FEBRUARY/21

Brazilian overview

MONTHLY REPORT

PANROTAS | FECOMERCIOSP

MAIN FACTS

The partnership between PANROTAS and FecomercioSP resumes the Brazilian Overview Macro Report in 2021, which promised to be less turbulent. However, the second wave of contamination around the world, and it would be no different in Brazil, brought a lot of turmoil to the global economy, with the return of restrictions on opening businesses and social isolation. Vaccination, the lifeline for immunization and, consequently, for a safer resumption of the economy, is moving slowly around the world, which inserts insecurity and instability in the short-run scenario.

In Brazil, the economy was reacting well throughout the second half of 2020, with a strong influence of emergency aid, a cash transfer program for the most vulnerable, which was R$ 600 (US$ 110) at the beginning and then reduced to R$ 300 (US$ 55), starting in September and ending in December. In total, R$ 182 billion (US$ 33.7 billion) were transferred to just over 67 million beneficiaries, representing 32% of the country's total population.

The impact of emergency aid was significant on the economy. According to calculations by FecomercioSP, the benefit contributed to almost 10% of Brazilian trade sales last year. However, considering the latest data released, it is evident that there was a deceleration movement in the last two months of the year, from 6.1% growth in October to 4.2% and 2.6% in November and December, respectively. **The year 2020 ended with a slight drop of 1.5%,** which is a relatively positive result compared to what was predicted at the beginning of the pandemic, a retraction of more than 10%.

The major concern at the moment is the combination of unfavorable factors that should negatively influence economic activity at the beginning of the year. The first highlight is the growth of the second wave of contamination, which has even led the state of São Paulo to return to the activity restriction phases, generating concern among businessmen. Another point is the end of emergency aid at a time of weak economy and high unemployment, although there were important positive balances in the generation of employment throughout the second half.

In addition, there is inflation that scares. Not the general inflation, but **food and beverages inflation,** which accumulated, in 12 months, an increase of 14.81%, while the global average is 4.56% bearing in mind that this group is responsible for about 22% of the families' budget and may reach almost 30% when it comes to low-income families. Therefore, it is a harmful effect on consumption, as families have to reduce expenses on transport, leisure and other services to maintain the same basket of products in supermarkets.

On the other hand, what gives some relief in the daily lives of families is the amount of resources in savings, which last year surpassed the mark of R$ 1 trillion in reserves (US$ 185.2 billion), with the help of balance (between deposits and withdrawals) of R$ 166 billion (US$ 30.7 billion) last year, a historic record since 1995. Thus, there is an emergency fund for most families, but bearing that savings are the last resource to be used. In other words, this money should only be used for essential expenses, such as paying bills, everyday purchases, etc., so much so that in January, without aid, the balance has already turned to a negative R$ 18 billion (US$ 3.3 billion).

The scenario is still delicate, with other sectors also ending 2020 with negative results, as was the case of industry (-4.5%) and services (-7.8%). Tourism recorded a loss of R$ 55.6 billion (US$ 10.3 billion), according to a survey by FecomercioSP, driven by the drop in air transport and in the group of hotels and restaurants.

In the midst of this unfavorable information, it is important to note that there was a change in the presidencies of the Chamber and the Senate - now the parliamentarians in charge of the Chamber and the Senate are more connected to the government. This fact can streamline important items for the economic agenda, such as tax and administrative reform. However, for the approval of the proposals, a great political articulation that will demand a medium and long term will still be necessary.

There is even a discussion of resuming emergency aid, but with the debt reaching 90% of GDP, it is necessary to be cautious and find out where the resources for the benefit will come from. Otherwise, there is a risk of exceeding the spending ceiling, increasing pressure on interest and inflation.

Therefore, Brazil has a great financial difficulty to maintain protection against the crisis, with a record fiscal deficit of R$ 702 billion (US$ 130 billion) last year. Expectations are directed towards mass vaccination, which despite being at a slow pace, is the way to return to normality.

IMPORTANT DATA:

- Retail trade ended 2020 with a drop of 1.5%. However, the annual performance was asymmetric, with growth in sales in supermarkets (4.8%), drugstores (8.3%), furniture and appliances (10.6%) and building materials (10.8%). The highlight for sectors with negative performance goes to clothing and footwear (-22.7%) and vehicles and motorcycles sales (-13.7%).

- Official inflation ended last year with an increase of 4.56%. And in January, the increase was 0.25%, well below the 1.35% in December. Two groups leaded the increase in the month: **food and beverages (1.02%) and transport (0.41%).** The latter was influenced by the increase in fuel prices (2.13%) and price readjustments in urban transport.

- According to data from the General Register of Employed and Unemployed Workers, the balance of jobs in 2020 was negative by 68,000. The only sector that managed to generate vacancies was the retail trade with 53,500 vacancies, mainly in the supermarket sector.

Latin America Macro Data	**Argentina**	**Brazil**	**Chile**	**Colombia**	**Mexico**	**Peru**
Unemployment rate	11,70%	14,10%	10,30%	15,90%	4,50%	13,00%
Basic interest rate	38,00%	2,00%	0,50%	1,75%	4,25%	0,25%
Inflation (LTM - oct*)	36,10%	4,56%	3,12%	1,60%	4,25%	2,92%

