

Brazilian overview

MONTHLY REPORT

PANROTAS

FECOMERCIO^{SP}

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BRAZIL SHOULD GROW 2.5% IN 2020

The year 2020 begins with another dose of confusion around the world. The trade crisis between the United States and China took a backseat after the conflict between the United States and Iran. The event brought turmoil in the world financial market and the price of oil soared. However, President Trump's speech the day after Iran's threats, in a more peaceful tone, calmed the financial agents. Brazil started with the Real (our currency) being depreciated and the stock market falling; days later we had the opposite scenario. Therefore, the impact on the country was specific, not disturbing any progress of the economic recovery. However, the government and Petrobras are studying to create a compensation fund for when the price of oil skyrockets, so the state company can manage to ease the pass-through to consumers.

In the domestic environment, the country is showing signs of being increasingly on track. Christmas sales were record and surpassed those of the pre-crisis period ▲, between 2012 and 2014, according to data from FecomercioSP. This was only possible by the conjunction of positive factors and the main one is the generation of jobs. According to data from the Ministry of Labor, almost 100,000 vacancies were opened in November ▲, the best result for the month since 2010. According to another survey by IBGE, the number of unemployed fell to 11.9 million ▼, considering the total of 12.2 million in the quarter ended in November 2018.


In addition, **inflation in Brazil is under control**, maintaining the purchasing power of the population. In the end of 2019, the official price index had a rise of 4.31%, slightly above the target set (4.25%). The rising of beef prices in November and December contributed to the annual variation not to be lower, due to the higher demand, mainly from China, which reduced the domestic supply. But the price of beef is already signaling to be gradually decreasing at the beginning of this year.

With more jobs, more income and more confidence there is less default risks and the supply of credit goes up. In November, consumers contracted R\$ 190 billion in credit in the financial system, a rise of 8.9% ▲ over the same period in 2018. The ease of financing products is crucial for sales of durable goods, such as electronics, vehicles etc. This movement is enhanced by the reduction to the lowest historical level of the basic interest rate.

As the Congress is in recess, little will be discussed about the reform this month. On the agenda for this year there is the continuation of the negotiations of tax reform and also administrative reform. Because it is an election year, when mayors and city council members will be chosen, it can limit the pace of the processes because parliamentarians should spend more time at their polling stations during their campaign to support their allies.

However, in general terms, the economy should go its fastest course and growth is expected to be **close to 2.5%**. The process of privatization and concessions will bring more investment and resources to the country. It is noteworthy that the Ministry of Economy managed to reduce the deficit from almost R\$ 140 billion projected for 2019 to about \$ 80 billion. Risk agencies have already shifted Brazil's rating trend to positive, which won't come as a surprise if the country regains its investment level, which was lost in 2015, later this year.

IMPORTANT DATA:

■ In November, the industry registered a decrease of 1.7% in production , compared to the same month of 2018 and breaks the sequence of two positive months. Year to date, the variation is negative 1.1%. The recovery of the industrial sector is slower than other activities, such as retail and services. There is a need for investment, training and a better economy. Despite the poor result in the month, the balance tends to be positive this year because of the record low level of interest rate.

■ Inflation ended the year at 4.31%. In the latest data released by the IBGE [Brazilian Institute of Geography and Statistics] in December, the price increase was 1.15%, with the food group accounting for 72% of the overall result, and adding the transport sector the impact was 96%. This was largely a consequence of the beef price rise and also because of the increase of the gasoline price. Higher inflation at the end of the year is focused on some items and on specific issues, which does not raise major concerns for the price index throughout 2020.

It is important to remember that there will be a weight shift in IPCA [Extended Consumer Price Index] items starting in January, where transportation will have more weight and food will lose some. It is an update of the consumption profile of Brazilians through the family budget survey conducted in 2018, the previous one was conducted in 2009.

■ The basic interest rate, SELIC, is at its historical low of 4.5% annually. The expectation at the end of last year was that the rate could reach 4.25% in 2020. However, with external conflicts, currency fluctuation and possible impact on domestic prices, it may limit the Central Bank's decision to further reduce it. In any case, the effects of the large reduction over the past year are clearly seen in the credit market.

| Latin America Macro Data Resume | Argentina | Brazil | Chile | Colombia | Mexico | Peru |
|--|------------------|---------------|--------------|-----------------|---------------|-------------|
| Unemployment rate | 9,70% | 11,80% | 6,90% | 9,30% | 3,40% | 6,30% |
| Basic interest rate | 55,00% | 4,50% | 1,75% | 4,25% | 7,25% | 2,25% |
| Inflation (LTM - dec*) | 48,30% | 4,31% | 3,00% | 3,80% | 2,97% | 1,90% |
| *LTM - Last Twelve Months Until December | | | | | | |

Legend: **Green**, **Red** and **Black** -
The data get better, worth and equal than last month.

