

BACK TO REALITY?**Gabriel Couto***

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- **The IBC-Br (the monthly GDP proxy published by the Brazil Central Bank, or BCB) posted a 2.0% MoM-sa decrease (+2.2% YoY) in May.** This result was a downward surprise relative to the market consensus of -0.1% MoM-sa (4.0% YoY) and our estimate of -0.4% MoM-sa (+3.7% YoY), with the whole series being revised. In the unadjusted series, April's figure was revised to +3.4% YoY (from +3.3% YoY), March's figure was revised to +5.8% YoY (from +5.7% YoY), and February's figure was revised to +3.2% YoY (from +3.1% YoY). The result led to a +0.3% QoQ-sa carryover for 2Q23. As the revisions were mostly on the upside, they do not fully explain the negative surprise of the result.
- The breakdown of the IBC-Br index is not provided by the BCB, but **we estimate that part of the negative performance of broad activity in May stemmed from the end of the contribution of record grain production from 2022-23 summer crops.**
- **May activity releases were marked by mixed signals.** Goods-related activities showed weak performances, with a negative figure for broad retail and slight growth for industry, but with a contraction in manufacturing. Broad retail sales tumbled 1.1% MoM-sa, while the core index decreased 1.0% MoM-sa. Industrial output had a 0.3% MoM-sa increase. Services' real revenue surprised positively in May, with a 0.9% MoM-sa increase, partially offsetting April's decrease.
- **June's available data point to negative 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 contraction in retail sales and a slight increase in services rendered to families. For industry, both FGV's industrial confidence and PMI manufacturing remain below the neutral threshold.
- **We are downgrading our 2Q23 GDP growth tracking to +0.0% QoQ-sa (previously: +0.1% QoQ-sa).** Our 2023 GDP growth forecast stands at +1.9%. We continue to see signs of deceleration for broad activity ahead, as more cyclical segments indicate a continued 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.

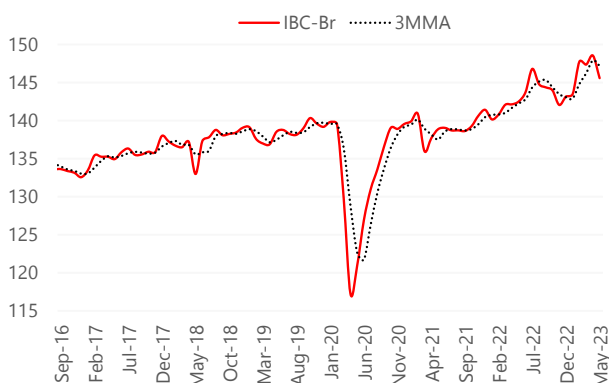


Figure 1 – Economic Activity Breakdown

	% MoM			% YoY			% QoQ			%	
	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23	Dec-22	Mar-23	May-23	Feb-20	Carry*
IBC-Br	-0.27	0.81	-2.00	5.81	3.43	2.15	-1.55	2.19	1.63	3.2	0.3
Industry	1.1	-0.6	0.3	1.0	-2.7	1.9	0.2	0.0	0.6	-1.5	0.3
Core Retail Sales	0.6	-0.1	-1.0	3.3	0.5	-1.0	-0.5	1.7	1.3	2.7	-0.4
Broad Retail Sales	3.9	-2.4	-1.1	8.8	2.6	3.0	1.1	3.3	3.4	1.6	0.0
Services	1.3	-1.5	0.9	6.5	2.8	4.7	1.3	-0.7	-0.1	11.5	0.2

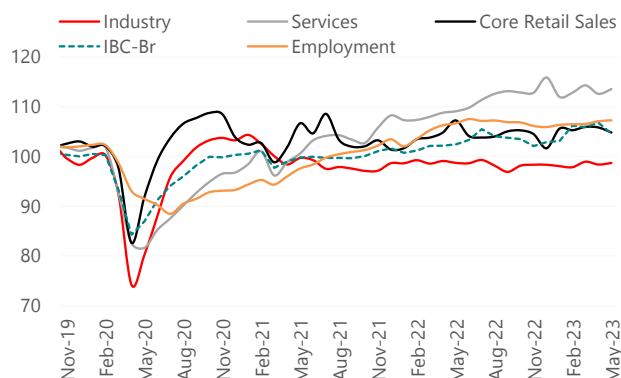
*Carryover calculated to 2Q23. Sources: IBGE, BCB, Santander.

Figure 2 – IBC-Br (sa, 2003=100)



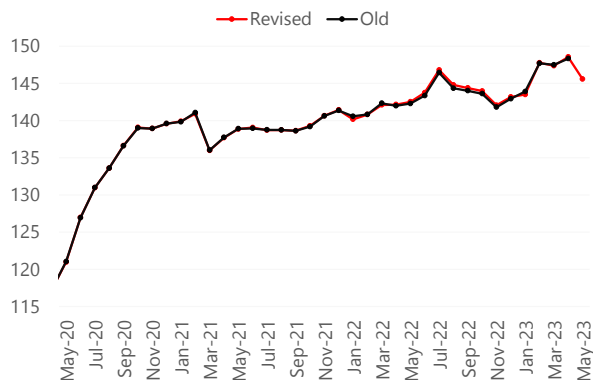
Sources: BCB, Santander.

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
Jun-22	3.23	3.35	0.74	0.86
Jul-22	4.50	4.72	2.16	2.13
Aug-22	5.38	5.64	-1.43	-1.37
Sep-22	4.09	4.25	-0.24	-0.29
Oct-22	3.16	3.27	-0.27	-0.28
Nov-22	0.77	0.89	-1.26	-1.33
Dec-22	0.81	0.94	0.79	0.77
Jan-23	3.31	3.39	0.68	0.23
Feb-23	3.06	3.15	2.64	2.98
Mar-23	5.70	5.81	-0.14	-0.27
Apr-23	3.31	3.43	0.56	0.81
May-23	-	2.15	-	-2.00

Sources: BCB, Santander.



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