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A WEAK STREAK FOR BROAD ACTIVITY

- **The IBC-Br (the Brazil Central Bank's monthly GDP proxy) shrank 0.55% MoM-sa (+1.65% YoY) in November.** This result was below market consensus of -0.3% MoM-sa and our estimate of -0.4% MoM-sa, but with the series being revised (as usual in the months after 3Q GDP releases). Indeed, in the unadjusted series, October's figure was revised to 3.75% YoY (from +3.68% YoY), while September's figure was revised to +4.57% YoY (from +4.53% YoY). November's figure marked a weak streak of four consecutive decline for BCB's monthly GDP proxy.
- **November's activity releases were marked by widespread weak figures among key-sectors.** Goods-related activities continued to show a poor performance, with broad retail sales retreating 0.6% MoM-sa (the fourth decline in the last six months) while industrial output inched down 0.1% MoM-sa (also marking the fourth decline in the last six months). Moreover, services' real revenue showed a clear deceleration and stayed flat at the margin after tumbling 0.5% MoM-sa in the previous month.
- **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, while our proprietary data (IGet) suggest contraction in retail sales and services rendered to families. For industry, both FGV's industrial confidence and PMI manufacturing remain below the neutral threshold. Services activities played a major role in cushioning the first impacts of restrictive financial conditions that began to be felt throughout 3Q22 (hitting mainly goods-related activities), benefiting from tax cuts and to mobility normalization (in the wake of the economy's reopening consolidation). Looking ahead, we do not expect these elements to be repeated, and we believe deteriorated financial conditions will have a greater impact on services provided to firms in the coming months.
- **Santander's monthly activity indicator (SAI) remains in restrictive territory.** Considering November's available data (tertiary sector and industry), SAI reached -0.11 points and marked the second negative print in a row since January (during the Omicron variant outbreak), reinforcing a negative trend for broad activity. Our recession probability tracker (based on financial conditions) for December-April reached virtually the same readings seen in the worst periods of Brazil's 2014-16 recession, creating continued challenges to cyclical domestic activity this year.
- **We are lowering our 4Q22 GDP growth tracking to -0.2% QoQ-sa (from -0.1% QoQ-sa previously).** 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 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.

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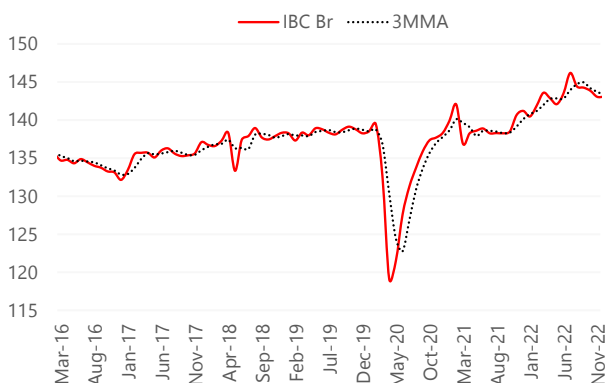


Figure 1 – Economic Activity Breakdown

	% MoM			% YoY			% QoQ			%	
	Sep-22	Oct-22	Nov-22	Sep-22	Oct-22	Nov-22	Jun-22	Sep-22	Nov-22	Feb-20	Carry*
IBC-Br	-0.11	-0.28	-0.55	4.57	3.75	1.65	0.59	1.50	-0.68	3.1	-1.1
Industry	-0.7	0.3	-0.1	0.4	1.7	0.9	0.8	-0.3	-0.8	-2.2	-0.5
Core Retail Sales	1.1	0.3	-0.6	3.2	2.7	1.5	1.3	-0.8	1.2	2.6	0.7
Broad Retail Sales	1.3	0.2	-0.6	0.9	0.3	-1.4	-0.2	-1.6	0.8	-1.6	0.6
Services	0.5	-0.5	0.0	9.4	9.7	6.3	1.4	3.1	1.4	10.7	0.3

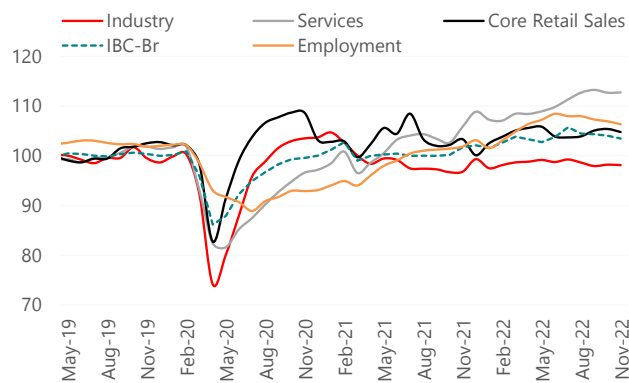
*Carryover calculated to 4Q22. Sources: IBGE, BCB, Santander.

