Brazil's GDP is expected to show a 0.2% drop in 26Q3

The cooling of activity has become more widespread across sectors in recent months. We anticipate economic stagnation over the coming quarters.

- Brazilian economic activity has weakened across the board in Q3. We estimate total GDP fell by 0.2% QoQ (1.3% YoY). Official figures will be published on December 2nd;
- Our final estimate for Q3 GDP growth is slightly below what we were expecting three months ago, when the XP Tracker – our nowcasting model – pointed to 0.0% QoQ (1.5% YoY);
- On the supply side, the Services sector should record moderate growth. In turn, Industry is likely to post a contraction, with heterogeneous signals among its components. Agriculture and Livestock are also expected to deliver a negative result, following four consecutive quarters on the rise;
- On the demand side, Domestic Absorption grew modestly in Q3, with a partial recovery in household consumption following an unexpected decline in the previous quarter. Moreover, the External Sector's net contribution to sequential GDP growth was probably positive, but negative compared with a year earlier;
- Domestic activity will remain weak in the coming quarters, in line with the (i) restrictive monetary policy; (ii) high indebtedness of companies and households; (iii) a less expansionary fiscal policy; (iv) rising cost pressures; (v) cooling labor market; and (vi) lower contribution from sectors less sensitive to economic cycle;
- Therefore, we expect GDP to increase by 1.5% in 2026 and 0.3% in 2027 (with a downside bias for the latter).

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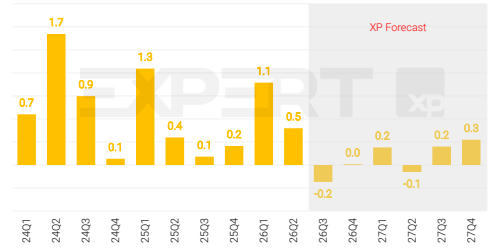
Weaker GDP growth in 2027 amid restrictive interest rates, high indebtedness, and a less expansionary fiscal policy
Total GDP. QoQ SAS (%)



Source: IBGE, XP

XP Forecast

GDP Breakdown	2023	2024	2025	2026 (F)	2027 (F)
Agriculture & Livestock	16.3	-3.7	11.7	3.5	1.2
Industry	1.7	3.1	1.4	0.5	-0.4
Services	2.8	3.8	1.8	1.6	0.5
Total GDP	**3.2**	**3.4**	**2.3**	**1.5**	**0.3**
Household Consumption	3.2	5.1	1.3	0.9	0.6
Government Consumption	3.8	2.0	2.1	2.5	1.8
Gross Fixed Capital Formation	-3.0	6.9	2.9	0.4	-3.0
Exports	8.9	2.8	6.2	3.4	3.2
Imports (-)	-1.2	15.6	4.5	3.0	2.0

Source: IBGE, XP

We estimate that Brazil's GDP dropped 0.2% in Q3

Brazilian economic activity has weakened across the board in Q3. We estimate that total GDP fell by 0.2% QoQ in Q3 (1.3% YoY), after expansion of 1.1% QoQ in Q1 and 0.5% QoQ in Q2. Official data will be published on December 2nd.

Our final estimate for Q3 GDP growth is slightly below what we expected three months ago, when the XP Tracker — our nowcasting model — pointed to 0.0% QoQ (1.5% YoY).

The Services sector should record moderate growth. We estimate the tertiary sector grew 0.3% QoQ in Q3 (1.5%). The rebound in Financial Services (0.7%) and Other Services (0.8%) should take center stage. On the other hand, Transportation & Storage Services (-0.2%) and Information & Communication Services (-1.0%) are likely to register poor figures.

Industry has entered negative territory. We estimate that total Industry decreased by 0.4% QoQ in Q3, with heterogeneous results across its subsectors. Manufacturing Industry should present the second decline in a row (-1.0%), and Extractive Industry (-1.3%) is expected to interrupt a long streak of eight consecutive quarterly gains. In turn, Construction likely resumed growth (0.8%), and Utilities remained stable (0.0%).

Agriculture and Livestock lost steam in Q3, following a stronger-than-anticipated expansion in the first half of the year. The primary sector is expected to present a 0.6% QoQ drop (but a 4.0% YoY growth). The outlook for this component will be challenging in the coming quarters, partly due to the effects of the *El Niño* climate phenomenon on crop yields.

