Brazil Macro | October 2022

Economic Activity

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SUMMARY

- **Once again, we are raising our GDP forecasts for 2022 and 2023 but maintaining our estimate for 2024.** For the full-year 2022, we have raised our GDP forecast to 2.8% (from +2.6%) due to positive surprises in the labor market and in the services sector in 3Q22. As per the quarterly GDP trajectory, we are raising our estimates to +0.6% QoQ-sa and to 0.0% QoQ-sa for both 3Q22 and 4Q22 (respectively from +0.3% QoQ-sa and -0.2% QoQ-sa). We expect mixed signals for economic activity across 2H: on the one hand, labor market resilience and fiscal stimuli may partially support demand; on the other hand, we should finally see the effects of the contractionary monetary policy and tight financial conditions.

- **For 2023, we updated our GDP forecast to +0.7% (from -0.2%).** We calculate a stronger carryover for next year, on the back of the better expectation for the 2H22, but we continue to envision a slowdown in domestic demand and in cyclical components, stemming mainly from an expected global recession and the effects of a tight BCB policy. Conversely, we now expect a strong growth for farm output, reflecting an all-time high forecast for grain harvest. For 2024, we see still the economy struggling to gather momentum, given the persistence of global headwinds and the slow pace of rate cuts (mirrored in a still tight BCB policy stance): we have maintained our GDP forecast at +0.5%.

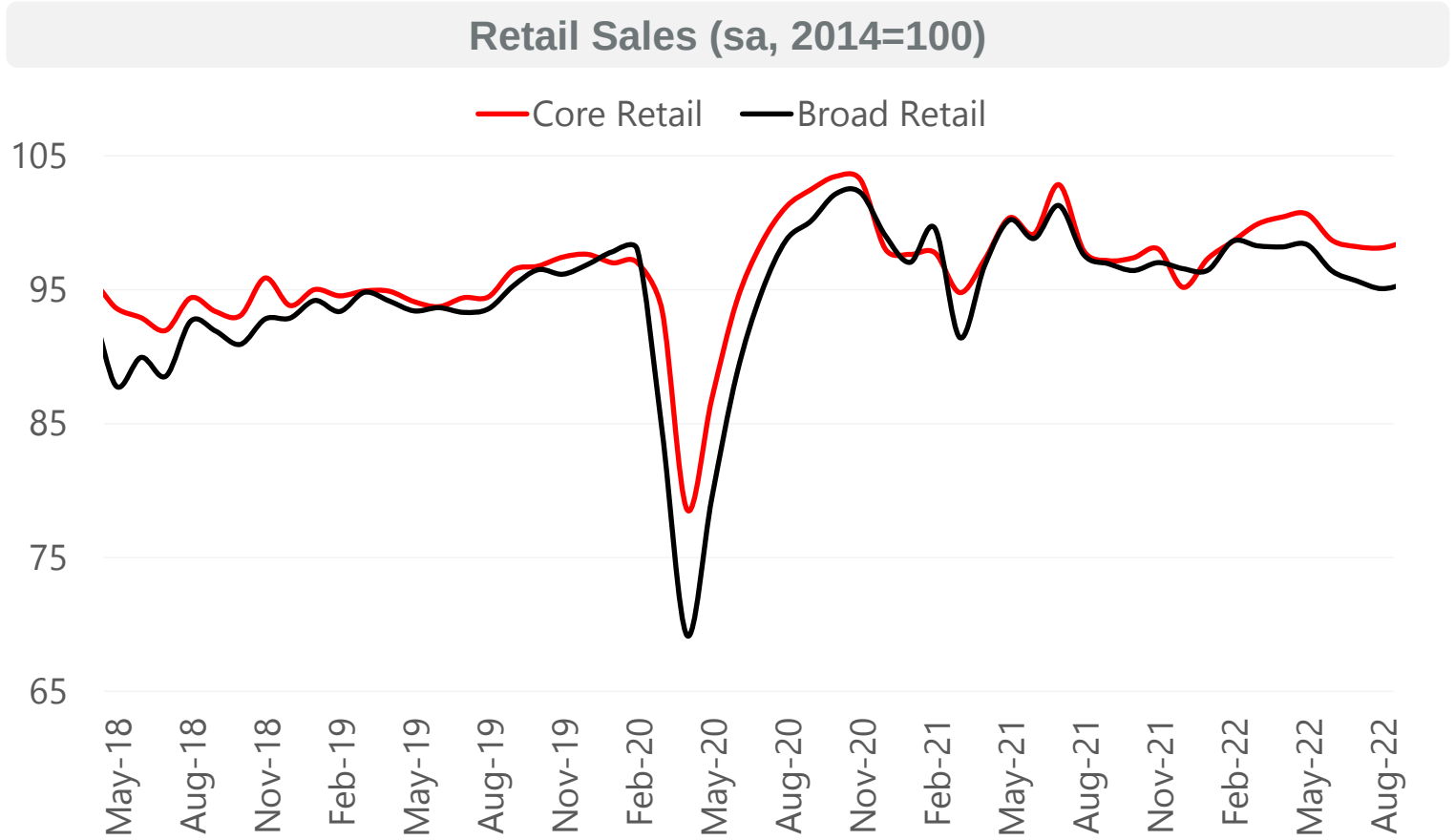
- **In our view, the labor market continued to show a strong performance since our last scenario review.** The PNAD (household) survey kept showing a healthy job market, with a single-digit unemployment rate. Considering both the slower-than-expected expansion of the labor force in the short term and the increase in our GDP forecasts for 2022 and 2023, we have reduced our joblessness estimates. However, we continue to expect some deceleration in the job creation once the effects of a tighter monetary policy start to kick in — especially in 4Q22 and 1Q23. We still forecast an increase of the jobless rate for 2023, as our GDP growth review was concentrated in sectors that are not labor-intensive (such as farm output). We continue to envision a tight labor market until 2Q23 (we see the NAIRU on a declining path but hovering around 10—11%).

RETAIL SALES

01

After a Strong Performance in 1H22, Retail Sales Deteriorate Across 3Q

- Core retail sales marked the third decline in a row, while broad retail sales marked the fifth decline in the past six months. To 3Q22, we calculate statistical carryovers of -1.8% QoQ-sa and -2.4% QoQ-sa for the core and broad indexes, respectively.

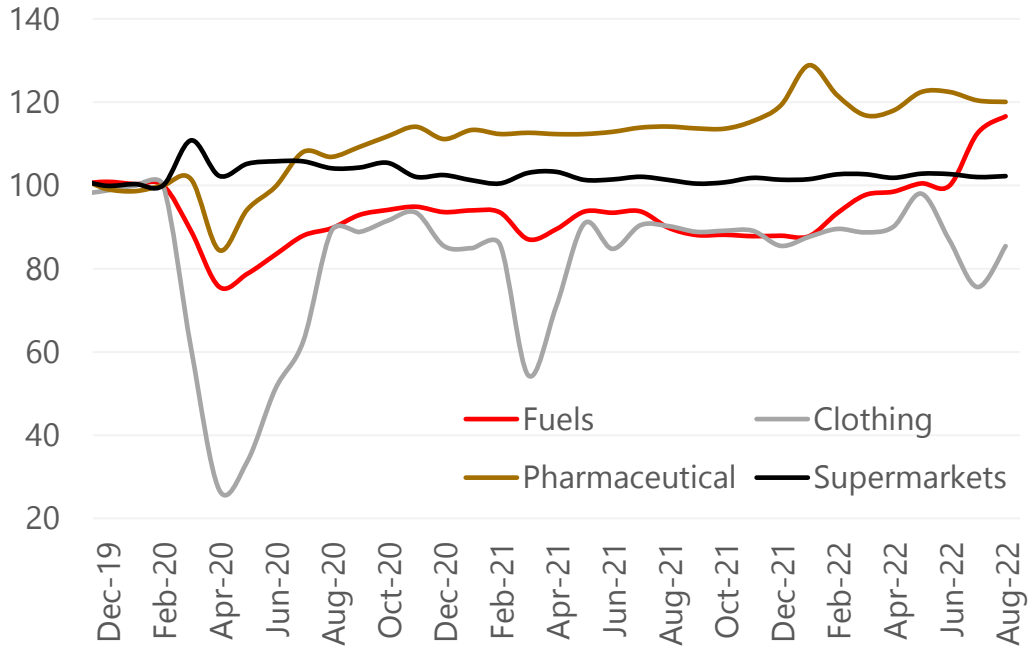


Sources: IBGE, Santander

Among Retail Activities, a Mixed Bag

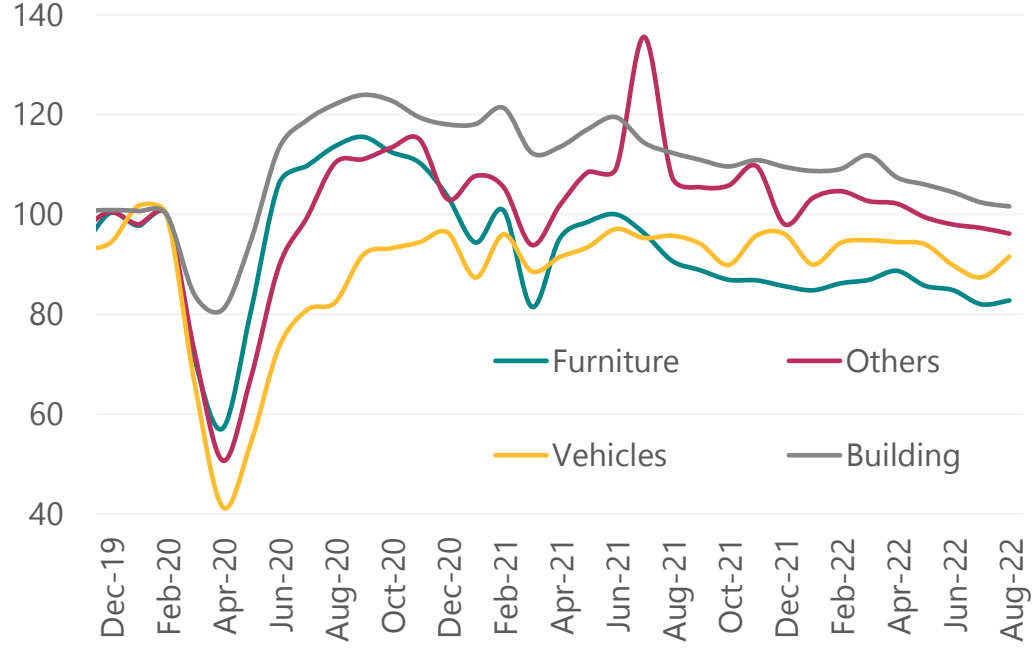
- Our sensitivity analysis pointed out that credit-led segments drove the recent drops, while income-led segments have shown resilience. However, we warn that fuels sales' steep climb reflects significant deflation due to the recent tax cuts measures.

Income-led Segments (sa, Feb/20=100)



Sources: IBGE, Santander

Credit-led segments (sa, 2014=100)

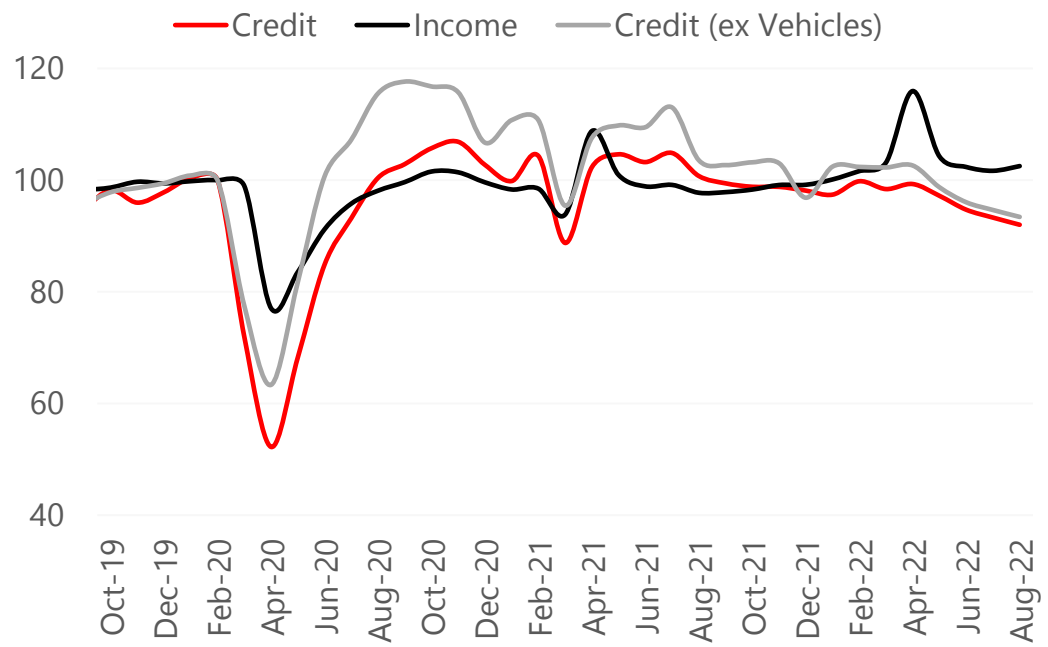


Sources: IBGE, Santander

September's Data Should Consolidate a Weak Quarterly Print for Retail Sales

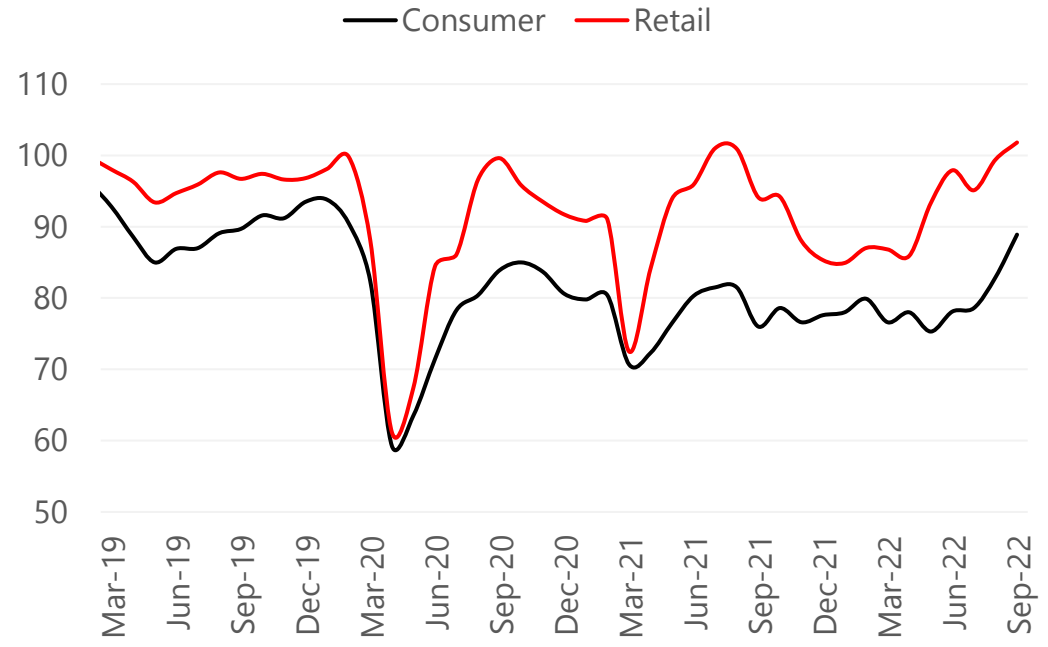
- Regarding September's available data, we see a mixed bag: according to FGV surveys (soft data), the consumer confidence index jumped to 88.9 points (from 82.9) and retail confidence rose to 101.8 points (from 99.4), while our proprietary IGet data (real sales) pointed to sequential declines. Our tracking for September's data stand at +0.5% MoM-sa for broad and core retail sales (-0.3% YoY and +2.1% YoY, respectively).