Figure 2 – IBC-Br (sa, 2003=100)



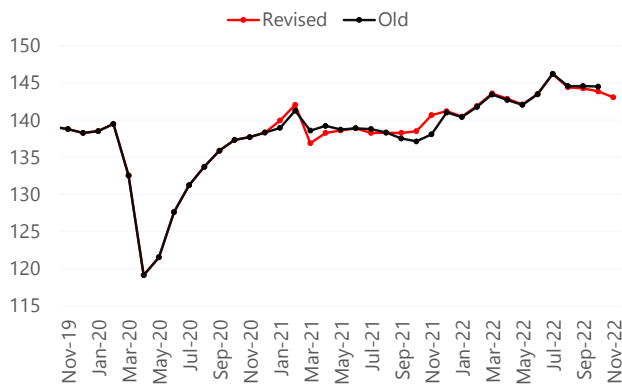
Sources: BCB, Santander.

Figure 3 – Activity Indexes (sa, Jan/2019=100)



Sources: IBGE, BCB, Santander

Figure 4 – IBC-Br (sa, 2003=100)

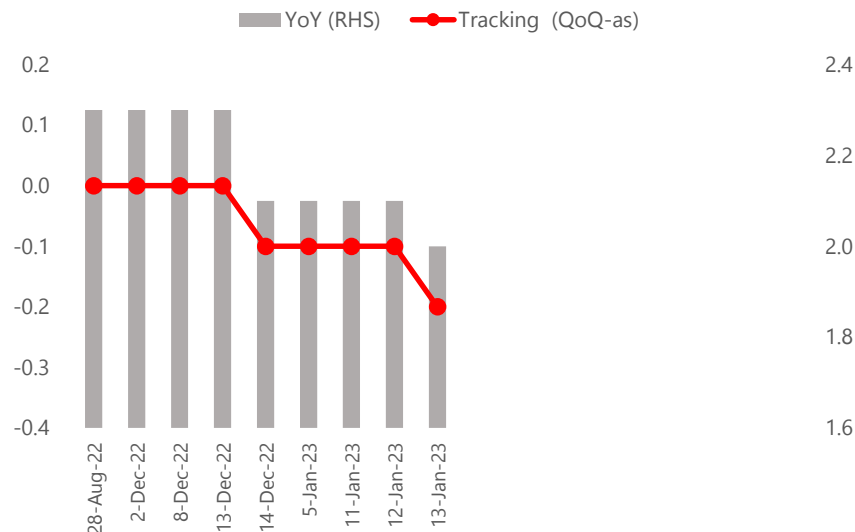


Sources: BCB, Santander.

Figure 5 – Revisions

	NSA (YoY%)		SA (MoM %)	
	Previous	Revised	Previous	Revised
Dec-21	1.92	1.92	2.13	0.38
Jan-22	0.62	0.62	-0.44	-0.52
Feb-22	1.70	1.70	0.97	1.01
Mar-22	3.31	3.31	1.19	1.19
Apr-22	2.72	2.72	-0.52	-0.50
May-22	3.83	3.81	-0.46	-0.54
Jun-22	3.16	3.16	1.01	0.99
Jul-22	4.64	4.65	1.92	1.87
Aug-22	5.66	5.67	-1.13	-1.21
Sep-22	4.53	4.57	0.00	-0.11
Oct-22	3.68	3.75	-0.05	-0.28
Nov-22	-	1.65	-	-0.55

Sources: BCB, Santander.

Figure 6 – 4Q22 GDP Growth Nowcasting (% , QoQ-sa and YoY-nsa)¹

Sources: IBGE, Santander

Figure 7 – Santander GDP Tracking

4Q22 GDP Growth						
Date	Release	Reference	Tracking (%)		Projection (%)	
			QoQ-sa	YoY	QoQ-sa	YoY
28-Aug-22	Labor Market	Oct-22	0.0	2.3	0.0	2.3
02-Dec-22	Industry	Oct-22	0.0	2.3	0.0	2.3
08-Dec-22	Retail Sales	Oct-22	0.0	2.3	0.0	2.3
13-Dec-22	Services	Oct-22	0.0	2.3	0.0	2.3
14-Dec-22	IBC-Br	Oct-22	-0.1	2.1	0.0	2.3
05-Jan-23	Industry	Nov-22	-0.1	2.1	0.0	2.3
11-Jan-23	Retail Sales	Nov-22	-0.1	2.1	0.0	2.3
12-Jan-23	Services	Nov-22	-0.1	2.1	0.0	2.3
13-Jan-23	IBC-Br	Nov-22	-0.2	2.0	0.0	2.3

Sources: IBGE, Santander.