**LTM - Last Twelve Months*
Until Dec

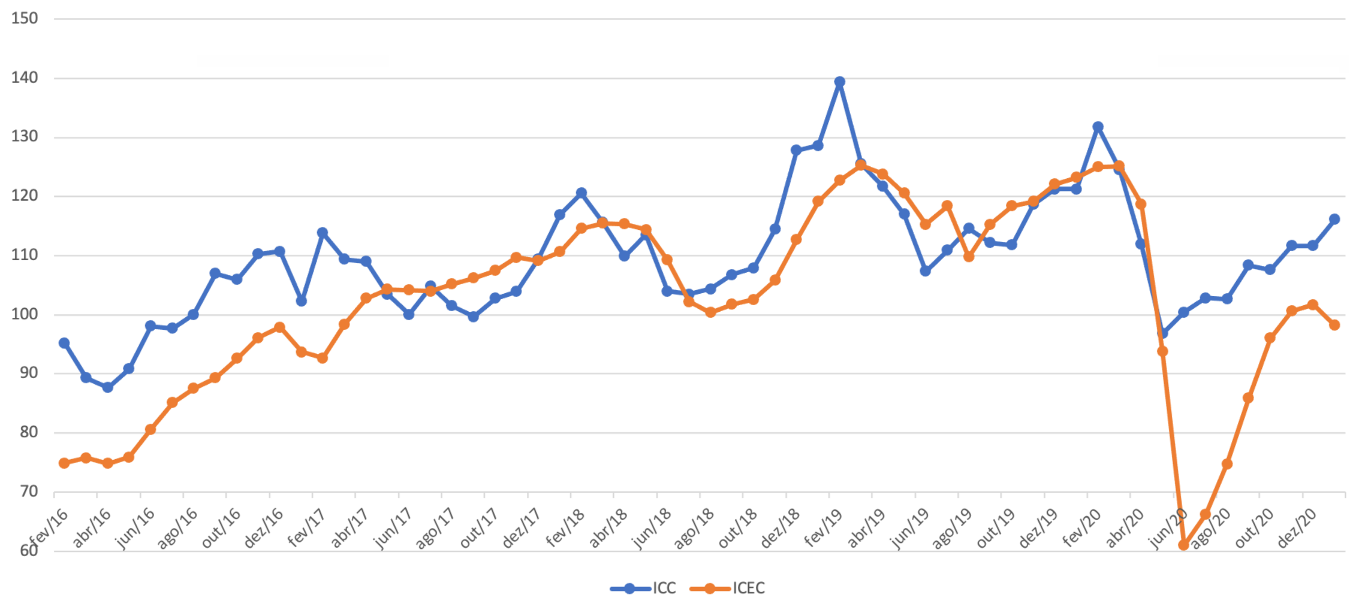
*Legend: Green, Red and **Black** - The data get better, worse and equal than the previous month.*

CONFIDENCE INDEXES:

The Consumer Confidence Index (ICC) showed an increase of 3.9% in January and reached 116.1 points. However, the level is 4.3% below the level of the same month of 2019. Although it is at an **optimistic level,** the index is still reflecting the end of the year with the injection of the 13th salary, end of emergency aid and Christmas shopping opportunities, the main season for the retail trade. The trend is that there will be a reversal of the curve due to the fear of the arrival of the second wave of contamination.

The Retail Businessmen Confidence Index (ICEC) returned to the **level of pessimism,** going from 101.7 points in December to 98.2 points in January, a drop of 3.4%. Compared to the same period last year, the retraction is even more significant, 20.3%. Naturally, with the fear of restrictions on activities in the city of São Paulo, together with more cautious consumers, entrepreneurs tend to adjust their expectations downwards.

Consumer Confident Index (ICC) and Comerce 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.

TRAVEL INDUSTRY

After a summer (especially December and January) with a significant increase in domestic travel and some hope in international travel (to destinations such as Mexico, the Caribbean, Dubai, the Maldives, among others), Brazilian tourism is now facing the real Covid-19 second wave and more travel restrictions in several countries.

1 - In January, the hotel industry had a very good occupancy rate in Brazil, but future sales already showed travelers' concern about the increase in Covid-19 cases. Braztoa operators recorded lower-than-expected sales in December and January.
CVC, the largest tour operator in Latin America, which had almost 60% of pre-pandemic sales in December, saw January sales drop to 40% compared to the pre-pandemic period. The CVC Corp group forecasts domestic sales will reach levels before the pandemic only in December. And international sales are expected to recover only in 2022.

2 – Due to restrictions, the airlines Air Canada, Emirates and Alitalia have suspended their flights to Brazil or have reduced their frequencies. Companies, such as Latam Airlines, Air France-KLM, Lufthansa, Copa and Qatar maintain their flights normally in Brazil, as well as American companies, Delta and United. There may be a specific reduction in frequencies anyway.

3 - The national companies Azul, Gol and Latam maintain a solid offer of domestic flights in February, with small decreases compared to January. As there was no Carnival, the volume of passengers in February should be lower than in January. Gol should return to operate international flights in March.

4 - The rate of vaccination is very slow in Brazil (on February 17, just over 5 million out of a total of 220 million Brazilians had been vaccinated – follow it at vaccinabrasil.org) and this should impact the return of international travel and events. Anyway, small corporate events have returned, always with a virtual option. Large fairs and entertainment events should only return in the second half of 2021, when events, such as Rock in Rio, the 90th anniversary of Christ the Redeemer's statue, and fairs, such as WTM Latin America, Abav Expo and the Fórum PANROTAS 2021, on August 24 and 25, are scheduled.

5 - Regarding domestic or international travel, Brazilians want resorts, villas, rental houses, where families can be together and have moments of relaxation and no crowds. Direct flights, structure for Covid-19 exams, health & safety facilities and protocols, and all-inclusive packages are the most sought after by consumers.

6 - It is believed that 2021 will be very similar to the second half of 2020: slow recovery, attention to the responsible reopening of countries, a lot of testing and vaccine when it is available. Losses are expected to continue in the sector, which foresees a solid start to recovery only in 2022 with domestic travel and travel to South America accelerating still in 2021.

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