Sensitivity Analysis (sa, Feb/20=100)



Sources: IBGE, Santander. * Income segments include fuels, supermarkets, clothing, books, and pharmaceutical products; credit segments include furniture, building materials, others, office equipment and vehicles.

FGV Economic Confidence Data (sa)



Sources: FGV, Santander.
* Neutral level=100 points.

Retail Sales Breakdown

Retail Sales Breakdown											
		% MoM			% YoY			% QoQ			%
Weights		Jun-22	Jul-22	Aug-22	May-22	Jul-22	Aug-22	Mar-21	Jun-22	Aug-22	Feb-20*
66.9%	Core Retail Sales	-1.9	-0.5	-0.1	-0.2	-5.3	1.6	-4.8	1.3	-2.0	1.1
8.3%	Fuels	-0.6	12.6	3.6	7.2	17.4	30.2	-2.8	7.2	10.9	16.6
30.6%	Hypermarkets, supermarkets	-0.1	-0.7	0.2	-0.5	-0.3	1.4	-1.7	0.2	-0.1	2.3
6.2%	Fabrics, clothing and footwear	-11.4	-13.0	13.0	8.5	-16.2	-5.6	-16.8	3.4	-10.5	-14.6
7.4%	Furniture and home appliances	-1.0	-3.3	1.0	-12.5	-14.5	-8.5	-15.3	0.5	-4.5	-17.2
5.1%	Pharmaceuticals	0.0	-1.7	-0.3	9.3	4.0	6.6	0.4	-1.2	1.6	20.1
0.9%	Books, papers and magazine	-1.8	-2.9	2.1	25.8	11.0	19.0	-35.7	18.0	-1.8	-34.8
0.6%	Office equipment and supplies	-1.8	-1.4	-1.4	2.1	-0.2	2.1	-7.3	2.4	-4.3	-13.8
7.8%	Other personal items	-1.5	-0.7	-1.2	-7.2	-28.7	-10.5	-7.4	-3.5	-4.2	-3.8
100%	Broad Retail Sales	-2.0	-0.8	-0.6	-0.7	-6.9	-0.7	-5.1	-0.1	-2.6	-3.0
8.9%	Building Materials	-1.5	-2.0	-0.8	-7.7	-13.7	-7.1	-2.4	-3.6	-5.2	1.6
24.2%	Vehicles	-4.5	-2.7	4.8	0.8	-8.5	-4.1	-4.2	-0.3	-5.1	-8.4

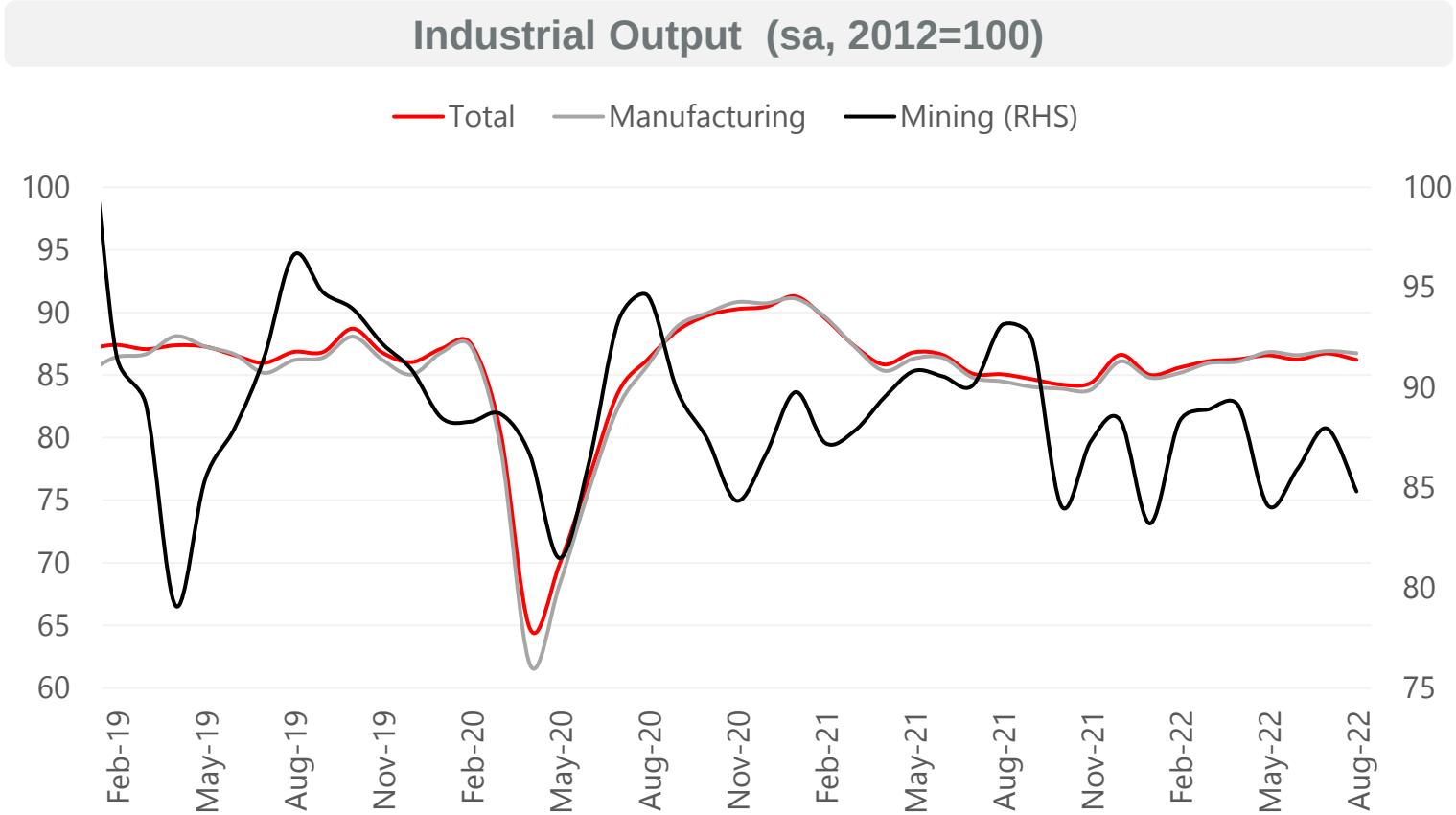
Sources: IBGE, Santander.
* For details, please see: https://bit.ly/Std-econact-100722.

INDUSTRIAL PRODUCTION

02

After an Encouraging 1H22, Industrial Output Decelerates Across 3Q

- Following the continued strengthening seen across 1H22 (amid a boosted demand for goods and gradual easing of global supply chain hurdles), industrial output (mainly manufacturing) clearly decelerated in the transition between 2Q and 3Q. Regarding the mining industry, that showed a positive performance in the last half, the available data don't corroborate a new positive quarterly figure.

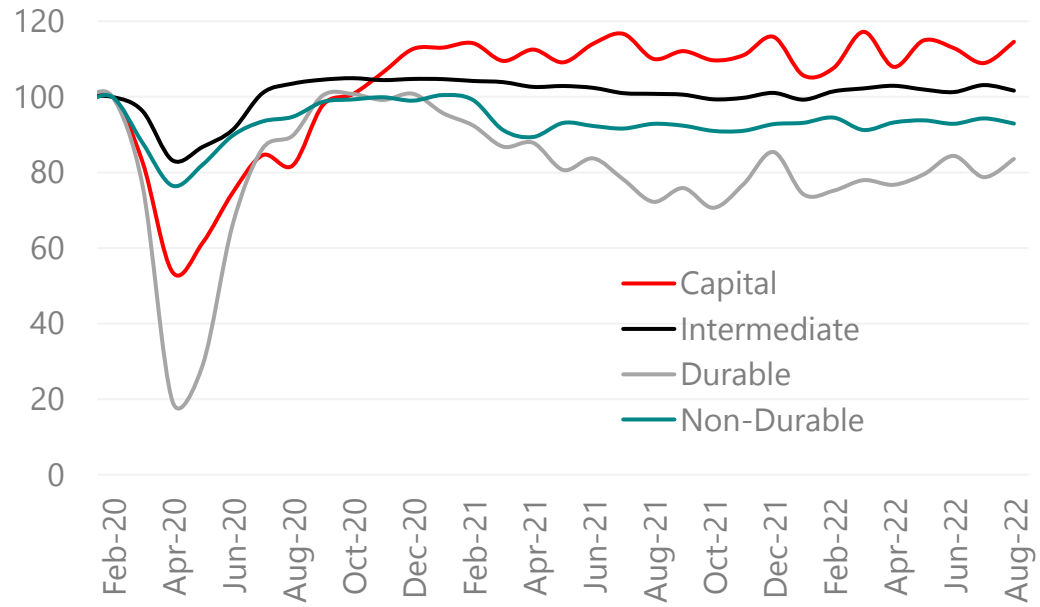


Sources: IBGE, Santander

Commodity-related Sectors and Construction Bring Resilience to Investments

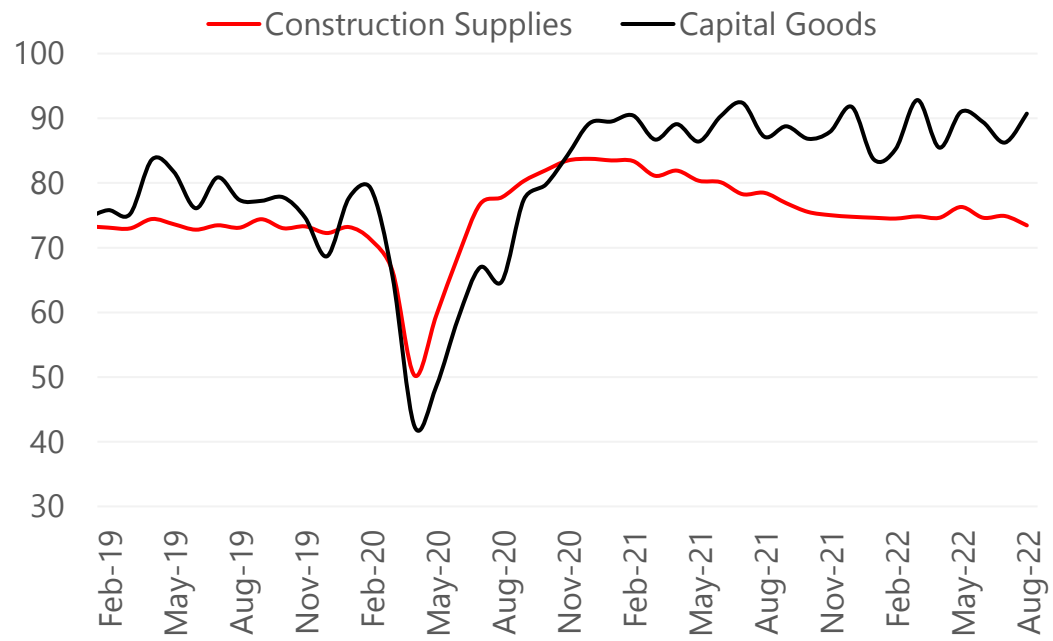
- We see commodity-related capital goods sectors showing resilience, and the construction sector (with longer cycle) entered a positive path benefitted from the historically low interest rates set during the pandemic. These elements bring resilience to investments amid an environment with rising interest rates.