Figure 8 – Santander Activity Index Breakdown

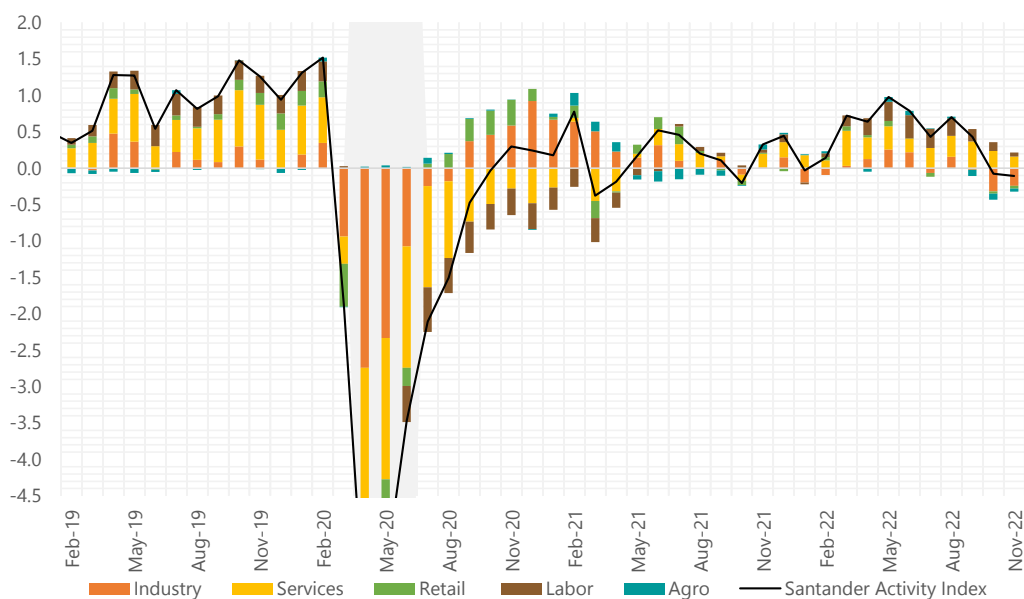
Santander Activity Index							
	Weights	Headline			Change		
		Sep-22	Oct-22	Nov-22	Oct-22	Nov-22	
SAI	100%	0.43	-0.07	-0.11	↓	-0.51	-0.03
Industry	20%	-0.02	-0.32	-0.24	↑	-0.30	0.08
Services	28%	0.37	0.24	0.16	↓	-0.13	-0.08
Retail	14%	0.00	-0.03	-0.04	↓	-0.03	-0.01
Labor	25%	0.17	0.12	0.05	↓	-0.05	-0.07
Farm Output	13%	-0.08	-0.08	-0.04	↑	0.00	0.04

Sources: FGV, IBGE, Santander.

¹ Santander Brazil Special Report: "Nowcasting Brazilian GDP with LASSO" – May 16, 2022 – Available on: <https://bit.ly/Std-special-051622>
 Santander Brazil Special Report: "Nowcasting Supply Sectors: Updating GDP Tracking" – October 28, 2022 – Available on: <https://bit.ly/Std-special-102822>



Figure 9 – Santander Activity Index (2019 to 2022)



Sources: FGV, IBGE, Santander.

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

² **Santander Brazil Economic Activity: "Financial Conditions Remain Critically Restrictive"** – November 30, 2022 – Available on: <https://bit.ly/Std-FCI-nov22>

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>

Santander Brazil Economic Activity: "A Flat Industrial Output in November" – January 05, 2023 – Available on: <https://bit.ly/Std-econact-010523>

Santander Brazil Economic Activity: "New weak print for retail activity" – January 11, 2023 – Available on: <https://bit.ly/Std-econact-011123>

Santander Brazil Economic Activity: "Services stayed flat in November" – January 12, 2023 – Available on: <https://bit.ly/Std-econact-011223>



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