

We expect 0.7% GDP growth in 1Q24

- ▶ The 1Q24 GDP report will be released next Tuesday, June 4. We expect growth of 0.7% qoq/sa and 2.3% yoy.
- ▶ The highlight will likely be the services sector which, according to our estimates, grew by 2.9% yoy (up from 1.9% in 4Q23). The industrial sector likely expanded by 2.3% yoy (down from 2.9% in 4Q23), while agriculture continued to decelerate, with a decline of -2.2% (from 0.0% in 4Q23).
- ▶ If our estimate for 1Q24 GDP is confirmed, our 2.3% forecast for the full year will have a downward bias due to the negative impacts associated with historic floods in Rio Grande do Sul state.

Economic activity likely accelerated in 1Q24

According to our forecasts, 1Q24 GDP expanded 0.7% qoq/sa and 2.3% yoy. The report will be released next Tuesday, June 4. If confirmed, this reading would show an acceleration in economic activity at the start of the year, following a weaker 2H23. The extraordinary disbursement of court-ordered payments (which had been held back and were released by the federal government in late 2023), combined with the increase in social benefits linked to the minimum monthly wage, contributed to stronger GDP growth in the first three months of the year. Better-than-anticipated monthly indicators during 1Q24 —particularly in retail and services provided to households— reaffirm our view of a more robust start to the year in the Brazilian economy.

On the supply side, the acceleration of the services sector stood out, with an estimated growth of 2.9% yoy, after an increase of 1.9% in 4Q23. Meanwhile, the agricultural sector remained on a downward trend, with an estimated decline of -2.2% (from 0.0% in 4Q23) as soybean and corn production volumes were lower than last year. Likewise, industrial growth probably slowed down in year-on-year terms to 2.3% (from 2.9% in 4Q23).

Regarding aggregate demand, household spending and investment showed notably positive performances. For the former, we estimate an increase of 4.2% yoy, driven by the good performance of the labor market, a positive environment for new loans (especially for individuals), and rising income, which supported household spending. Gross fixed capital formation (GFCF) probably expanded as well (our estimate is +4.6% yoy in 1Q24 after a drop of -4.4% in 4Q23) amid higher imports of capital goods. On the external sector, exports likely grew 3.4% yoy, but the increase in imports was even sharper, at 9.1% compared to 1Q23.

GDP 1Q24 (YoY)						
	Weight	1Q23	2Q23	3Q23	4Q23	1Q24
GDP	100%	4.2%	3.5%	2.0%	2.1%	2.3%
Services	59%	3.3%	2.7%	1.8%	1.9%	2.9%
Public Administration	13%	0.6%	1.7%	0.4%	1.7%	0.3%
Other Services	13%	5.2%	2.8%	1.1%	2.4%	4.4%
Retail	12%	1.5%	0.6%	0.7%	-0.1%	2.3%
Housing	8%	2.7%	2.9%	3.6%	2.7%	4.2%
Financial services	7%	6.1%	7.8%	7.0%	5.6%	4.8%
Transportation	3%	4.8%	4.3%	1.6%	0.0%	-1.2%
Information Technology	3%	6.1%	3.9%	1.6%	-0.3%	5.1%
Industry	21%	1.5%	1.0%	1.0%	2.9%	2.3%
Manufacturing	11%	-1.4%	-1.9%	-1.5%	-0.5%	1.1%
Construction	3%	1.5%	0.5%	-4.5%	0.9%	1.1%
Utilities	2%	6.8%	3.3%	7.3%	8.7%	6.9%
Mining/Extractive	5%	8.0%	8.6%	7.2%	10.8%	5.2%
Agriculture	7%	22.9%	20.9%	8.8%	0.0%	-2.2%
Taxes	14%	3.8%	2.8%	1.2%	0.7%	2.4%
Consumption	63%	3.9%	3.1%	3.3%	2.3%	4.2%
Government Expenditure	18%	0.6%	2.3%	0.8%	3.0%	2.9%
Investment (GFCF)	18%	1.4%	-1.8%	-6.8%	-4.4%	4.6%
Exports	20%	7.1%	11.9%	10.0%	7.3%	3.4%
Imports	-19%	1.8%	1.2%	-6.1%	-0.9%	9.1%

Source: IBGE, Itaú

We maintain our 2024 GDP growth forecast at 2.3%, but we have not yet incorporated the effects of the climate disaster in Rio Grande do Sul.

Our call for the full year anticipates a stronger start to the year, with an economic slowdown in 2H24. Our current projection does not account for the effects of the extensive floodings in the southern state, which will show up in the data starting from May. This tragic event introduces added uncertainty around GDP growth in the second quarter of 2024, leading to a downward bias in our annual projection. Our initial assessments suggest a GDP impact of -0.3pp in GDP for the year.

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