Economic Categories (sa, 2012=100)



Sources: IBGE, Santander

Related to Investments (sa, 2012=100)

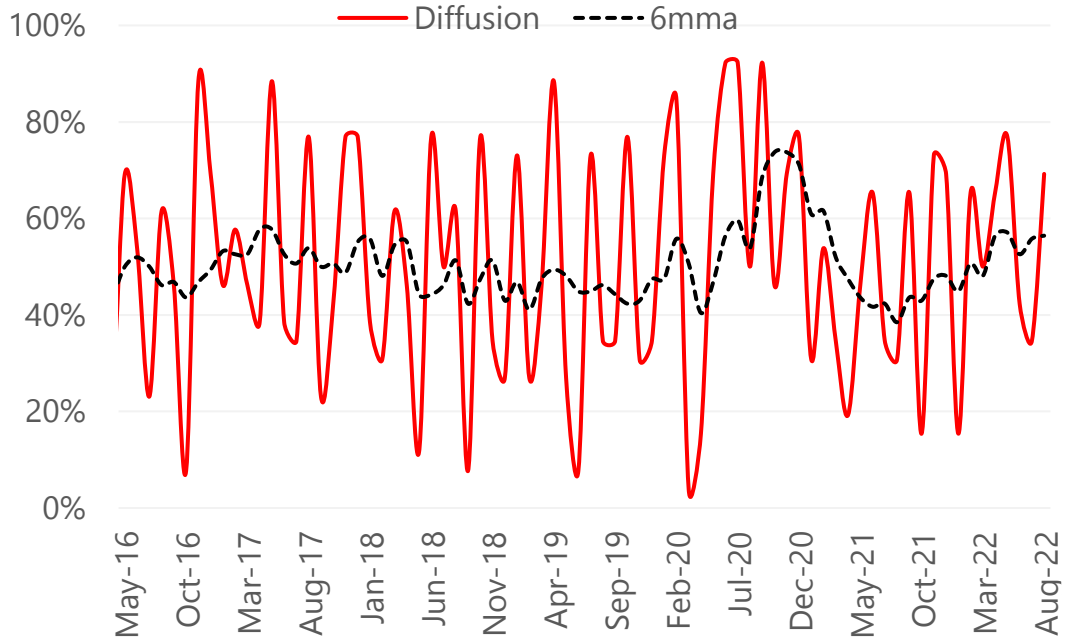


Sources: IBGE, Santander

September's Soft Data point to Tepid Prints at the end of 3Q

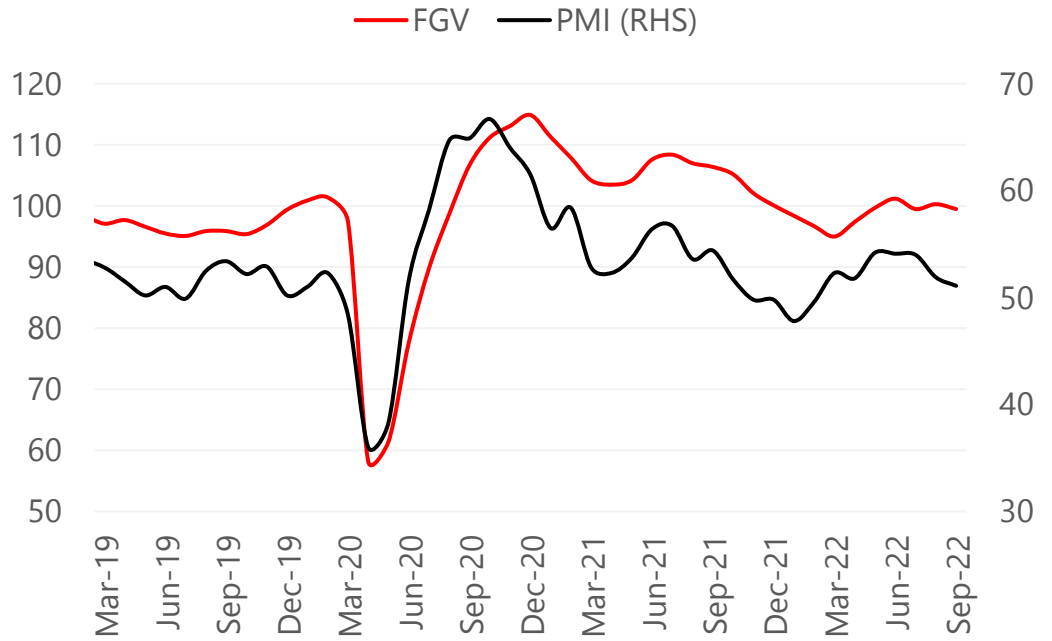
- We calculate a null carryover to 3Q22 (0% QoQ-sa). The surveys for September points to weak prints: FGV's industrial confidence fell to 99.5 points (from 100.3), below the 100 neutral mark, while manufacturing PMI fell to 51.1 points (from 51.9), slightly above the 50 neutral threshold. If confirmed a weak figure, it would be the first negative quarterly figure since 3Q21. We expect industrial output will drop by 0.7% MoM-sa (+0.6% YoY) in September.

Industrial Activities Diffusion Index (in %)



Sources: IBGE, Santander

Manufacturing Soft Data (as)



Sources: FGV, Markit, Santander.

Industrial Production Breakdown

Industrial Production Breakdown											
		% MoM			% YoY			% QoQ			Feb-20 %
	Weights	Jun-22	Jul-22	Aug-22	Jun-22	Jul-22	Aug-22	Mar-22	Jun-22	Aug-22	Aug-22
Total Industry	100%	-0.4	0.6	-0.6	-0.4	-0.4	2.8	0.6	0.9	0.1	-1.5
Mining	**11%**	**2.2**	**2.4**	**-3.6**	**-5.1**	**-3.5**	**-7.3**	**0.3**	**-0.5**	**-1.3**	**-3.9**
Manufacturing	**89%**	**-0.3**	**0.4**	**-0.2**	**0.2**	**0.1**	**4.1**	**0.8**	**1.4**	**0.5**	**-0.6**
Capital Goods	8%	-1.8	-3.5	5.2	-0.8	-6.3	4.0	-1.8	1.6	-1.1	14.6
Intermediate Goods	60%	-0.7	1.8	-1.4	-1.3	0.3	2.1	0.9	1.0	-0.3	1.7
Consumer goods	32%	0.2	1.0	-1.0	1.0	0.2	4.0	0.5	0.9	1.5	-10.3
Durable	7%	6.1	-6.7	6.1	2.1	0.1	13.6	-2.4	5.8	5.3	-16.5
Non-Durable	25%	-1.0	1.5	-1.4	0.7	0.2	1.9	1.5	0.4	0.7	-7.0
Construction Supplies	**-**	**-2.2**	**0.4**	**-1.9**	**-6.9**	**-5.8**	**-4.3**	**-0.6**	**0.7**	**-1.2**	**3.1**

Sources: IBGE, Santander.

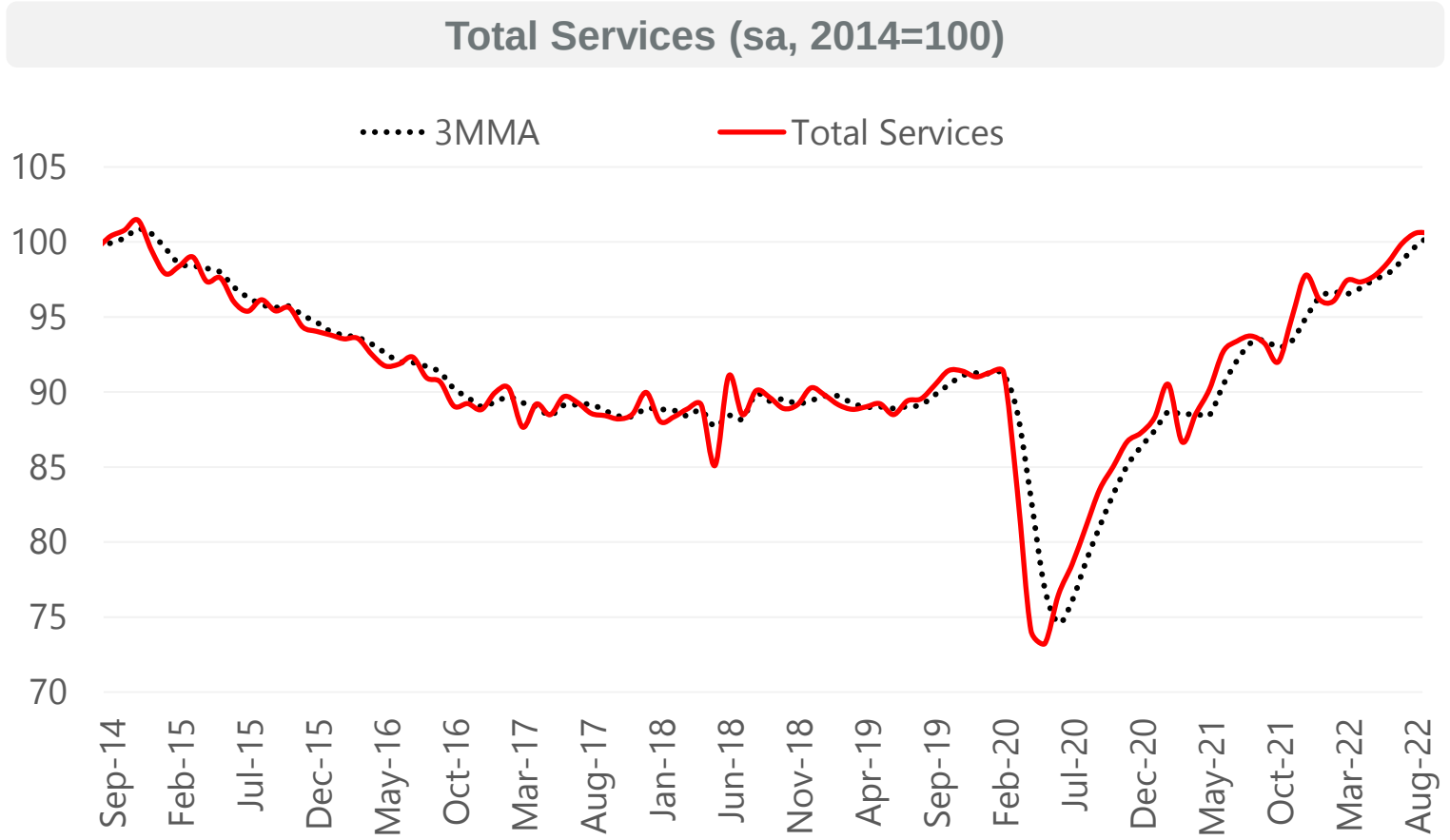
* For details, please see: https://bit.ly/Std-econact-100522.

SERVICES

03

Services Continue to Surprise to the Upside in 3Q

- Advances in the reopening process continued to strengthen the services sector, with the headline index marking a healthy streak of four consecutive gains. The index reached the highest reading since November 2014, and we calculate a sturdy carryover of +2.5% QoQ-sa to 3Q.

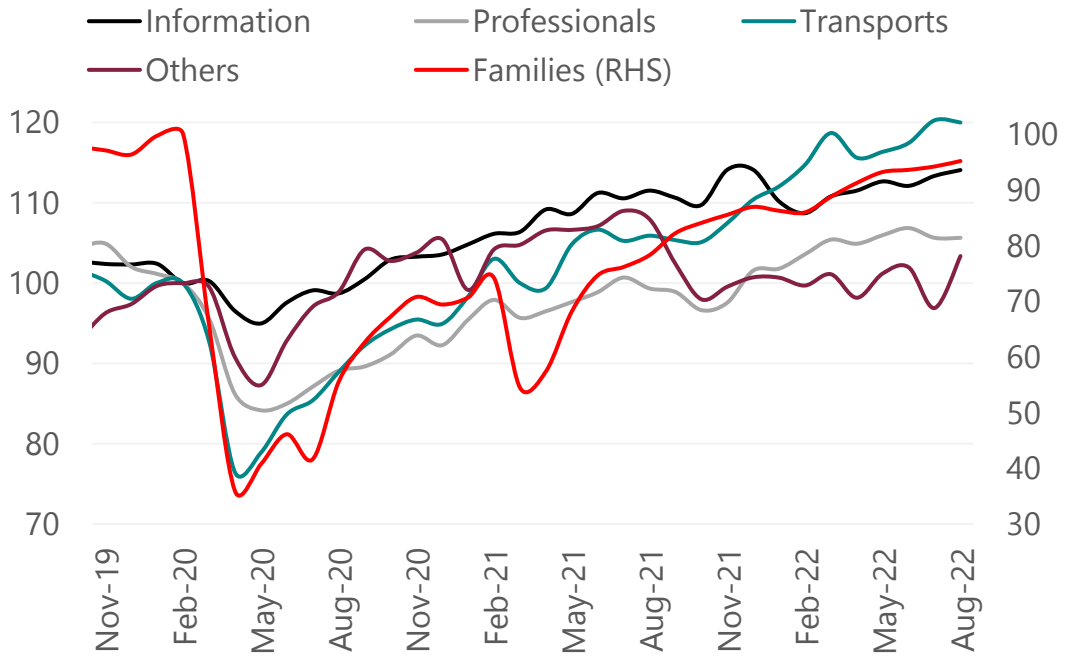


Sources: IBGE, Santander

Mobility-Related Activities Recover and Services Show Sharper Growth Trend

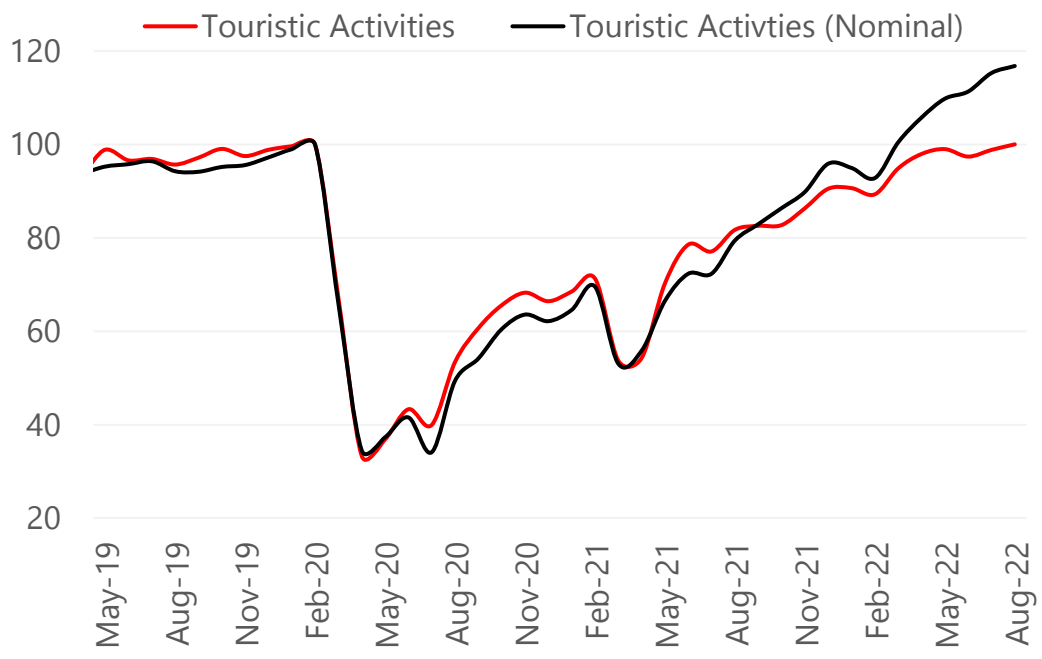
- Mobility-related segments like services to families continue to gain traction, on the heels of the consolidation of economy's reopening process. However, we highlight that segments like transports and information services had been showing sharper growth trend in comparison to the pre-pandemic path. In our view, this reflects i) increasing digitalization of the economy and ii) increasing e-commerce sales.

