JUNE/21

Brazilian overview

MONTHLY REPORT

PANROTAS | FECOMERCIO SP

MAIN FACTS

Good news about the Brazilian economy. The country's Gross Domestic Product advanced 1.2% in the first quarter compared to the last three months of last year and returns to the level prior to the pandemic, as disclosed by the IBGE. The highlight was the agricultural sector, which grew by 5.7%, well above the performance of industry (0.7%) and services (0.4%). The latter is the most important in the economy, presenting about 70% share of the Brazilian GDP.

Agriculture has been going through an excellent moment. It contributed to GDP growth and to the record balance of trade surplus in the month of May. Exports rose 43%, together with another category, mining and quarrying (85.8%). Considering the rise in the prices of agricultural and mineral commodities, sales abroad are favored, in addition to the gain from the devaluation of the real.

Also in the primary sector, the estimate for the harvest of cereals, legumes and oilseeds (soybeans, corn, beans, among others) for 2021 is 3.4% higher than last year, with an expected total of 262.8 million of tons, especially soy, which corresponds to half of the total, with 133 million tons, a historic record.

Regarding the retail trade, sales grew 40.9% in April compared to the same month in 2020. However, this assessment is not appropriate, as it was the time, last year, when retail was going through the "bottom of the well", during the first wave of the coronavirus pandemic. Even so, when compared to April 2019, a month that had normal pre-pandemic conditions, trade grew by 2.2%.

Although the new stage of emergency aid, the government's social support program for the most vulnerable families, was directed for a more restricted public and with a lower average value, R$ 250 (approx. US$ 50), the effect on the trade is immediate. Supermarkets, drugstores, electronics and building materials sectors increased the pace of growth in sales.

The other sectors of the economy, services and industry, also had a strong growth in April, but due to the statistical effect of the weakened basis of comparison. And compared to the same month of 2019, the variations are negative -0.9% and -2.5%, respectively. Despite these results, they are at levels close to those before the pandemic, showing that they managed to recover.

The point of concern is inflation. In the 12-month period until May, the variation is 8.06%. Previously, the highest economic pressure came from food. However, in the latest data, there has been a greater distribution with the price increase of fuels, medicines and energy tariffs. The latter was impacted by the low level of hydroelectric reserves, so there is a higher cost for the production of energy by thermoelectric plants.

The Central Bank has been watching closely the rise in prices above the target set by the government. Therefore, the Monetary Policy Committee, COPOM, decided to increase the basic interest rate from 3.50% per annum to 4.25%. Higher interest rates help to reduce aggregate demand. At the same time, it can boost the dollar's fall against the real, which generates a positive long-term effect on inflation.

The recent appreciation of the real, now close to R$ 5 per dollar, is due to monetary expansion in the United States to stimulate the economy. The lower dollar reduces production costs, whether through cheaper purchases from abroad, or by paying for products that are commodities, quoted in foreign currency.

Even with the appreciation of the real, the level is still high in historical terms. Thus, being the Brazilian economy relatively "cheap" in dollar terms and the country showing signs of recovery, foreign investors' appetite increases. So much so that data from the Central Bank on direct investments in the country show an increase of 49% in the first four months of the year, totaling 21.3 billion dollars in the period.
In general, the Brazilian economy gives clear signs that it is starting to get on track for the path of growth. There are still sectors that, however, remain in a very delicate situation, as is the case of tourism. In April, the sector's turnover was R$ 8.5 billion (approx. US$ 1.7 billion), 38.3% below the pre-pandemic level, according to data from FecomercioSP.
However, the progress on vaccination and the gradual reopening of the economy create a more favorable environment for increasing business and consumer confidence, an essential variable to give traction to the economic wheel. Again, it is still early to think about normality, but just as important is the expectation that the near future tends to improve.

IMPORTANT DATA:

- Negative highlight goes to unemployment, which reached 14.7% in the first quarter, the highest level since 2012. This is the survey that shows the scene of those looking for a job. And when the data from CAGED, from the Ministry of Economy, is observed, the balance between hired and fired workers with a formal contract is almost one million in the first four months.

- Retail trade grew 2.2% in April when compared to the same month in 2019. The basic sectors, supermarkets and drugstores, registered good performance, 2.8% and 21%, respectively. Other highlights are the sectors of building materials (14%) and furniture and household appliances (10.3%).

- Inflation in May was 0.83%, the highest percentage ever recorded for the month. The highlights were the Housing groups, with an increase of 1.78% and an impact on the overall result of 0.28 percentage point, and the Transport group with a variation of 1.15% with 0.24 percentage point of absolute contribution. In other words, these two groups are responsible for 62% of the variation in the month.

