

## A POSITIVE READING FOR BROAD ECONOMIC ACTIVITY IN DECEMBER

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- **The IBC-Br (the Brazil Central Bank's monthly GDP proxy) increased 0.3% MoM-sa (+1.4% YoY) in December.** This result was above market consensus of +0.1% MoM-sa and in line with our estimate of +0.3% MoM-sa, but with the series being revised. Indeed, in the unadjusted series, November's figure was revised to 1.3% YoY (from +1.7% YoY), while October's figure was revised to +3.5% YoY (from +3.8% YoY). December's figure marked the first positive result after a weak streak of four consecutive declines for BCB's monthly GDP proxy. The index had full-year growth of 2.9% in 2022, from 4.7% in 2021.
- **December's activity releases were marked by mixed signals.** Goods-related activities delivered divergent performances, with broad retail sales increasing 0.4% MoM-sa, while the core index tumbled 2.6% MoM-sa. Industrial output remained flat, following its recent trend and maintaining roughly the same level since September. Services' real revenue was the highlight of the month, showing a 3.1% MoM-sa increase and fully recovering from two consecutive decreases in October and November.
- **January's available data also point to mixed signals.** 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 expansion in both 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.
- **We are maintaining our 4Q22 GDP growth tracking 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 BCB policy, but we also expect strong growth for non-cyclical farm output, reflecting an all-time-high forecast for the grain harvest.

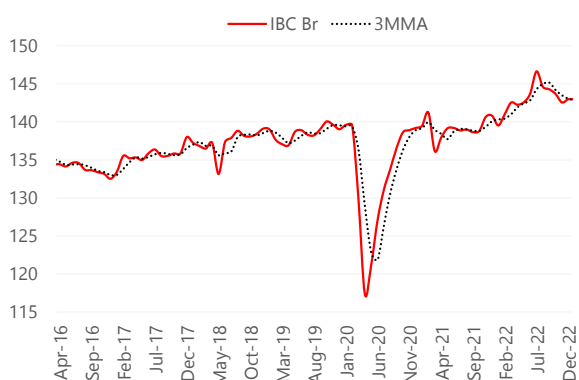


Figure 1 – Economic Activity Breakdown

|                    | % MoM        |              |             | % YoY       |             |             | % QoQ       |             |              | %          |            |
|--------------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|------------|------------|
|                    | Oct-22       | Nov-22       | Dec-22      | Oct-22      | Nov-22      | Dec-22      | Jun-22      | Sep-22      | Dec-22       | Feb-20     | Carry*     |
| <b>IBC-Br</b>      | <b>-0.43</b> | <b>-0.77</b> | <b>0.29</b> | <b>3.46</b> | <b>1.29</b> | <b>1.42</b> | <b>1.29</b> | <b>1.63</b> | <b>-1.46</b> | <b>2.9</b> | <b>0.1</b> |
| Industry           | 0.3          | -0.1         | 0.0         | 1.7         | 0.9         | -1.3        | 0.8         | -0.3        | -0.5         | -2.2       | 0.0        |
| Core Retail Sales  | 0.1          | -0.9         | -2.6        | 2.7         | 1.4         | 0.4         | 1.3         | -1.3        | -0.7         | -1.1       | -2.1       |
| Broad Retail Sales | 0.3          | -0.5         | 0.4         | 0.3         | -1.4        | -0.6        | -0.6        | -1.3        | 0.9          | -1.5       | 0.1        |
| Services           | -0.7         | -0.4         | 3.1         | 9.7         | 6.5         | 6.0         | 2.1         | 3.0         | 1.0          | 14.4       | 1.9        |

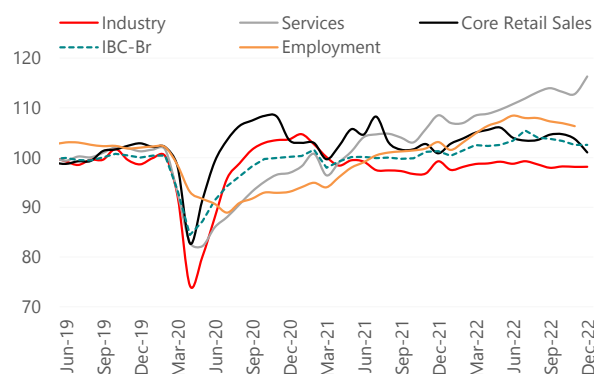
\*Carryover calculated to 1Q23. Sources: IBGE, BCB, Santander.

Figure 2 – IBC-Br (sa, 2003=100)



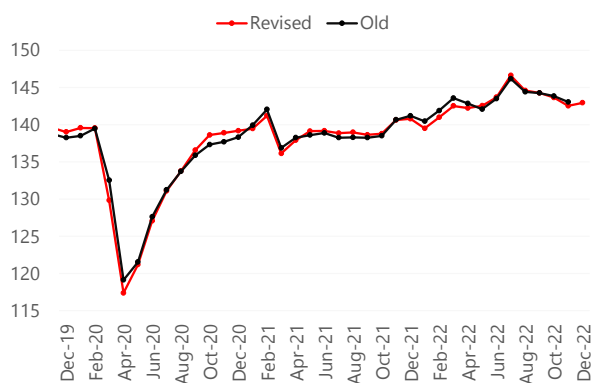
Sources: BCB, Santander.

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 |
| Jan-22 | 0.62       | 0.36    | -0.52      | -0.92   |
| Feb-22 | 1.70       | 1.72    | 1.01       | 1.05    |
| Mar-22 | 3.31       | 3.12    | 1.19       | 1.09    |
| Apr-22 | 2.72       | 2.48    | -0.50      | -0.20   |
| May-22 | 3.81       | 3.66    | -0.54      | 0.22    |
| Jun-22 | 3.16       | 3.18    | 0.99       | 0.80    |
| Jul-22 | 4.65       | 4.44    | 1.87       | 2.04    |
| Aug-22 | 5.67       | 5.28    | -1.21      | -1.38   |
| Sep-22 | 4.57       | 4.22    | -0.11      | -0.22   |
| Oct-22 | 3.75       | 3.46    | -0.28      | -0.43   |
| Nov-22 | 1.65       | 1.29    | -0.55      | -0.77   |
| Dec-22 | -          | 1.42    | -          | 0.29    |

Sources: BCB, Santander.

**For details on Santander's economic activity outlook, please refer to our most recent reports<sup>1</sup>.**

<sup>1</sup> Santander Brazil Special Report: "Forecasting Probability of Recession in Brazil with Financial Conditions" – January 4, 2023 – Available on: <https://bit.ly/Std-special-010423>

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 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>



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