Total Services Breakdown (sa, 2014=100)



Sources: IBGE, Santander

Touristic Activities (sa, Feb/20=100)

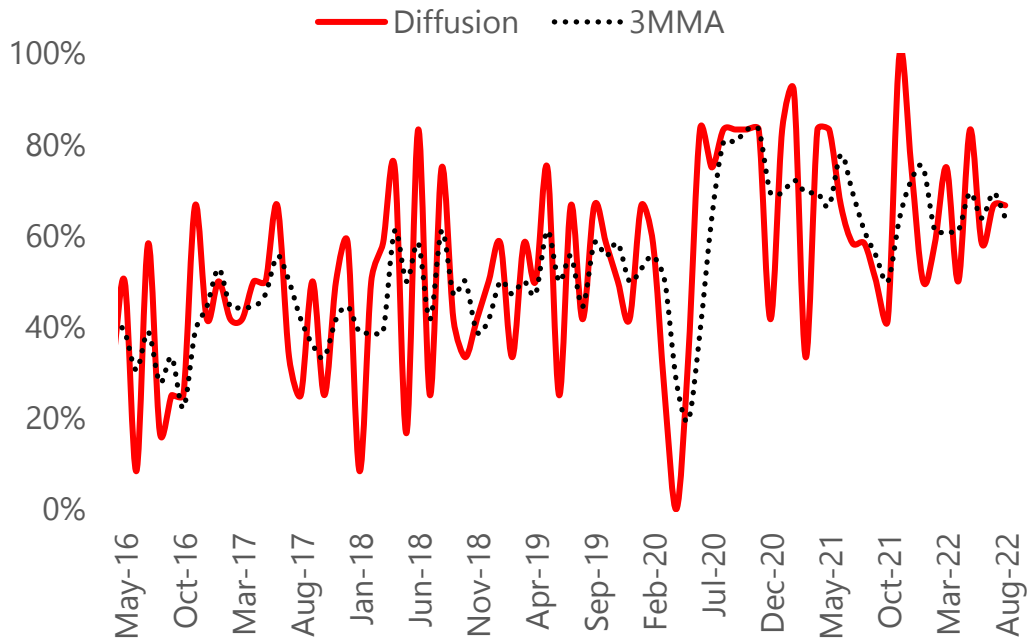


Sources: IBGE, Santander.

September's Surveys Continue to Point to Growth

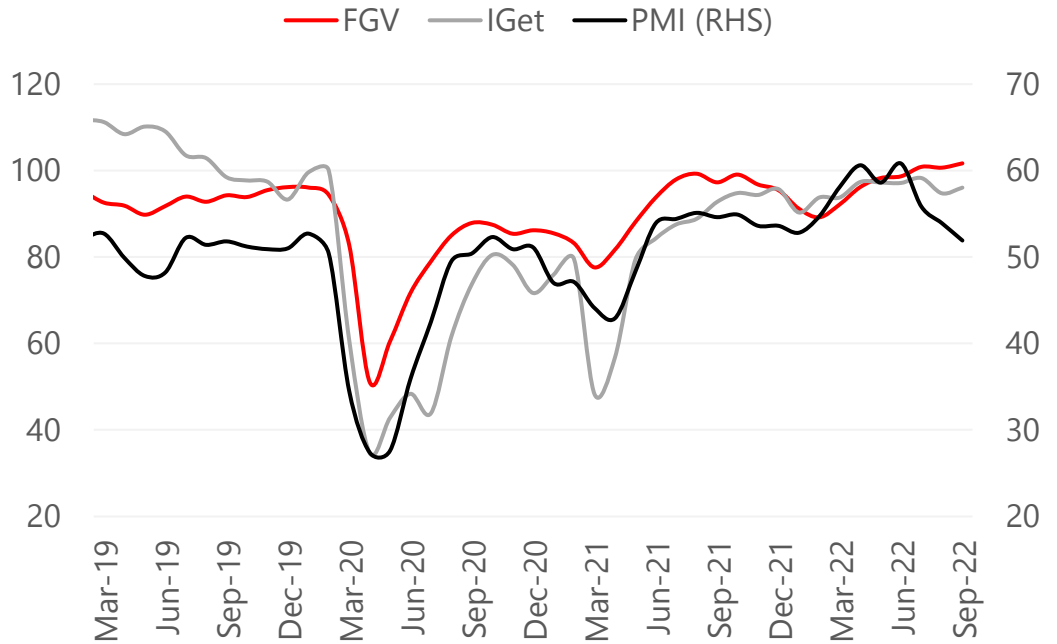
- FGV's economic confidence index jumped to 101.7 points (from 100.7 points), above the neutral mark of 100 points, and IGet Services expanded 1.4% MoM-sa, while Services PMI declined to 51.9 points (from 53.9 points), still above the neutral threshold of 50. Our preliminary tracking for September points to virtual stability, -0.1% MoM-sa (+7.5% YoY).

Services Activities Diffusion Index (in %)



Sources: FGV, Santander

Services Confidence and IGet (as)



Sources: FGV, Markit, Santander

Services Sector Breakdown

Services Breakdown											
		% MoM			% YoY			% QoQ			Feb-20 %
	Weights	Jun-22	Jul-22	Aug-22	Jun-22	Jul-22	Aug-22	Mar-22	Jun-22	Aug-22	Aug-22
Total Services	100%	0.9	1.3	0.7	6.4	6.3	8.0	1.7	1.4	2.3	10.1
Families	**8%**	**0.4**	**0.6**	**1.0**	**28.1**	**22.6**	**22.0**	**1.7**	**6.5**	**3.6**	**-4.8**
Accommodation and Food	7%	-0.8	1.9	1.8	28.8	22.2	23.0	1.6	6.4	3.3	-5.1
Other Services to Families	1%	3.0	2.2	-4.4	24.6	24.5	16.3	6.6	4.0	1.6	-8.7
Information	**31%**	**-0.5**	**1.1**	**0.6**	**0.9**	**2.1**	**2.9**	**-2.5**	**0.0**	**1.4**	**14.1**
Technology	26%	-0.7	0.7	2.0	1.5	2.1	3.6	-3.0	2.4	1.5	15.0
Telecommunication	19%	0.2	-1.8	1.5	-6.3	-9.1	-6.8	-3.5	-0.6	0.1	-8.9
Information Technology	7%	-5.2	6.8	0.8	11.3	17.1	17.1	0.8	4.6	2.0	56.7
Audiovisual	5%	0.4	0.1	-2.4	-4.6	2.7	-2.3	-1.8	0.5	-0.7	-7.1
Professional	**23%**	**0.8**	**-1.1**	**0.0**	**8.3**	**4.1**	**7.3**	**5.1**	**2.2**	**0.6**	**5.7**
Professional	7%	3.1	-2.6	1.0	9.8	-2.2	8.5	4.7	2.3	1.6	21.6
Administrative	16%	0.0	-0.1	-0.5	7.7	6.8	6.8	4.6	2.2	0.8	-0.2
Transportation	**31%**	**0.9**	**2.4**	**-0.2**	**10.1**	**12.9**	**13.6**	**7.0**	**1.1**	**2.0**	**20.0**
Ground Transportation	18%	2.5	0.9	-0.7	20.6	18.8	21.1	7.6	5.5	4.6	21.0
Water Transportation	2%	1.6	3.8	1.0	14.6	14.2	16.4	0.7	4.0	9.0	35.4
Air Transport	3%	-9.1	6.5	0.3	-3.3	15.4	8.7	25.1	-4.4	-15.8	0.8
Storage and Mail	9%	-2.3	5.5	0.7	-3.4	2.7	3.1	2.8	-4.2	-0.5	16.8
Other Services	**7%**	**0.8**	**-5.0**	**6.7**	**-4.6**	**-12.1**	**-2.4**	**1.1**	**0.0**	**0.6**	**3.4**
Touristic Activities	-	-1.6	1.5	1.2	25.8	26.5	22.8	5.9	7.1	1.5	0.1

Sources: IBGE, Santander.

* For details, please see: https://bit.ly/Std-econact-101422.

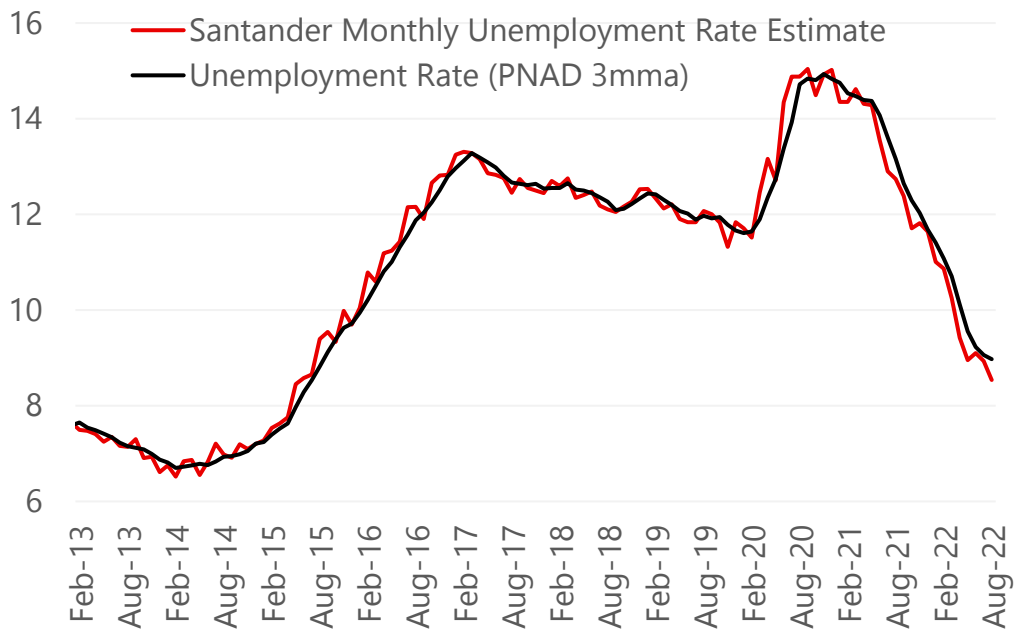
LABOR MARKET

04

Labor Market Remains Strong, Despite Deceleration of Employed Population Growth

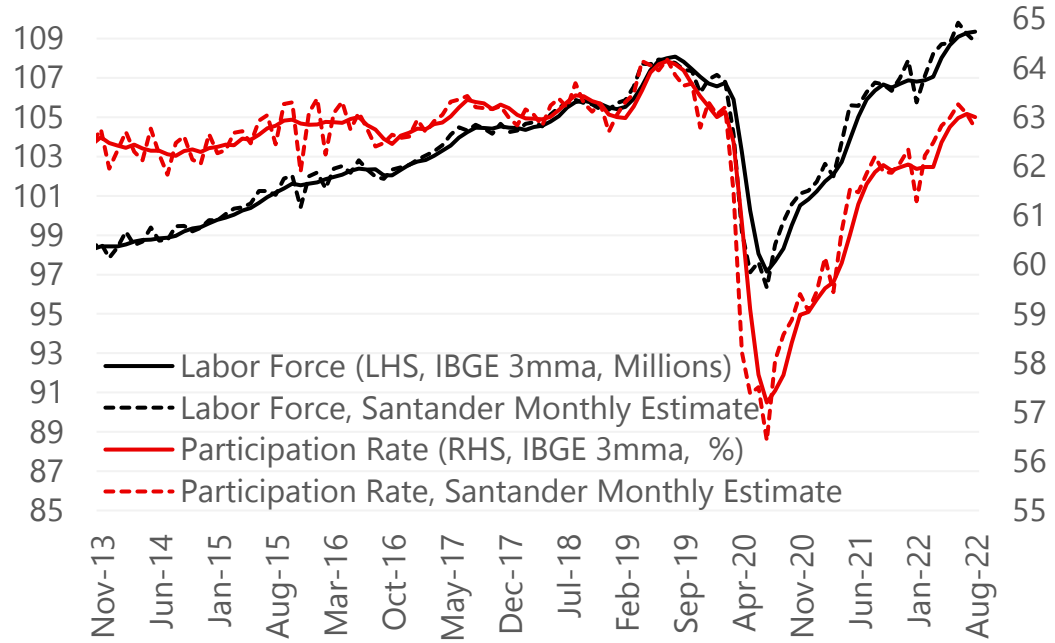
- The PNAD result shows that the employed population growth has decelerated in July and August but remains in good shape. Due to a drop in the participation rate, the unemployment rate shows sings has fallen further at the margin and is in the lowest levels observed since mid-2015.

Unemployment Rate (sa)



Sources: IBGE, Santander.

Labor Force and Participation Rate (sa)

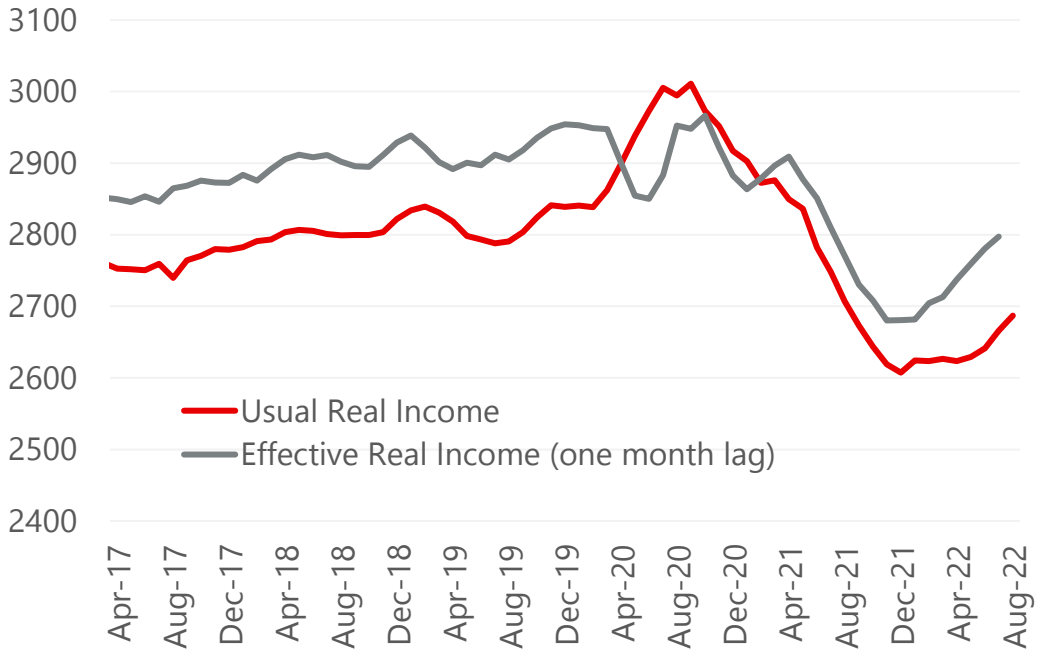


Sources: IBGE, Santander.