Latin America Macro Data	**Argentina**	**Brazil**	**Chile**	**Colombia**	**Mexico**	**Peru**
Unemployment rate	11,00%	14,70%	10,20%	15,10%	4,60%	15,10%
Basic interest rate	38,00%	4,25%	0,50%	1,75%	4,00%	0,25%
Inflation (LTM - oct*)	46,30%	8,06%	3,65%	3,30%	5,89%	2,77%

**LTM - Last Twelve Months*
Until Dec

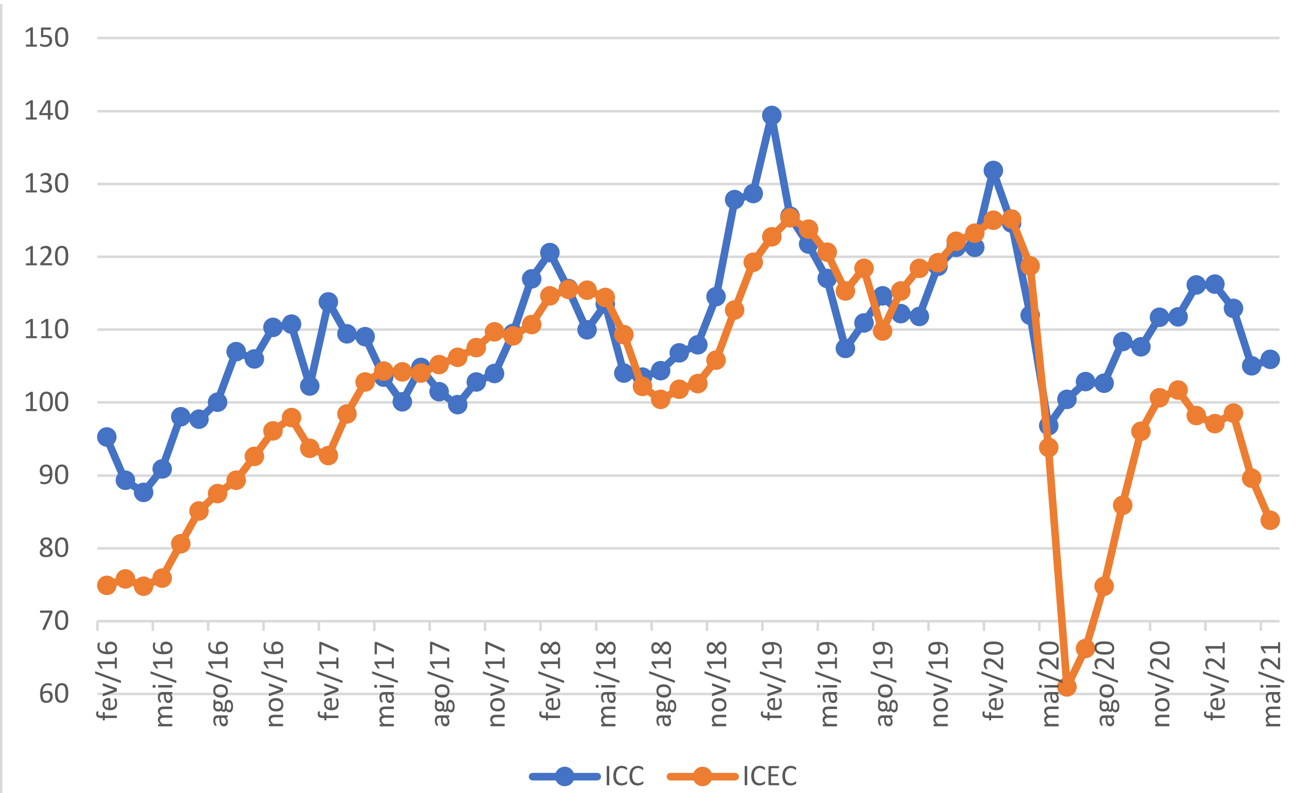
Legend: Green, Red and Black - The data get better, worse and equal than the previous month.

CONFIDENCE INDEXES:

The Consumer Confidence Index (ICC) recovers after two consecutive drops. In May, the ICC reached 105.9 points, presenting a slight increase of 0.9% compared to April and rose 9.4% compared to the same period in 2020. With the relaxation of restrictive measures on the circulation and activities, consumers are gradually increasing their confidence in anticipation of a return to normality, which is getting closer, especially with the progress of vaccination in the capital of São Paulo.

The Retail Businessmen Confidence Index (ICEC) plummeted once again. The drop was 6.4%, passing from the 89.6 points in April to the current 83.8 points, the lowest level since August of last year. In the annual comparison, the reduction is 10.6%. Even with the reopening of the economy after the second wave of COVID-19, tradesmen suffer from cautious consumers moving around the city, avoiding the risk of contamination, but also with the impacts of the pandemic on household income.

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 AND TOURISM

Travel starts to heat up

We have reached the middle of the year and 15 months of pandemic, and all the surveys show: **Brazilians want to travel.** A recent survey by Booking.com shows that traveling has now become more important than before the pandemic for 63% of Brazilians. And Brazilians do not mind following protocols and safety measures, besides that, 70% claim that they would accept to prove that they were vaccinated in order to travel.