GDP Breakdown (%)	Weights	26Q2	26Q3 (F)	26Q2	26Q3 (F)	2026 (F)	2027 (F)
		YoY		QoQ			
Agriculture & Livestock	6.1	6.8	4.0	2.8	-0.6	3.5	1.2
Total Industry	20.1	1.5	-0.3	0.1	-0.4	0.5	-0.4
Extractive Industry	3.2	12.0	6.8	3.4	-1.3	8.8	3.5
Manufacturing Industry	11.8	-0.9	-2.3	-0.4	-1.0	-1.5	-1.3
Construction	3.2	1.0	0.7	-0.4	0.8	0.9	-0.9
Utilities	2.0	-0.5	-0.8	-1.1	0.0	-1.0	-0.2
Total Services	59.7	1.5	1.5	0.2	0.3	1.6	0.5
Retail	10.0	0.9	1.1	0.0	0.3	1.0	-0.4
Transportation & Storage	3.1	1.2	-1.4	1.1	-0.2	0.2	-0.3
Information & Communication	3.1	8.4	5.1	2.1	-1.0	6.6	3.3
Financial Activities	7.3	1.0	2.4	-0.3	0.7	1.9	0.9
Other Services	15.1	1.1	1.8	0.0	0.8	1.6	0.2
Real Estate Activities	7.5	2.2	2.0	0.2	0.5	2.3	1.3
Public Services	13.7	0.9	0.8	-0.4	0.4	0.9	0.5
Added Value	86.0	1.9	1.2	0.5	-0.2	1.5	0.3
Net Indirect Taxes	14.0	2.5	1.5	-	-	1.7	0.5
Total GDP	100.0	2.0	1.3	0.5	-0.2	1.5	0.3
Household Consumption	63.5	0.5	0.6	-0.4	0.2	0.9	0.6
Government Consumption	19.1	3.1	2.2	0.4	0.4	2.5	1.8
Gross Fixed Capital Formation	17.1	1.4	0.5	1.2	-0.1	0.4	-3.0
Exports	17.8	3.8	1.4	-0.8	0.8	3.4	3.2
Imports (-)	17.5	5.5	2.8	1.8	-1.0	3.0	2.0

Source: IBGE, XP

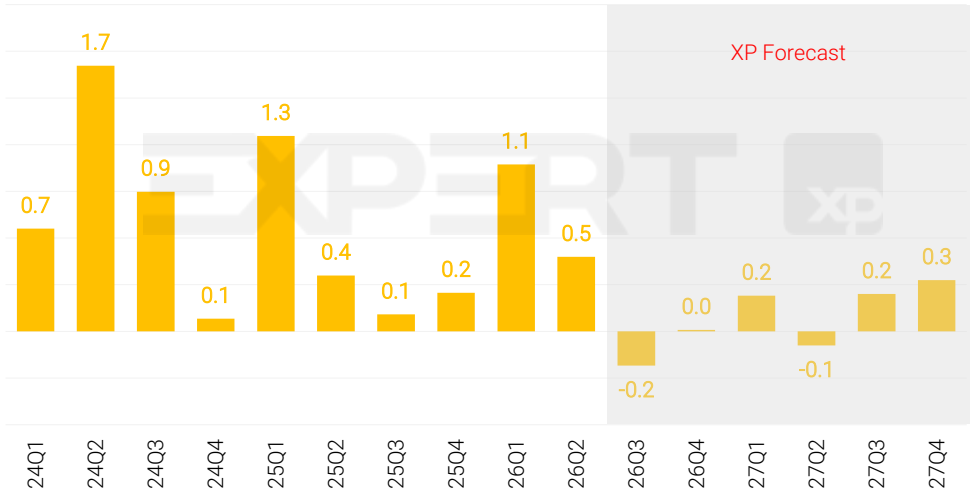
On the demand side, Domestic Absorption grew modestly (0.2% QoQ; 0.9% YoY). Household Consumption is likely to show a partial recovery from the unexpected decline one quarter before (0.2% after -0.4% QoQ). Besides, Government Consumption likely remained on an upward trajectory (0.4% QoQ). Conversely, Gross Fixed Capital Formation was virtually flat (-0.1% QoQ) after a steep increase in the first semester.

The External Sector's net contribution to GDP was positive on a sequential basis but negative in annual terms (0.3 pp QoQ; -0.2 pp YoY). The increase in Exports in Q3 should offset the fall observed in Q2 (0.8% QoQ; 1.4% YoY). Imports, in turn, dropped on a sequential basis, although remaining on a growth path in the yearly comparison (-1.0% QoQ; 2.8% YoY). Finally, Change in Inventories subtracted 0.7 pp from headline GDP growth in 26Q3 relative to 26Q2, but added 0.6 pp compared with 25Q3.

We anticipate that GDP will increase by 1.5% in 2026. Our preliminary forecast for Q4 GDP growth is 0.0% QoQ (0.9% YoY). If we are correct, the statistical carry-over effect into next year will be zero.

GDP is set to virtually stagnate next year. Monetary policy will remain contractionary, in response to the worsening inflation outlook. As a result, we should not see meaningful relief in leverage and delinquency metrics. Furthermore, fiscal and quasi-fiscal policy are expected to be less expansionary. We assume that a portion of the stimulus measures implemented in 2025 and 2026 will not be renewed, particularly certain credit programs. Higher cost pressures and heightened uncertainty in the economic environment will also weigh on investment and consumption. Last but not least, sectors less sensitive to the cycle – most notably agriculture – will make a timid contribution to overall economic growth.

Weaker GDP growth in 2027 amid restrictive interest rates, high indebtedness, and a less expansionary fiscal policy
Total GDP. QoQ SAS (%)



Source: IBGE, XP

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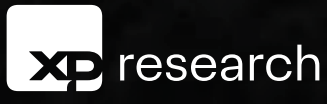

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