander's Activity Index Breakdown

Santander Activity Index							
	Weights	Headline				Change	
		Sep-22	Oct-22	Nov-22		Oct-22	Nov-22
<b>SAI</b>	<b>100%</b>	<b>0.41</b>	<b>-0.10</b>	<b>-0.06</b>	↑	<b>-0.51</b>	<b>0.03</b>
Industry	20%	-0.02	-0.32	-0.24	↑	-0.30	0.08
Services	28%	0.37	0.24	0.16	↓	-0.13	-0.08
Retail	14%	0.00	-0.03	-0.04	↓	-0.03	-0.01
Labor	25%	0.17	0.13	0.05	↓	-0.04	-0.08
Farm Output	13%	-0.10	-0.12	0.00	↑	-0.01	0.12

Sources: Bloomberg, BCB, Santander.

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



Sources: IBGE, FGV, Santander.

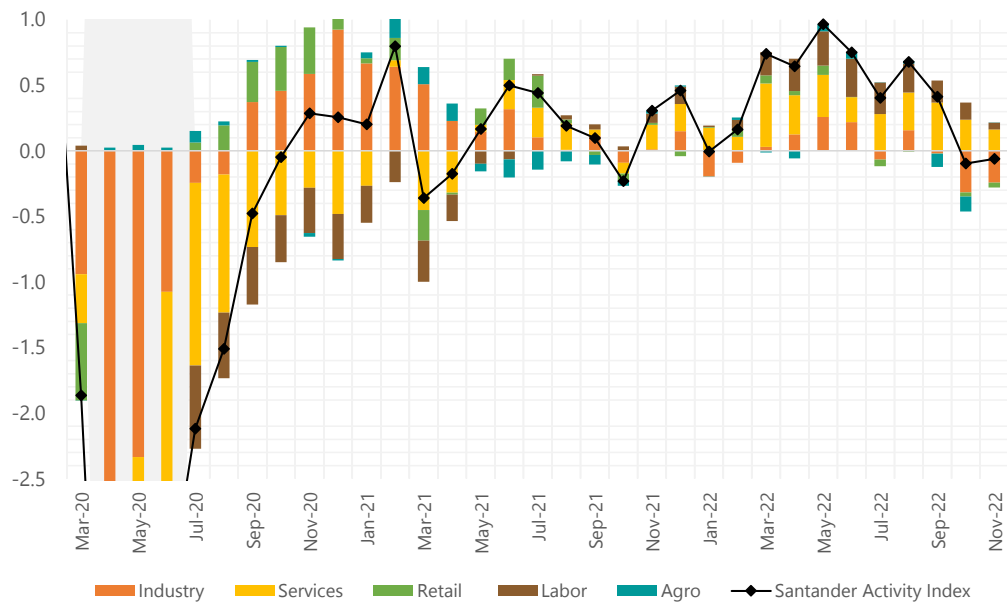
<sup>1</sup> **Santander Brazil Economic Activity: "Financial Conditions Remain Restrictive, Despite Relief at the Margin"** – January 17, 2023 – Available on: <https://bit.ly/Std-FCI-jan23>

**Santander Brazil Special Report: "Santander's Monthly Activity Indicator Entered Restrictive Territory in October"** – January 03, 2023 – Available on: <https://bit.ly/Std-special-010323>