Less visited and less crowded destinations continue to be preferred, as there are many people seeking alternative and more isolated accommodations, where the family can stay together.

The great expectation now is related to trips to the United States, Europe, Argentina and Chile. In other words, the main destinations for Brazilians abroad are still closed.

Check out some good news for travel recovery in Brazil below:

1 – Brazil should reach high rates of vaccination in the second half of the year, and the forecast is that the process is ended between October and December. In São Paulo, all adults are expected to have received at least the first vaccine dose by September.

2 – Amidst the pandemic, the country is gaining a new airline, ITA, belonging to the road travel group Itapemirim. Domestic routes will connect the main capitals and touristic cities in Brazil. The first flights are scheduled for July, 1st.

3 – Aviation is experiencing the strength of the pandemic recovery. National airlines should arrive in December with a 100% recovered offerin domestic flights.

4 – Domestic air fares, even with slower corporate travel this time, have already equaled 2019 values.

5 – Leisure hotels already register high occupancy on holidays and special dates, showing that Brazilians want to leave home and travel. Several hotels reached 100% occupancy on Valentine's Day. For July, the month of winter vacation, a punctual increase in domestic and international travel is expected to locations where Brazilians can travel.

6 – Vaccine tourism is a reality and is successful in the country. Not wanting to wait until the end of the year to vaccinate the youngest members of the family, several Brazilians have gone to Mexico, the Bahamas or the Dominican Republic to quarantine for 15 nights and later have entered the United States for vaccination. The same happened in Dubai. It is a "tourism of opportunity", but generated good sales for travel agencies.

7 – Eastern Airlines announced the hiring of Nelson de Oliveira, ex-Alitalia and South African Airways, as its country manager. The company is just waiting for the borders to open to fly from Belo Horizonte to Boston, Miami and New York.

8 – The famtours for travel agents are also back: in Brazil and abroad. Destinations, such as Egypt and Mexico, have been chosen by operators and DMCs to show tourism professionals in Brazil that traveling safely is possible.

There is good news, but the scenario is still worrying and recovery will take a few years. Brazil still has a high rate of unemployment, and the dollar, although less valued, is still too high for mass international travel. The CNC [Brazilian Confederation of Commerce, Services and Tourism] points out that the losses suffered by Tourism in Brazil already totalize R$ 355.2 billion since March of last year, in the beginning of the pandemic, until May 2021. The states of São Paulo (R$ 142.6 billion) and Rio de Janeiro (R$ 43.4 billion) account for more than half (52%) of the national loss calculated by the sector. Brazilian tourism still operates well below its capacity: only 48% of the monthly possibility of income generating. Observing states like California and New York reopening and seeing all Disney parks reopened in the world and Europe starting to adopt its digital health passport, allowing the movement of tourists, are facts that fill us with enthusiasm and we hope to be in this recovery phase a few months into the second half of the year.

LUXURY TRAVEL WITH ILTM

INTERNATIONAL LUXURY TRAVEL MARKET

MULTIPLE ANSWERS

Where will luxury travel go in the next year? There are now more thoughts about trends and predictions than ever before, but the reality is the world has more or less been shut down for so long that this question could have many answers. At ILTM, we believe luxury travel is a 'given' and it will continue to be so, but also hope there will be a new sense of appreciation now, as now we know what it's like not to be able to travel.

Our industry is having a spurt of activity with many new hotel openings around the world. With many properties closed, has also been an opportunity for refurbishment. We have all learned from 2020, and one key take-out for brands is that they must show that the industry is acknowledging fundamental changes in attitude and responsibility to the planet and climate change.

We hear many travellers have changed their perception of what is luxury to them. This is of course influenced by demographics and age, but the industry is telling us that it's going to be about quality over quantity with many careful decisions to be made. Extending their trips rather than making multiple ones, build in time to visit loved ones and friends, find locations where they can all meet together. It will also see an emphasis on outdoor activities, health and wellness breaks, privacy and remote destinations, and the need, now more than ever, to have a trusted travel advisor.

Covid has also removed the obvious financial benefits of international HNW travel from so many countries. It matters to rural communities when we don't travel and 2020 has had a terrible impact on the lives of those affected. All the signs are that the industry is desperate to get back together, and the answer to "where will luxury travel go in the next year" is likely to be answered when the agents and planners start their discussions on behalf of their clients for 2022 and beyond at ILTM North America in Mexico, 20 – 23 September and ILTM Cannes, 6 - 9 December.

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This report is produced by PANROTAS and FECOMERCIOSP to support your business decisions. The contents are valuable assets to Destinations and Travel Organizations, both domestic as well as international. For further information please contact ri@fecomercio.com.br redacao@panrotas.com.br.