Average Real Income Showings Signs of Recovery

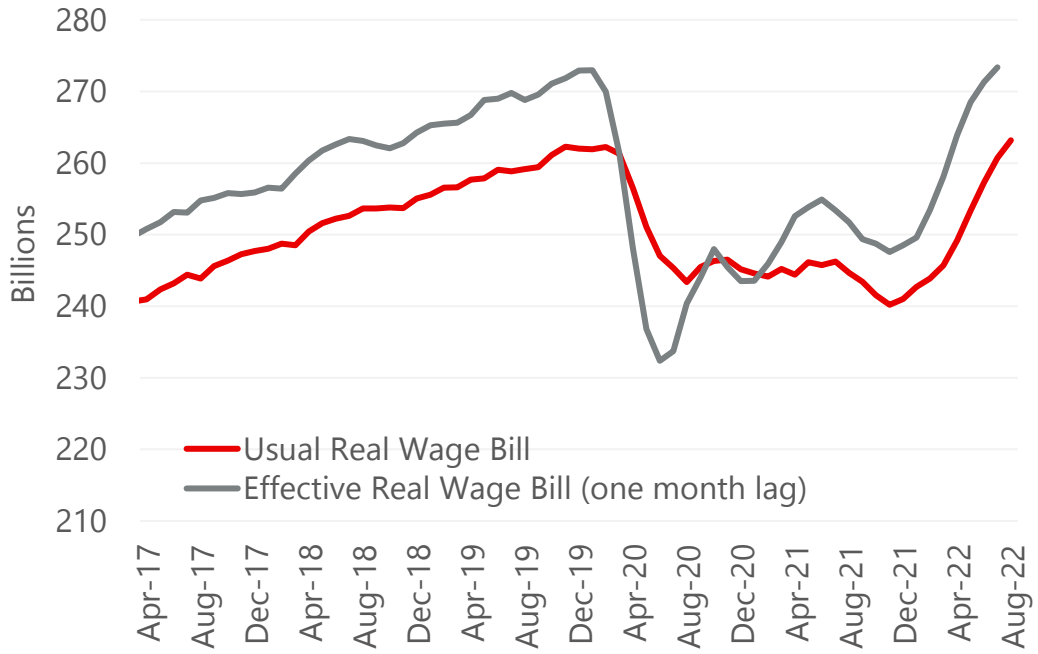
- The usual real wage bill increased 0.9% MoM-sa in August and is now 0.4% above the pre-pandemic mark, benefiting from the positive impact of a recovering trend in average real wages.

Average Real Income (BRL, sa)



Sources: IBGE, Santander.

Real Wage Bill (BRL, sa)

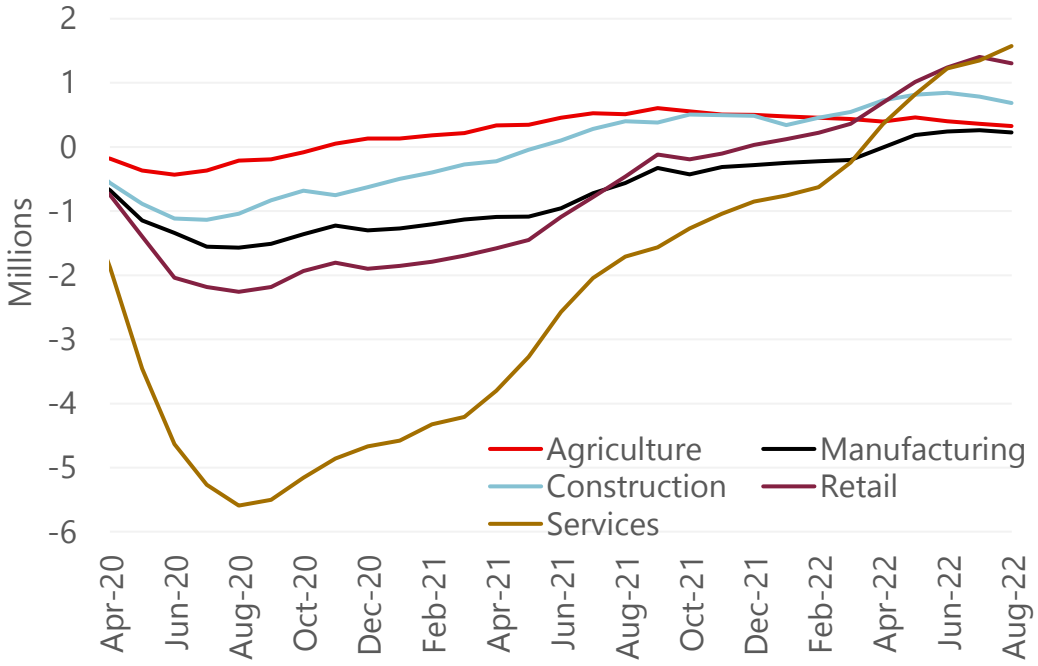


Sources: IBGE, Santander.

All Main Sectors Above the Pre-Crisis Mark

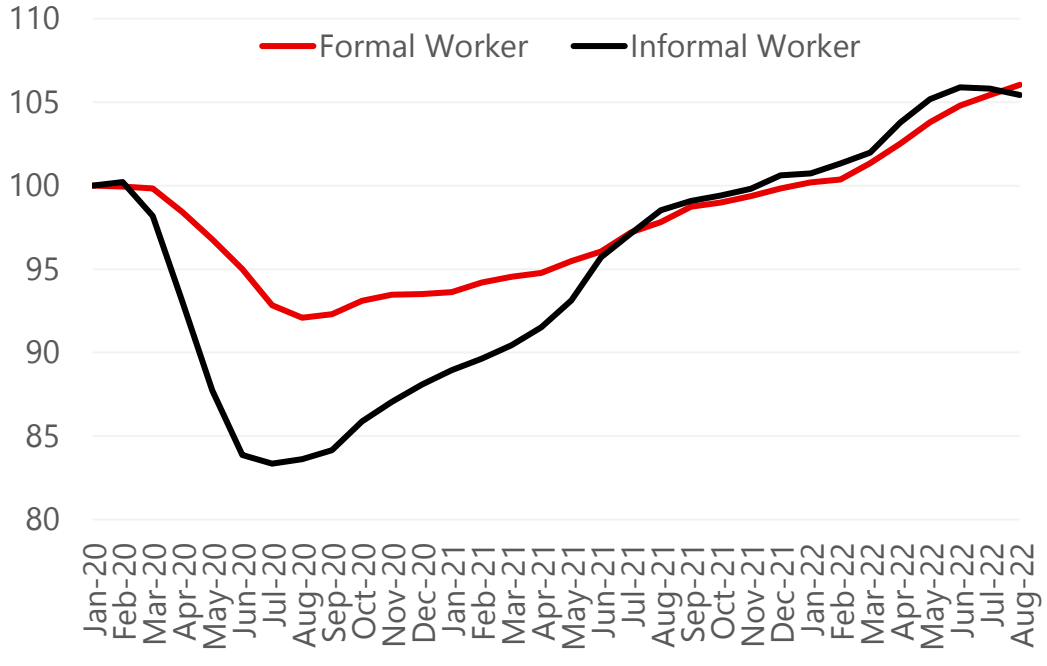
- Some sectors showed signs of deceleration in employment growth in August. The services sector remains the highlight of job creation in 2022. Retail, on the other hand, posted a contraction in August, as construction was flattish. Another highlight in August's employment growth was private sector workers, whereas domestic and self-employed workers showed a deceleration.

Post-Pandemic Accumulated Job Losses (sa)



Sources: IBGE, Santander.

Employment by Position (sa, Jan-20=100)

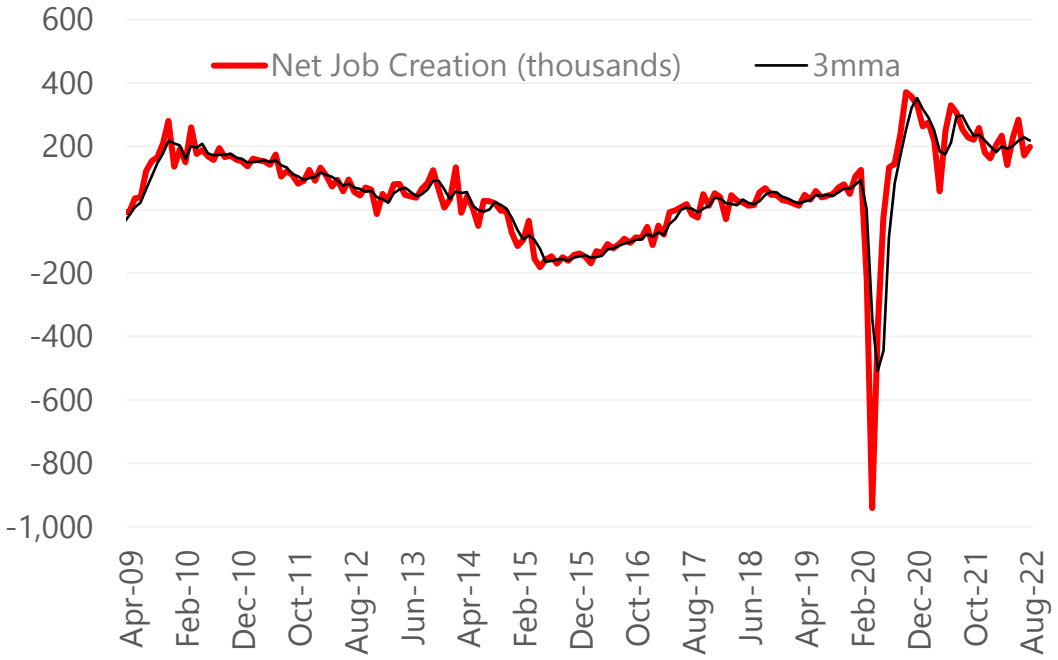


Sources: IBGE, Santander.

Monthly Payroll Expansion Stabilized at a Strong Pace

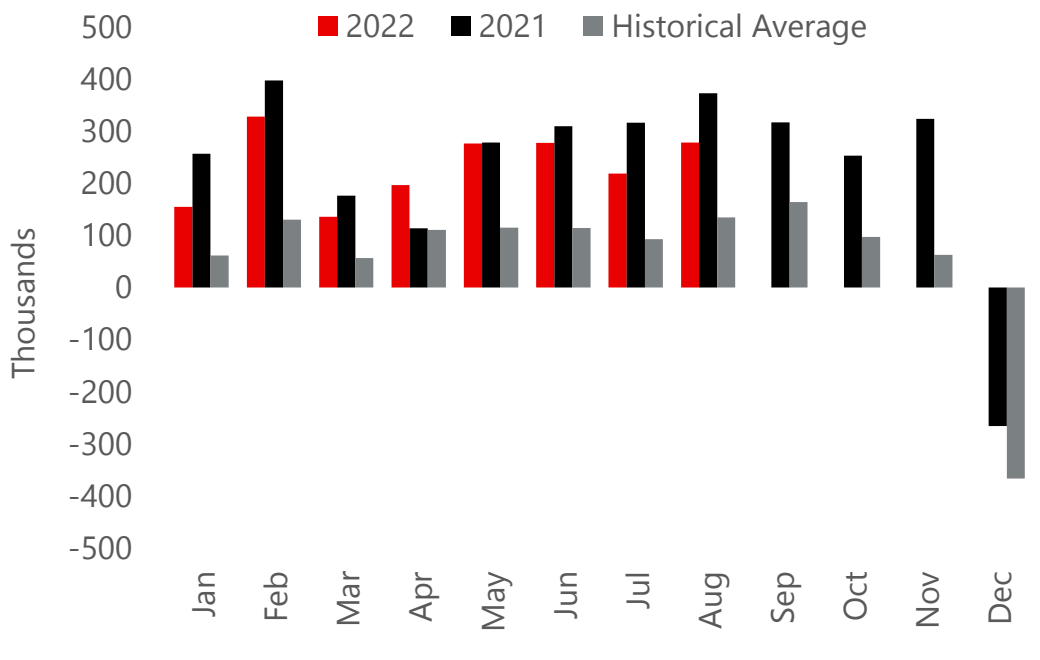
- Based on the August CAGED survey, after our own seasonal adjustment, net formal job creation accelerated to 198k, from 171k in July. The three-month average now points to a payroll expansion of 218k jobs (July: 228k). After decelerating since mid-2021, the net job creation figure consolidated a stabilization above 200k, a strong pace, equivalent to more than 2.5 million annualized.

CAGED Net Job Creation (sa)



Sources: Ministry of Labor, Santander.