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

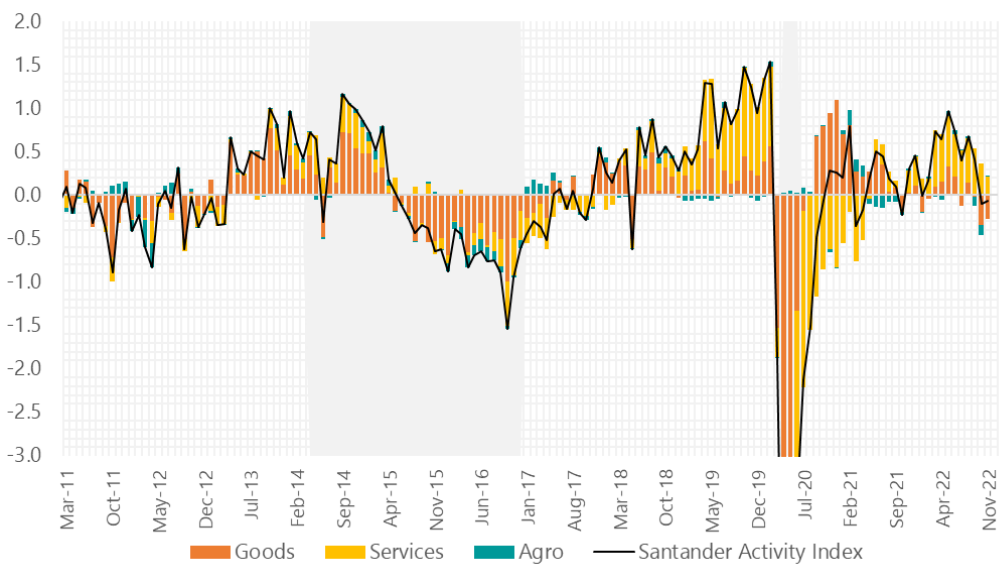


**Figure 3 – Santander's Activity Index (from 2019 to 2022)**



Sources: IBGE, FGV, Santander.

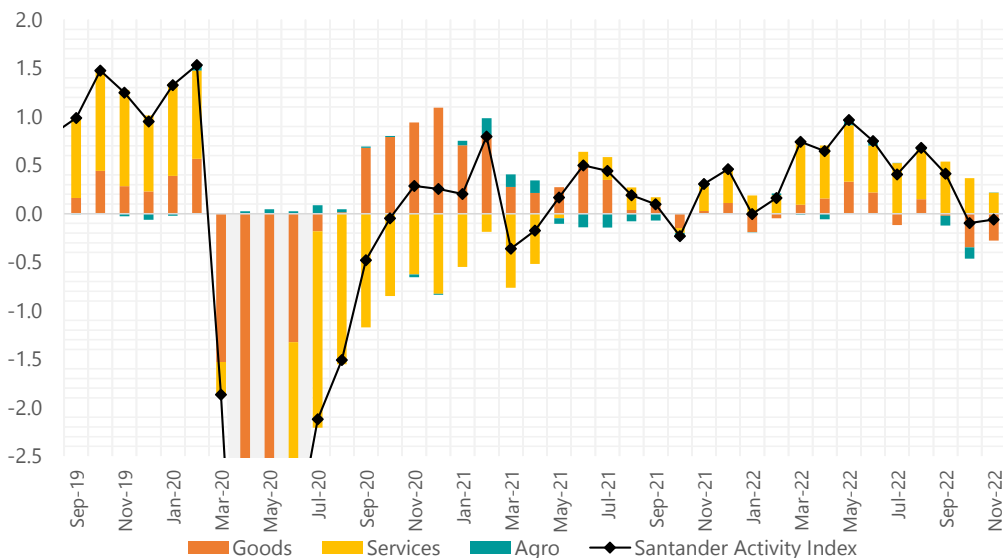
**Figure 4 – Santander's Activity Index Breakdown (from 2011 to 2022)**



Sources: IBGE, FGV, Santander.