CONFIDENCE INDEXES:

The São Paulo City Consumer Confidence Index **ended the year with 121.3 points, a monthly increase of 2.2%**. However, in the annual counterpoint there was a decrease of 5.1%. It is noteworthy that in December 2018 there was a post-election **euphoria and the ICC [Consumer Confidence Index] rose 18.6% in just two months**. Anyway, it is a positive balance, since most consumers in São Paulo are optimistic about the current economy and also about the coming months. **The injection of the 13th salary and a better labor market give consumers a boost**.

The São Paulo City Consumer Confidence Index registered the fourth consecutive high **↑** and closes 2019 with 122.1 points, **with a monthly growth of 2.5% and 8.3% above the December level of the previous year**. The positive trend is related to the government's reform agenda, which aims to reduce the bureaucracy for entrepreneurs and also to recover the economy and promote growth in retail sales.

Consumer Confident Index (ICC) and Commerce Businessman (ICEC)



Note: The ICC and ICEC range from 0 to 200 points. The level from 100 to 200 points is considered optimistic and below 100 points, pessimistic.

Although the indicators are from the city of São Paulo, they follow the trend of what is happening in the rest of the country since the largest city in Brazil represents 11% of the national GDP.

TOURISM BEGINS 2020 WITH OPTIMISM

Corporate and leisure travel in general grew in 2019 (preliminary data indicates a growth of 4% to be confirmed in the coming months) and Tourism starts 2020 with optimism, even with some occasional upheavals, such as the suspension of operations of Turnet, a company more focused on sale of domestic products.

Great expectations for the year are turned to acquisitions of major players, such as Despegar and CVC Corp, for the future of Latam Travel franchises (the company will no longer have physical stores and recommended it to be transferred to Agaxtur) and for the resumption of the national aviation, now with only three major players (Gol, leading the domestic market, Latam, leading the international market, and Azul, leader in destinations operated in Brazil). There is also high expectations regarding the resumption of Boeing's MAX aircraft, which halted Gol's international plans.

January started with Azul, Gol and Latam announcing more domestic flights in their networks (Latam had a 20% growth), but also some specific additions to their international network. Azul will fly from Campinas to New York and Recife to Buenos Aires and Gol from Porto Alegre to Punta del Este, Uruguay.

MORE TRAVELS FOR BRAZILIANS

And according to Capital Research analysis, Brazilians shall travel more in 2020. Besides the six holidays that will fall on Mondays or Fridays, such as Carnival, Corpus Christi and Black Consciousness Day, it is expected that Brazilian have some money in the pocket to travel due to signs of economic recovery. "Our most optimistic view is related to the fact that the main negative factors of 2019 were specific and are likely to normalize in the coming months," says Capital Research analyst Felipe Silveira. Among these factors are Avianca Brasil's judicial recovery, resulting in a drop in airline seating offers; a delay in delivering Boeing 737 Max aircraft due to accidents between 2018 and 2019; and oil spills found on beaches of Northeastern Brazil. These problems are already solved or being solved in early 2020.

FÓRUM PANROTAS

MSC Cruises CEO Gianni Onorato will be one of the keynote speakers at the event on March 17-18 at Centro Fecomercio de Eventos, São Paulo. The Fórum PANROTAS, which is in its 18th edition, brings together 1,200 leaders from across the industry. Registrations can be made at forumpanrotas.com.br.

COPA AIRLINES

The Panamanian airline has a new structure in Brazil, with director Carlos Antunes responding for Mercosur. The company has eliminated country managers and sales managers report directly to Antunes, who has already worked at Tap, Etihad and Alitalia. The Panamanian commercial team has four managers - Raphael de Lucca, Jacqueline Miranda, Gilson Azevedo and Cássio Takano -, who are divided by segments and States of operation.

WHATSAPP

PANROTAS is the only travel and tourism industry communications company to offer a weekly magazine with exclusive analysis, reports and interviews. You can receive it via WhatsApp every Friday for free. The edition is in Portuguese, but it brings charts, research and data that will surely help you to have a broader view of the Brazilian market. If you want to receive it, send a message to **+ 55 11 95609-1507**.