Net Job Creation and Historical Average

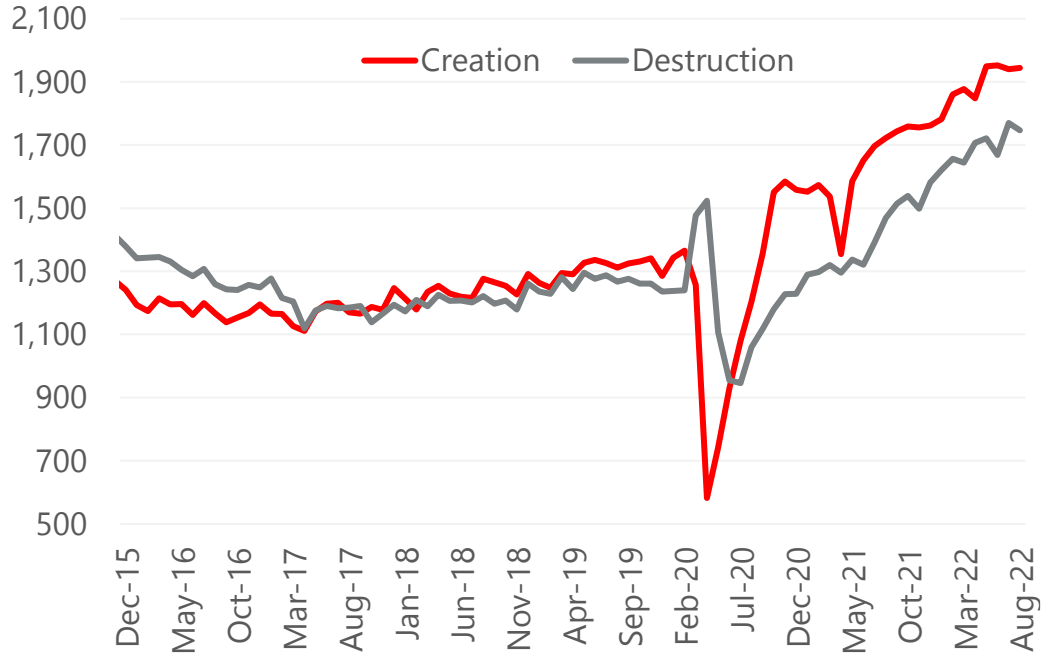


Sources: Ministry of Labor, Santander.

CAGED: Net Job Creation Still Above Joblessness-Neutral Level

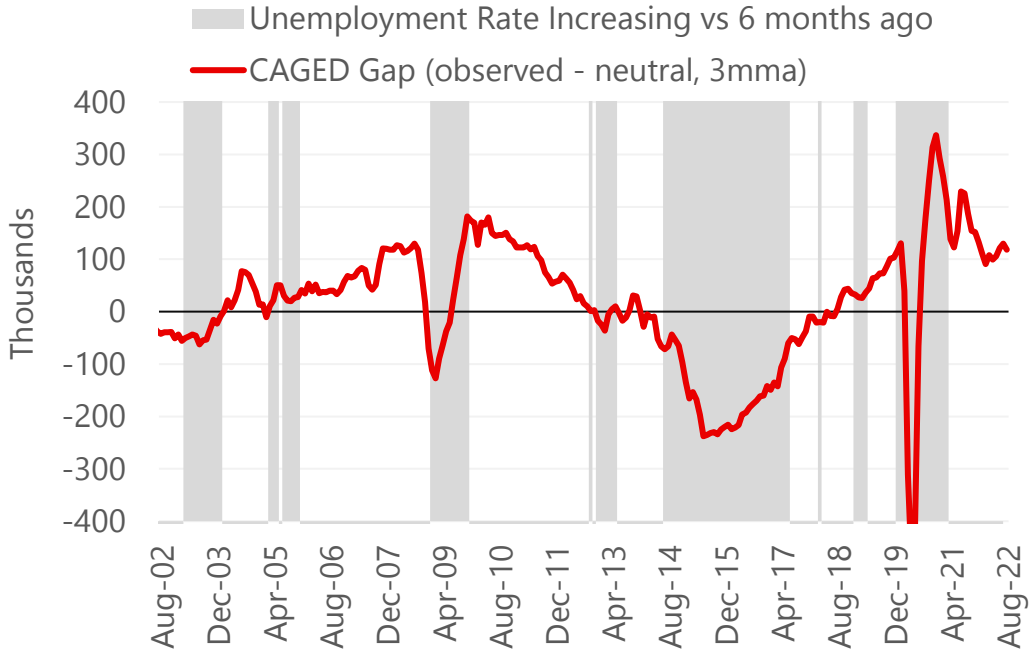
- After our seasonal adjustment, net formal job creation accelerated to 198k, from 171k in July. The number of hirings increased 0.2% MoM-sa, while layoffs decreased 1.3% MoM-sa. We estimate that the three-month moving average of CAGED's gap with the joblessness-neutral level (~100k) stood at 118k (130k in July).

CAGED: Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

Net Job Creation Gap (sa)

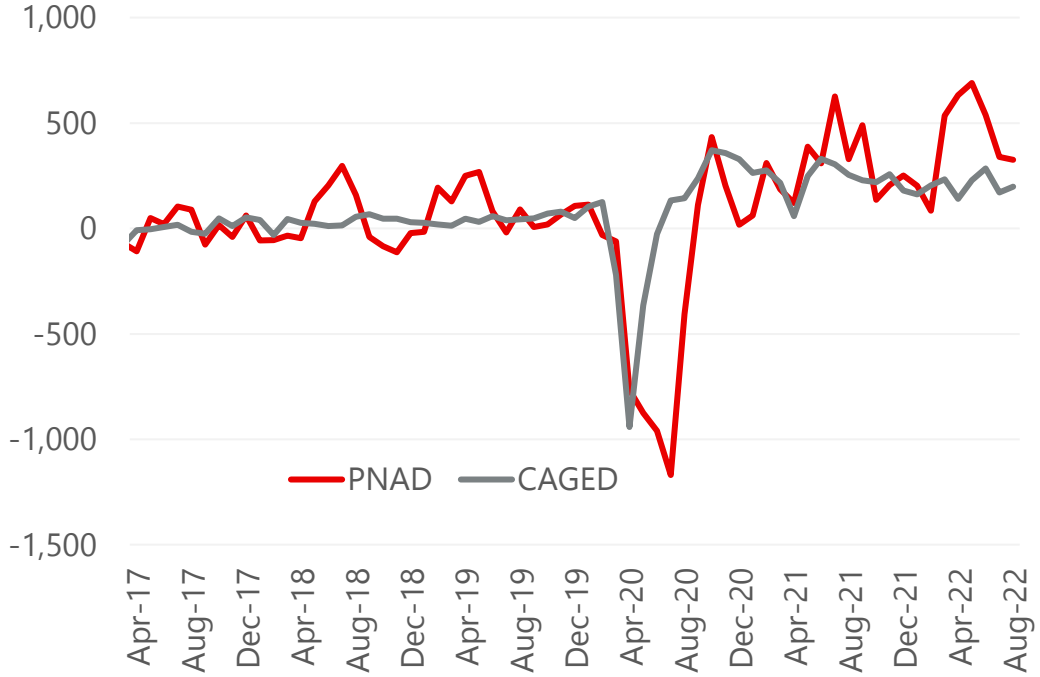


Sources: Ministry of Labor, IBGE, Santander.

PNAD Continues to Paint a Better Picture Than CAGED

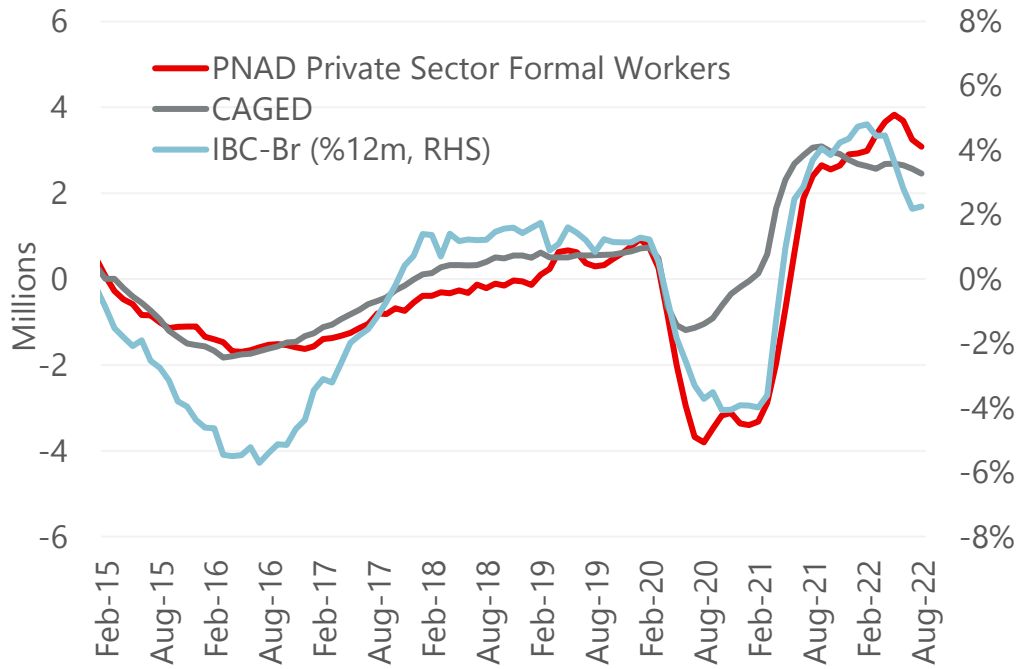
- As formal employment in PNAD printed strong results from March to August, CAGED data showed grater volatility, but remains at a strong pace of payroll expansion. After diverging during 2020 and 2021, both the PNAD and CAGED surveys are now more aligned with core economic activity indicators, despite some short-term differences.

Net Formal Job Creation (thousands, sa)



Sources: Ministry of Labor, IBGE, Santander.

Net Job Creation and IBC-Br (12m)



Sources: Ministry of Labor, BCB, IBGE, Santander.

August 2022 PNAD Results

PNAD Breakdown	s.a.			% YoY			% Feb-20*		
	Jun-22	Jul-22	Aug-22	Jun-22	Jul-22	Aug-22	Jun-22	Jul-22	Aug-22
Unemployment rate (%)	9.2	9.1	9.0	-4.9	-4.6	-4.2	-2.4	-2.6	-2.7
Participation rate (%)	63.0	63.1	63.0	1.8	1.5	1.2	-0.1	0.0	-0.1
Labor force (millions)	109.1	109.3	109.3	4.0	3.3	2.9	2.3	2.5	2.6
Employment	99.0	99.4	99.5	9.9	8.8	7.9	5.0	5.4	5.5
Unemployment	10.1	9.9	9.8	-32.0	-31.4	-30.1	-19.0	-20.3	-21.1
Formalization Rate (%)	57.0	57.2	57.4	-0.4	-0.1	0.3	-0.2	0.0	0.2
Formal Workers (millions)	56.5	56.9	57.2	9.2	8.6	8.5	4.9	5.5	6.1
Informal Workers (millions)	42.6	42.6	42.4	10.9	9.2	7.2	5.7	5.6	5.2
Average usual earnings (BRL)**	2,641	2,666	2,687	-5.1	-2.9	-0.6	-6.9	-6.1	-5.3
Average effective earnings (BRL)**	2,781	2,797	-	-2.3	-0.3	-	-5.7	-5.1	-
Usual wage bill (BRL bn)**	257.3	260.7	263.2	4.8	6.1	7.7	-1.9	-0.6	0.4
Effective wage bill (BRL bn)**	271.3	273.4	-	6.7	8.1	-	0.5	1.3	-

* Seasonally adjusted variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

** In real terms

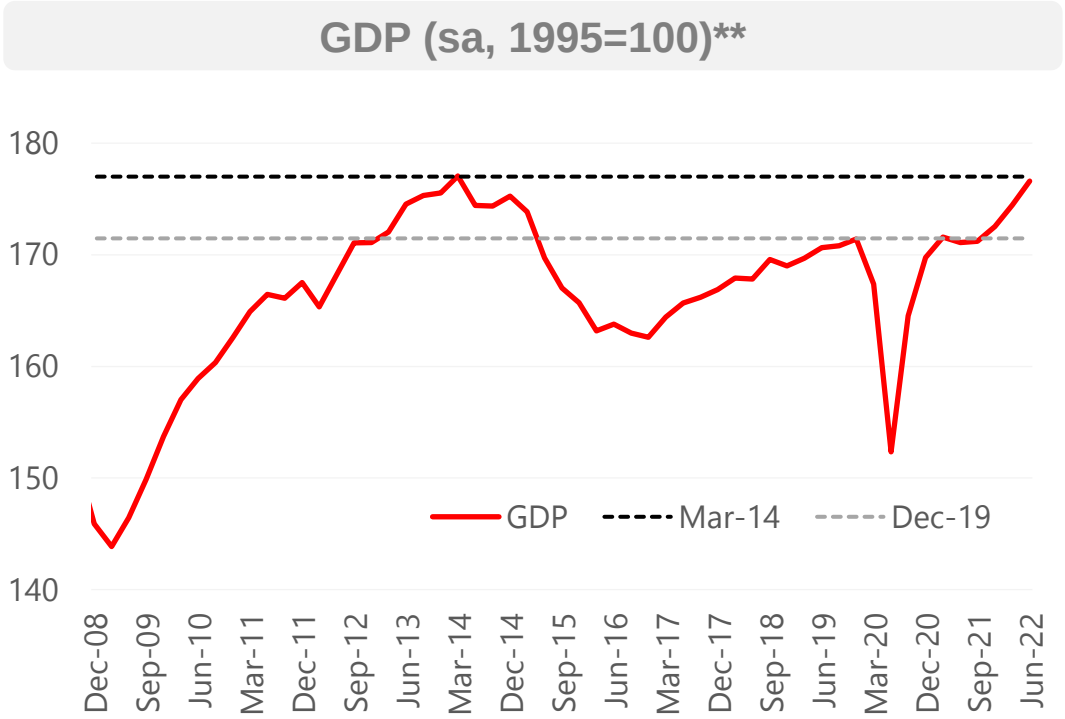
Sources: IBGE, Santander.

GDP

05

Strong 2Q GDP Data (Again)

- GDP climbed 1.2% QoQ-sa (+3.2% YoY), reflecting widespread growth, with 11 of the 12 supply-subsectors surveyed posting growth at the margin. We attribute this strong figure to the economy's reopening process consolidation coupled with expansion in the real wage bill (labor market strong recovery + increasing disposable income). From a demand standpoint, substantial strengthening of domestic demand, but with the external sector weighing on activity.



