

WE EXPECT STRONG GDP PERFORMANCE FOR 1Q23 AMID RECORD FARM OUTPUT

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- **After a negative figure in 4Q22, we expect a strong GDP performance for 1Q23.** We are revising our 1Q23 GDP growth forecast to +1.2% QoQ-sa, slightly above the figure presented in our most recent scenario update (+1.0% QoQ-sa). If our projection is on the mark, GDP would break a streak of three consecutive decelerations in QoQ-sa variations, on the heels of a massive contribution from farm output as a result of record volume for summer grain crops. In annual terms, we expect Brazil's economy to post 1.0% growth in 2023 (+2.9% in 2022 and +5.0% in 2021), but we acknowledge that the risks are slightly tilted to the upside.
- **For the supply side, we forecast mostly positive results for key sectors, with a strong contribution from farm output.** We expect a notably strong figure for farm output (+7.5% QoQ-sa), following record volume for summer grain crops. We expect this positive result to have had secondary impacts on the performance of other sectors in 1Q23. Regarding the services sector, after losing steam in 4Q22, we forecast a slight acceleration (+0.4% QoQ-sa). In our view, transport (+1.8% QoQ-sa), retail (+0.8% QoQ-sa), and information (+0.8% QoQ-sa) will be the highlights. Conversely, public services (-0.1% QoQ-sa) and financial services (0.0% QoQ-sa) are likely to account for the smallest contributions, per our projections. For industry, after a retreat in 4Q22, we forecast a 0.7% QoQ-sa expansion, owing mainly to a jump in mining (+3.5% QoQ-sa) and a positive result in manufacturing (+0.6% QoQ-sa), while we see a decrease for construction (-0.5% QoQ-sa). We expect ex-agro GDP to post 0.4% MoM-sa growth (+2.7% YoY).
- **On the demand side, we forecast an increase in domestic absorption.** We expect household consumption to have increased 1.5% QoQ-sa, the seventh gain in a row, following a good quarter for services, with an especially strong performance in goods consumption in 1Q23. We expect investments to have declined 0.1% QoQ-sa, the second contraction in a row, owing to a loss of steam in construction growth and continued weakening in machines and equipment. In contrast, we expect a positive contribution from the external sector, as we project a slight contraction for exports (-0.4% QoQ-sa), in tandem with imports' tumble (-7.4% QoQ-sa). It is important to note that, while farm output's impact is concentrated in the first quarter, agricultural exports tend to be concentrated in the second quarter. Therefore, our proxy for inventories is likely to show increased volatility in 1H23, contributing positively in 1Q23 and negatively in 2Q23.
- **Official data will be available next week (Thursday, June 1).** If our projections are met, the result would imply a 1.3% carryover for 2023 and would place the economy 5.2% above the pre-pandemic mark (we have set the mark at 4Q19). However, we believe financial conditions will continue to stifle cyclical activities, and the outlook for 2023 remains challenging given a tight BCB policy and an expected global growth deceleration. We forecast 1.0% GDP growth in 2023, with a slowdown in domestic demand and in cyclical supply components, but we also expect strong growth for non-cyclical farm output, reflecting an all-time high forecast for the grain harvest.



Figure 1 – GDP Projections Breakdown*

	4Q22		1Q23e		2022	4Q19*	2023**	
	% YoY	% QoQ	% YoY	% QoQ	%	%	%	
GDP	100%	1.9	-0.2	3.0	1.2	2.9	5.3	1.4
Supply								
Farm Output	7%	-2.9	0.3	9.5	7.5	-1.7	8.1	7.3
Industry	19%	2.6	-0.3	2.9	0.7	1.6	4.3	1.2
Mining	23%	1.4	2.5	9.3	3.5	-1.7	3.3	6.0
Manufacturing	51%	1.0	-1.4	0.8	0.6	-0.3	-0.3	-0.1
Construction	14%	3.2	-0.7	1.9	-0.5	6.9	15.2	-0.2
Utilities	12%	10.8	-0.4	0.7	-0.2	10.1	10.4	0.0
Services	59%	3.3	0.2	2.8	0.4	4.2	6.5	1.3
Retail	21%	2.1	-0.9	1.8	0.8	0.8	3.9	0.7
Transports	6%	5.3	0.2	6.3	1.8	8.4	11.4	3.0
Information	5%	4.9	1.8	10.5	0.8	5.4	25.9	5.0
Financial	9%	2.4	0.9	5.0	0.0	0.4	4.2	1.4
Other Services	23%	8.3	0.9	5.5	0.4	11.1	11.5	2.5
Rents	14%	3.2	0.7	2.5	0.2	2.5	8.1	1.7
Public Services	24%	-0.3	-0.5	-0.6	-0.1	1.5	-1.1	-0.2
Demand								
Consumption	61%	4.3	0.3	5.4	1.5	4.3	5.4	2.7
Government	19%	0.5	0.3	1.7	0.7	1.5	2.8	1.3
Investments	19%	3.5	-1.1	3.2	-1.7	0.9	17.1	-0.3
Exports	20%	11.7	3.5	7.0	-0.4	5.5	12.3	3.4
Imports	19%	4.6	-1.9	1.6	-7.4	0.8	-0.8	-4.7

Sources: IBGE, Santander estimates. * We have set up the pre-crisis mark at 4Q19. ** Carryover calculated to 2023.

For details on Santander's economic activity outlook, please refer to our last reports¹.

¹ **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 Special Report: "A Breakdown of Brazilian Financial Conditions" – January 19, 2023 – Available on: <https://bit.ly/Std-special-011923>

Santander Brazil Economic Activity: "Financial Conditions Ease in April but Remain at Restrictive Levels" – May 03, 2023 – Available on: <https://bit.ly/Std-FCI-apr23>



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