

BROAD ECONOMIC ACTIVITY IN LINE WITH MARKET EXPECTATIONS IN JULY

Gabriel Couto*
gabriel.couto@santander.com.br
+5511 3553 8487

- **The IBC-Br (the monthly GDP proxy published by the Brazil Central Bank, or BCB) posted a 0.4% MoM-sa increase (+0.7% YoY) in July.** This result was in line with the market consensus of 0.4% MoM-sa (1.0% YoY) and slightly above our estimate of +0.2% MoM-sa (0.0% YoY), with the series being revised. In the unadjusted series, June's figure was revised to 2.4% YoY (from 2.1% YoY), May's figure was revised to 2.7% YoY (from 2.3% YoY), and April's figure was revised to 3.9% YoY (from 3.5% YoY). The result led to a carryover of 0.0% QoQ-sa for 3Q23.
- **The upward revisions were concentrated in 2Q23 — probably to adjust for the positive surprise in 2Q23's GDP result.** All in all, the result was close to expectations and does not substantially change the outlook for 3Q23. In our view, YoY variations still must pick up in August and September to meet our forecast for 3Q23 GDP (-0.3% QoQ-sa; +1.7% YoY). A +0.7% YoY variation in 3Q23 is compatible with a drop of approximately 1.0% QoQ-sa in the period.
- **July was a month mixed results for economic activity.** Tertiary sector data indicated an acceleration for services volume, with a 0.5% MoM-sa growth (+0.2% MoM-sa in June). As for broad retail sales, July's negative result was influenced by the end of the one-off tax break on vehicles, and industrial production showed a negative performance (-0.6% MoM-sa).
- **August's available data provide 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 both retail sales and in services rendered to families. For industry, FGV's industrial confidence remains below the neutral threshold, as the PMI manufacturing index now stands above the 50.0-point threshold.
- **Our 3Q23 GDP growth tracking stands at -0.3% QoQ-sa (unchanged), and our forecast for full-year 2023 growth is +2.5%.** Despite the recent positive surprise in 2Q23 GDP result, we continue to see signs of deceleration for broad activity ahead, especially for more cyclical segments, owing to highly restrictive financial conditions. In addition, we expect negative contributions from farm output for 2H23, as the positive impact of the record summer crops was limited to 1Q23 and the beginning of 2Q23.

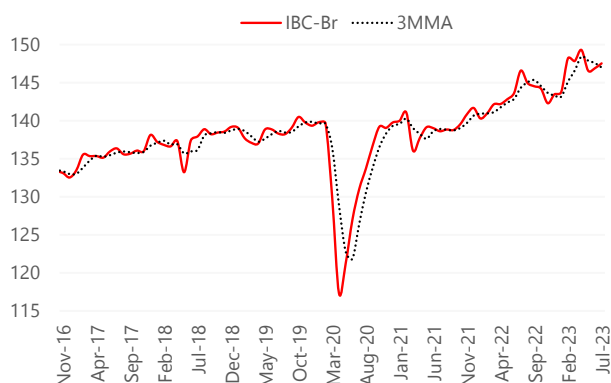


Figure 1 – Economic Activity Breakdown

	% MoM			% YoY			% QoQ			% Carry*	
	May-23	Jun-23	Jul-23	May-23	Jun-23	Jul-23	Dec-22	Mar-23	Jul-23	Feb-20	Carry*
IBC-Br	-1.8	0.2	0.4	2.7	2.4	0.7	-1.4	2.3	-1.0	5.2	0.0
Industry	0.3	0.0	-0.6	1.9	0.2	-1.1	0.1	-0.1	0.0	-2.3	-0.5
Core Retail Sales	-0.6	0.1	0.7	-1.1	1.4	2.4	-0.4	1.9	-0.1	4.2	0.6
Broad Retail Sales	-0.6	1.3	-0.3	3.0	8.3	6.6	0.9	3.8	0.4	4.6	0.4
Services	1.5	0.2	0.5	5.1	4.0	3.5	1.4	-0.7	1.1	12.8	1.1

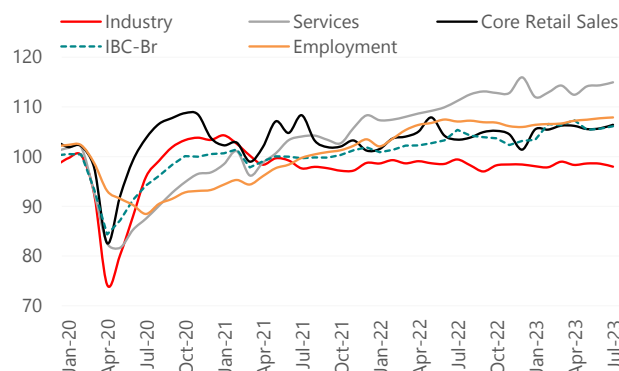
*Carryover calculated to 3Q23. Sources: IBGE, BCB, Santander.

Figure 2 – IBC-Br (sa, 2003=100)



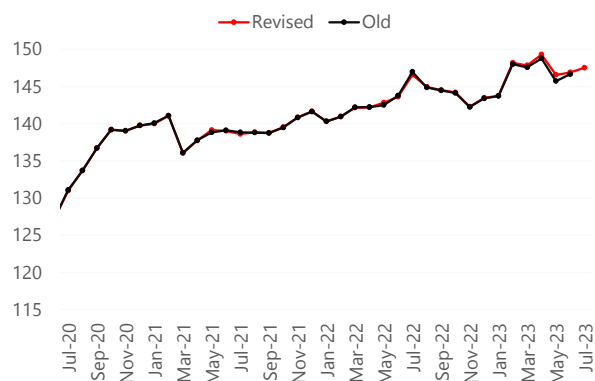
Sources: BCB, Santander.

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
Aug-22	5.64	5.64	-1.42	-1.11
Sep-22	4.24	4.25	-0.28	-0.30
Oct-22	3.24	3.26	-0.24	-0.22
Nov-22	0.87	0.88	-1.31	-1.32
Dec-22	0.94	0.93	0.82	0.83
Jan-23	3.40	3.40	0.22	0.20
Feb-23	3.20	3.31	2.98	3.09
Mar-23	5.87	6.09	-0.28	-0.24
Apr-23	3.54	3.93	0.82	0.99
May-23	2.29	2.68	-2.05	-1.83
Jun-23	2.10	2.37	0.63	0.22
Jul-23	-	0.66	-	0.44

Sources: BCB, Santander.



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Adriano Valladao Ribeiro*	Economist – Inflation	adriano.ribeiro@santander.com.br	5511-3553-7495
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Henrique Danyi Correia*	Economist – Credit / Monetary Policy	henrique.danyi@santander.com.br	5511-3553-7350
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Activity	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327
Ana Julia Carvalho*	Economist – Special Projects	ana.carvalho.silva@santander.com.br	5511-3553-8071

Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Rodrigo Park *	Economist – Argentina	rpark@santander.com.ar	54-11-4341-1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Aline de Souza Cardoso*	Head, Brazil	aline.souza.cardoso@santander.com.br	5511-3553-1684

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