		1Q22		2Q22		4Q19*	Carry **
	Weights	% YoY	% QoQ	% YoY	% QoQ	%	%
GDP	100%	1.7	1.1	3.2	1.2	3.0	2.7
Supply							
Taxes	15%	0.5	0.2	1.6	0.7	2.9	1.0
Farm Output	**7%**	**-8.0**	**-0.9**	**-2.5**	**0.5**	**0.3**	**-1.7**
Industry	**19%**	**-1.5**	**0.6**	**1.9**	**2.2**	**2.6**	**1.3**
Mining	25%	-2.4	-2.8	-4.0	2.2	-2.4	-2.4
Manufacturing	51%	-4.7	1.7	0.5	1.7	0.9	0.2
Construction	12%	9.0	1.0	9.9	2.7	12.5	7.0
Utilities	12%	7.6	6.5	10.8	3.1	9.0	9.8
Services	**59%**	**3.7**	**1.1**	**4.5**	**1.3**	**3.7**	**3.4**
Retail	22%	-1.5	2.1	1.3	1.7	3.9	1.3
Transports	5%	9.4	2.5	11.7	3.0	11.8	8.8
Information	5%	5.5	-5.3	4.6	2.9	15.1	2.3
Financial	9%	-1.6	-0.6	1.0	1.4	4.5	0.4
Other Services	22%	12.6	2.4	13.6	3.3	4.4	10.1
Rents	14%	0.3	0.7	0.5	0.3	5.1	0.6
Public Services	24%	2.9	0.4	1.1	-0.8	-2.2	1.0
Demand							
Consumption	**61%**	**2.2**	**0.5**	**5.3**	**2.6**	**1.9**	**3.7**
Government	**19%**	**3.3**	**-0.1**	**0.7**	**-0.9**	**-1.7**	**0.7**
Investments	**19%**	**-7.2**	**-3.0**	**1.5**	**4.8**	**18.8**	**-0.7**
Exports	**20%**	**8.1**	**5.7**	**-4.8**	**-2.5**	**3.6**	**1.6**
Imports	**-19%**	**-11.0**	**-4.0**	**-1.1**	**7.6**	**3.2**	**-1.6**

Sources: IBGE, Santander.

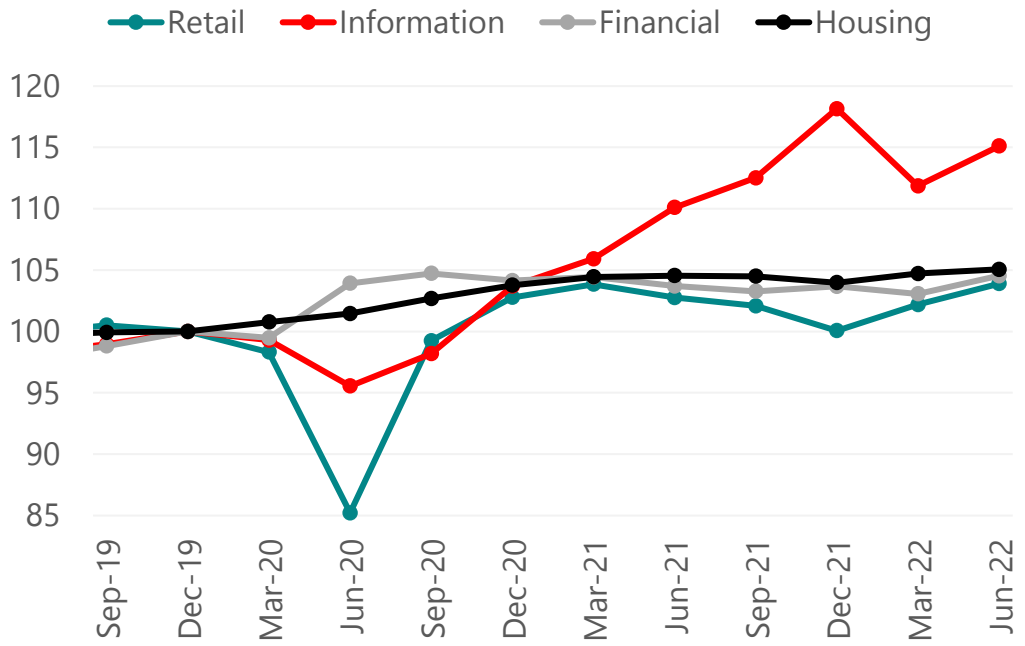
** "Strong 2Q GDP Data (Again)"* – September 01, 2022 - Available on: https://bit.ly/Std-GDP-2Q22

** GDP is 3.0% above the pre-pandemic mark (Dec-19) and 0.3% below the all-time high (Mar-14).

Services Recovery Boosted GDP in 1H22

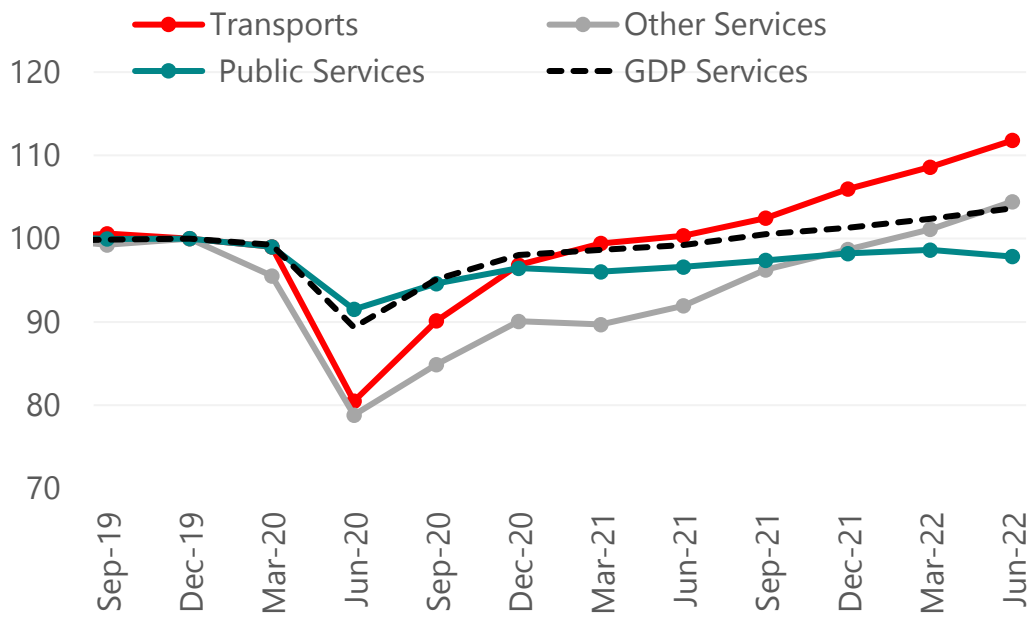
- The sharp growth seen in 1H22 placed the subsector at an all-time high level, playing a major role in the strong labor market recovery seen in the period. The normalization of presential activities, along with sharper growth rates of segments that had relatively benefitted in the post-pandemic dynamics (transports and information services), boosted the major component of GDP (from a supply standpoint).

Selected Segments of Services (sa, 4Q19=100)



Sources: IBGE, Santander.

Mobily-Related Segments (4Q19=100)



Sources: IBGE, Santander.

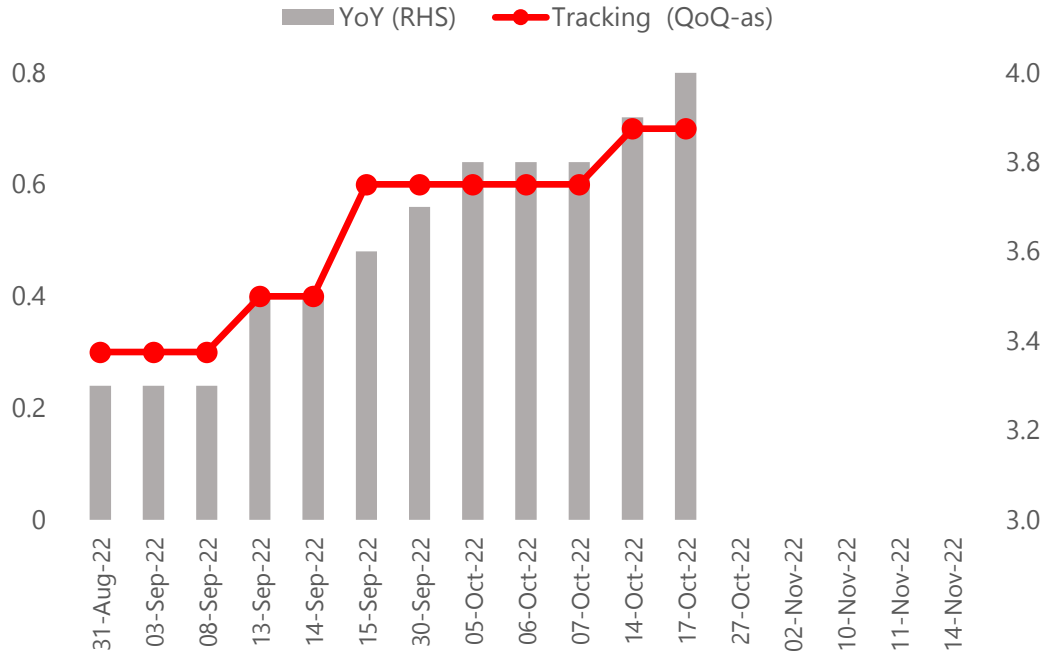
- Transports, Other Services and Public Services account for 4%, 13% and 15%, respectively, summing up 30% of GDP.
- Other Services: Leisure, restaurants, health and education (mercantile).
- Public Services: Public administration, health and education (non-mercantile).

Positive Surprises in Services Raised GDP Growth Tracking

- After the 2Q's strong GDP data release, we were forecasting a slight +0.3% QoQ-sa GDP growth in 3Q, but positive surprises seen in the services sector in July and August prompted us to upwardly update our GDP growth tracking. These figures highlight a heterogeneous pattern across the main sector: on the one hand, services still benefit from the reopening, on the other hand, goods-related sectors are struggling, likely reflecting the first effects of a lagged restrictive monetary policy.

3Q22 GDP Growth Tracking

			Tracking (%)		Projection (%)	
Date	Release	Reference	QoQ-sa	YoY	QoQ-sa	YoY
31-Aug-22	Labor Market	Jul-22	0.3	3.3	0.3	3.3
03-Sep-22	Industry	Jul-22	0.3	3.3	0.3	3.3
08-Sep-22	LSPA	Aug-22	0.3	3.3	0.3	3.3
13-Sep-22	Retail Sales	Jul-22	0.4	3.5	0.3	3.3
14-Sep-22	Services	Jul-22	0.4	3.5	0.3	3.3
15-Sep-22	IBC-Br	Jul-22	0.6	3.6	0.3	3.3
30-Sep-22	Labor Market	Aug-22	0.6	3.7	0.3	3.3
05-Oct-22	Industry	Aug-22	0.6	3.8	0.3	3.3
06-Oct-22	LSPA	Sep-22	0.6	3.8	0.3	3.3
07-Oct-22	Retail Sales	Aug-22	0.6	3.8	0.3	3.3
14-Oct-22	Services	Aug-22	0.7	3.9	0.6	3.8
17-Oct-22	IBC-Br	Aug-22	0.7	4.0	0.6	3.8



Sources: BCB, IBGE, Santander.

Sources: IBGE, BCB, Santander.

* Please, see our report: *"Nowcasting Brazilian GDP with LASSO"* – May 16, 2022 - Available on: https://bit.ly/Std-special-051622.

BASELINE SCENARIO

06

GDP: Key Hypotheses, Basic Description and Risks

- Main hypothesis: we assume that the benefits of reopening the economy are restricted to 1H22. From 2H22 onward, the effects of a tight monetary policy stance will start to show. The inflation deceleration, a tight labor market, and new government transfers should lead to a partial recovery in real income toward mid-2023, implying resilience in consumption despite weaker economic activity.

- Once again, we are raising our GDP forecasts for 2022 and 2023 but maintaining our estimate for 2024. For the full-year 2022, we have raised our GDP forecast to 2.8% (from +2.6%) due to positive surprises in the labor market and in the services sector in 3Q22. As per the quarterly GDP trajectory, we are raising our estimates to +0.6% QoQ-sa and to 0.0% QoQ-sa for both 3Q22 and 4Q22 (respectively from +0.3% QoQ-sa and -0.2% QoQ-sa). We expect mixed signals for economic activity across 2H: on the one hand, labor market resilience and fiscal stimuli may partially support demand; on the other hand, we should finally see the effects of the contractionary monetary policy and tight financial conditions. For 2023, we updated our GDP forecast to +0.7% (from -0.2%). We calculate a stronger carryover for next year, on the back of the better expectation for the 2H22, but we continue to envision a slowdown in domestic demand and in cyclical components, stemming mainly from an expected global recession and the effects of a tight BCB policy. Conversely, we now expect a strong growth for farm output, reflecting an all-time high forecast for grain harvest. For 2024, we see still the economy struggling to gather momentum, given the persistence of global headwinds and the slow pace of rate cuts (mirrored in a still tight BCB policy stance): we have maintained our GDP forecast at +0.5%.

- **Upside risks:** stronger than expected recovery in real household income as a result of the lower jobless rate and a greater impact of government transfers on consumption. Faster than expected solutions to supply-chain disruptions in manufacturing. Resilience in commodity prices could mean a persistent impulse.
- **Downside risks:** prolonged shortage of inputs in some production chains in manufacturing. Stronger than expected inflationary resilience, leading the BCB to adopt an even tighter policy stance in the medium term. Worsening weather problems, temporarily dampening farm output.

GDP Path and Breakdown

GDP Baseline Scenario			
	YoY	QoQ	Full Year
2Q21	12.3%	-0.3%	
3Q21	4.0%	0.1%	
4Q21	1.6%	0.8%	4.6%
1Q22	1.7%	1.1%	
2Q22	3.2%	1.2%	
3Q22	3.8%	0.6%	
4Q22	2.5%	0.0%	2.8%
1Q23	2.9%	0.4%	
2Q23	0.7%	-0.2%	
3Q23	-0.3%	-0.2%	
4Q23	-0.2%	-0.2%	0.7%

Sources: IBGE, Santander.
* Our oficial GDP scenario contemplates a +0.6% QoQ-as; however, our tracking already points to a +0.7% QoQ-as.