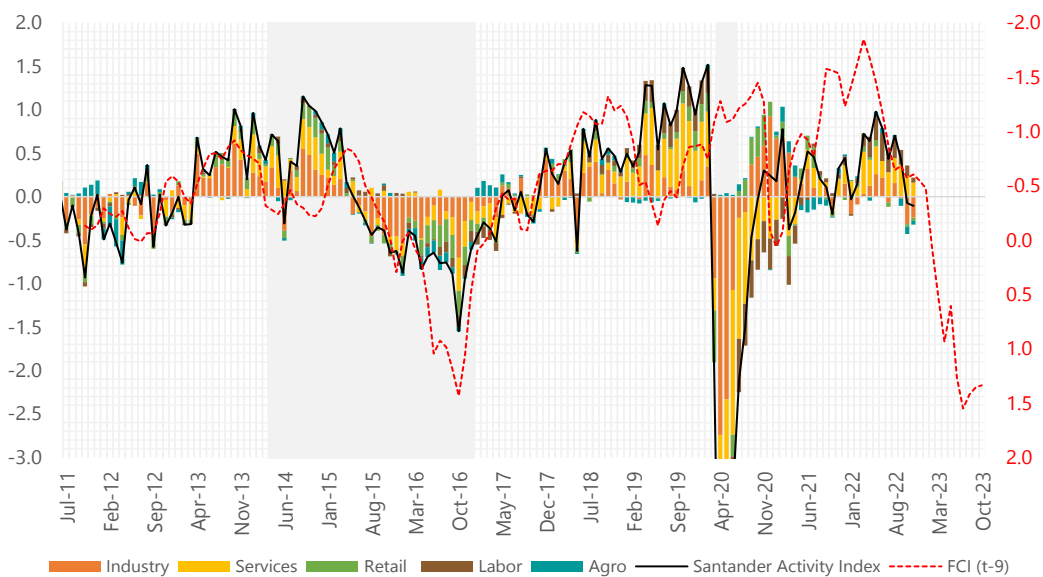


**Figure 5 – Santander's FCI Proxy Breakdown (from 2020 to 2022)**



Sources: IBGE, FGV, Santander.

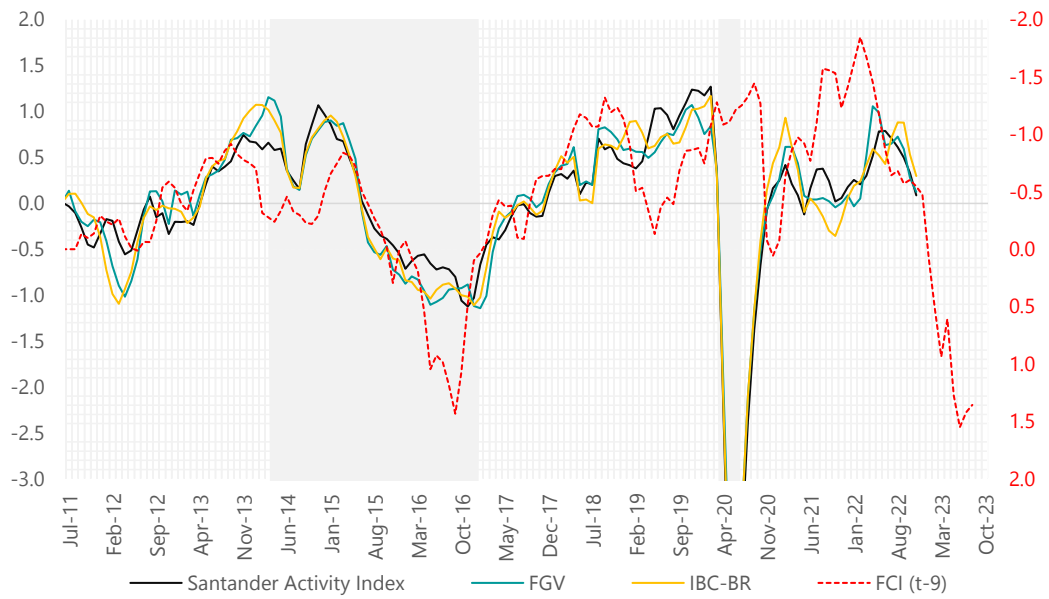
**Figure 6 – Santander's Activity Index vs Financial Conditions Indicator (from 2011 to 2023)**



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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