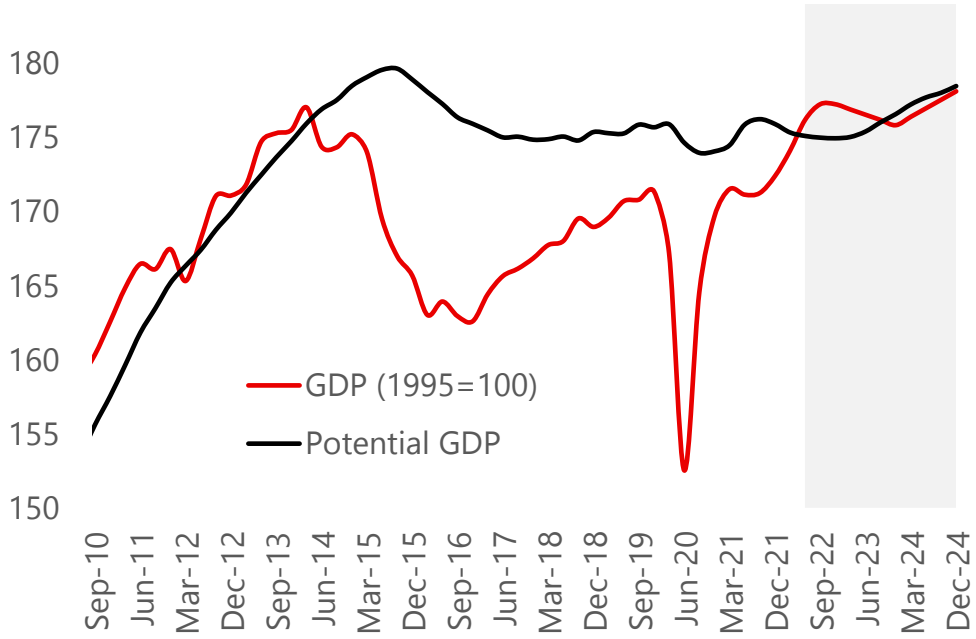
GDP Projections						
	2018	2019	2020	2021	2022e	2023e
GDP	1.8	1.2	-3.9	4.6	2.8	0.7
Farm Output	1.3	0.4	3.8	-0.2	-0.5	7.1
Industry	0.7	-0.7	-3.4	4.5	1.0	0.4
Services	2.1	1.5	-4.3	4.7	3.4	0.4
Household	2.4	2.6	-5.4	3.6	3.6	1.0
Government	0.8	-0.5	-4.5	2.0	1.2	0.5
Investments	5.2	4.0	-0.5	17.2	-0.6	-0.5
Exports	4.1	-2.6	-1.8	5.8	3.2	4.6
Imports	7.7	1.3	-9.8	12.4	-1.5	1.4

Sources: IBGE, Santander

Output Gap Closed Until Mid-2023

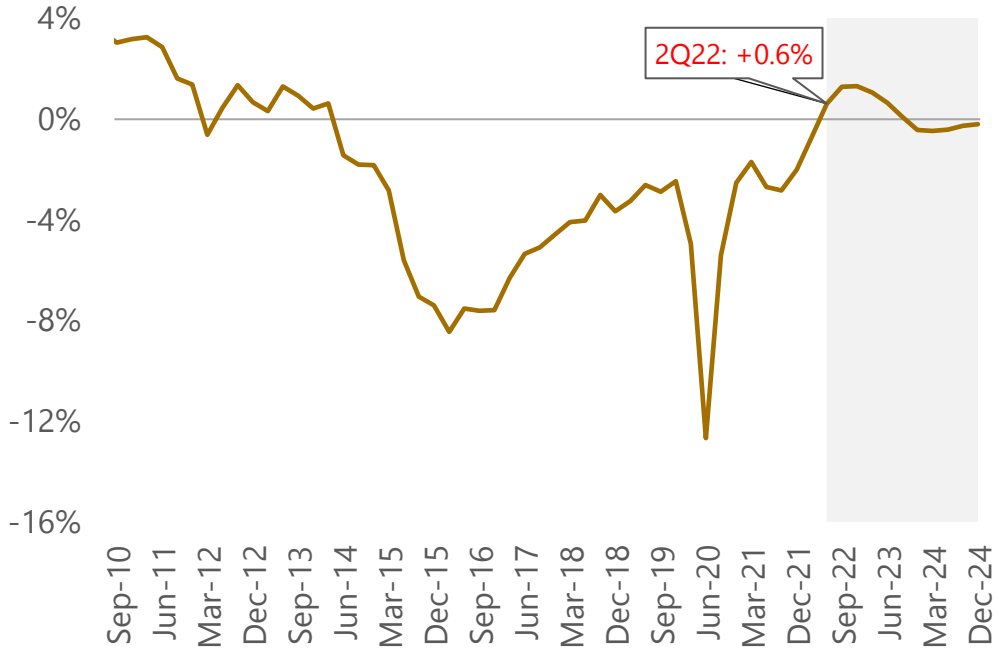
- The strength of economic activity in 2022 took the output gap to positive terrain for the first time since 2014 in 2Q22. We expect the GDP to remain above potential until mid-2023. The GDP contraction expected for 2023 and the growth below potential in 2024 should maintain a negative output gap at least until YE-2024 (~-0.5%). Our long-term potential growth stands at the 1.5%.

GDP (sa, average 1995=100)



Sources: IBGE, Santander.

Output Gap (%)



Sources: IBGE, Santander.

Lower Participation Rate Has Led Us to Reduce our Unemployment Rate Estimates

- Considering both the slower-than-expected expansion of the labor force in the short term and the increase in our GDP forecasts for 2022 and 2023, we have reduced our joblessness estimates.

- Our forecast for the average unemployment rate in 2022 is now 9.5% (prior: 9.8%), mainly due to a downward revision in our labor force trajectory -- we did not change our 4Q22 employed population forecast substantially. We revised our forecast for the average unemployment rate in 2023 to 10.2% (prior: 10.5%), due to a lower starting point and a faster output growth. We still forecast an increase of the jobless rate for 2023, as our GDP growth review was concentrated in sectors that are not labor-intensive. For 2024, we are reducing our forecast to 10.3% (prior: 10.6%).

- **Upside risks:** Faster than expected growth in employment, on the heels of further positive surprises on labor intensive services and construction activities.

- **Downside risks:** Stronger inflationary pressures leading the BCB to adopt an even tighter monetary policy stance in the medium term.

	2019	2020	2021	2022e	2023e
Unemployment Rate *					
Average	12.0	13.8	13.2	9.5	10.2
End of Period (s.a.)	11.7	14.9	11.7	9.5	10.3
Unemployed Population **					
Average	12.8	13.8	13.9	10.3	11.3
End of Period	12.5	15.0	12.6	10.3	11.4

* in %

** in Millions

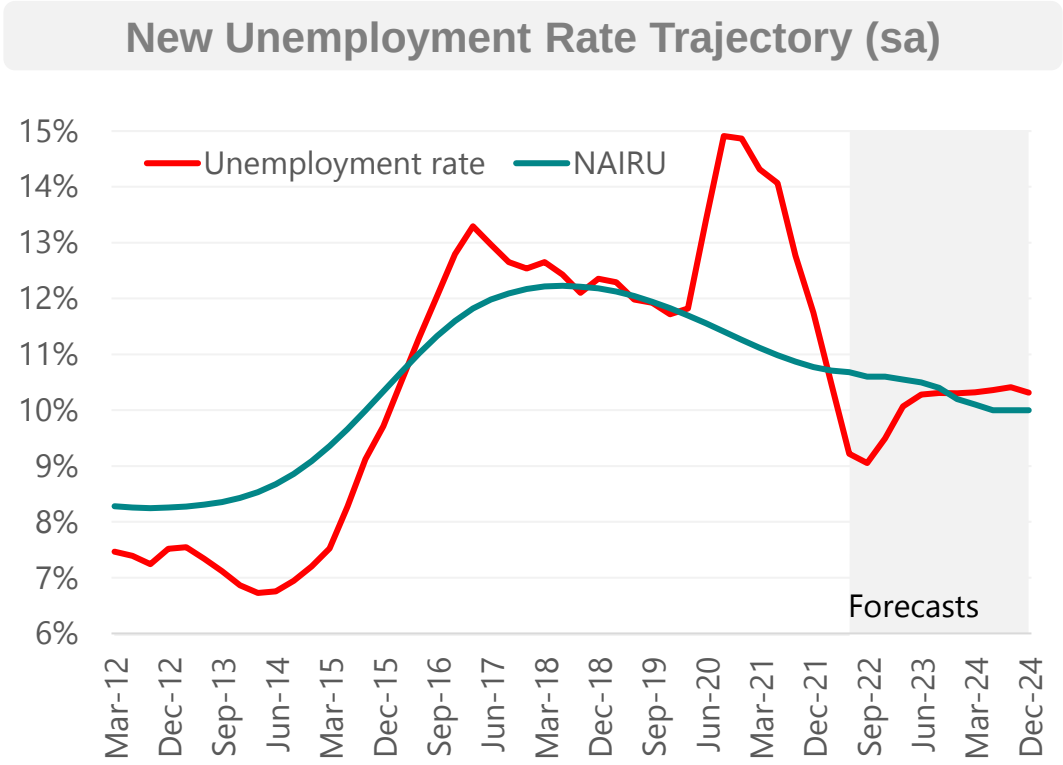
Sources: IBGE, Santander.

Job Market to Remain Tight Until 2Q23

- We are slightly lowering our unemployment rate trajectory for 2022, 2023, and 2024. We project that the jobless rate will remain below the NAIRU at least until mid-2023.

		Sep-22	Oct-22
Unemployment Rate (avg)	2022	9.8	9.5
	2023	10.5	10.2
	2024	10.6	10.3
Unemployment Rate (YE, sa)	2022	10.0	9.5
	2023	10.7	10.3
	2024	10.6	10.3
Unemployed (YE, Millions sa)	2022	11.0	10.3
	2023	11.7	11.4
	2024	11.8	11.5

Sources: IBGE, Santander.

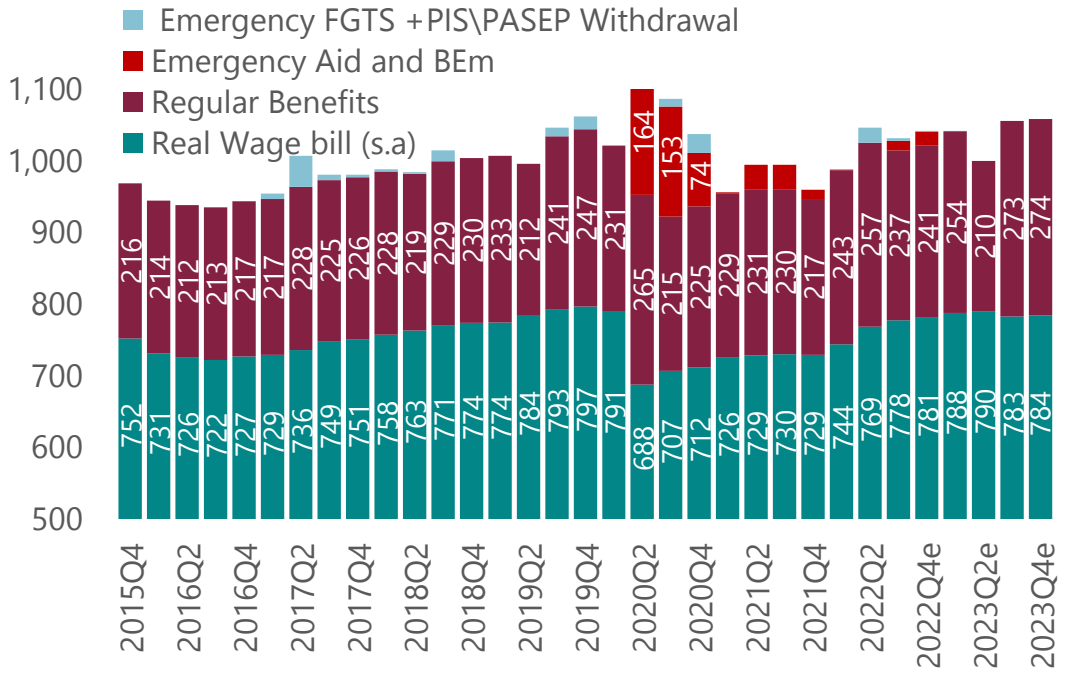


Sources: IBGE, Santander.

“Expanded” Real Wage Bill: Better Figures for 2022 and 2023

- As for the “expanded” real wage bill, we have maintained our projection of a 5.0% growth in 2022, as we slightly increased (by a tenth) the figures for both 2023 and 2024 to 2.2%, and 1.1%, respectively.

“Expanded” Real Wage Bill (BRL billion)



Sources: National Treasury, IBGE, Ministry of Economy, Santander.

	2021	2022(E)	2023(E)	2024(E)
Real Wage Bill	+0.6%	+5.5%	+2.6%	+1.8%
Real Wage Bill (With Government Transfers)	-8.0%	+5.0%	+2.2%	+1.1%

Sources: National Treasury, IBGE, Ministry of Economy, Santander.

Macro Scenario: Projections

- For our Scenario Update 'WAITING FOR THE SIGNS OF ECONOMIC POLICY' (sent on October 14, 2022), click on the link: https://bit.ly/Std-scenupdate-oct22

Macroeconomic Variables		Previous		Current
GDP (%)	2022E	2.6	↑	2.8
	2023E	-0.2	↑	0.7
	2024E	0.5	→	0.5
IPCA (%)	2022E	6.3	↓	5.5
	2023E	5.3	↓	5.0
	2024E	3.0	→	3.0
Selic Rate (% end of period)	2022E	13.75	→	13.75
	2023E	12.00	→	12.00
	2024E	9.00	→	9.00
FX Rate - USDBRL (end of period)	2022E	5.30	→	5.30
	2023E	5.40	→	5.40
	2024E	5.50	→	5.50
Current Account Balance (% of GDP)	2022E	-2.1	→	-2.1
	2023E	-2.2	→	-2.2
	2024E	-2.4	→	-2.4
Primary Fiscal Balance (% of GDP)	2022E	1.0	→	1.0
	2023E	-1.4	→	-1.4
	2024E	-1.2	→	-1.2
Gross Public Debt (% of GDP)	2022E	79.0	↓	78.2
	2023E	83.5	↓	82.8
	2024E	88.9	↓	88.0

Sources: IBGE, The National Treasury Secretariat, BCB and Santander.

Thank you.

Our purpose is to help people and businesses prosper.

Our culture is based on believing that everything we do should be:

Simple Personal Fair

Santander

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