

Brazilian overview

MONTHLY REPORT

PANROTAS

FECOMERCIO SP

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MAIN FACTS

The global economy has been recovering from the traumatic period of the Coronavirus pandemic. However, there are many uncertainties regarding the near future. We have been hearing, in a more and more recurrent way, about a potential global recession. The reason for this concern is due to governments raising the interest rate to restrain inflation that is devastating the world.

The Federal Reserve, in the United States, in this month of June, increased the basic rate from 0.75% to the new range of 1.50% and 1.75% a year, being the highest raise since 1994. In Brazil, the Central Bank, through its Monetary Policy Committee, has decided to raise the SELIC once more, from 12.75% to 13.25% a year, and showing signs that the rate will reach, by the end of the year, somewhere between 14% and 15%. Evidently, this interest's escalate worldwide will have a damaging effect on the economy, a considerable curb in the demand by increasing the cost of capital.

This is an alert from the year of 2023 on. But watching the current scenario, Brazil shows a recovery incrementally solid and above expectations. The Gross Domestic Product in the first quarter has risen 1% in comparison to the immediate previous period, exceeding 1.9% the pre-pandemic level. And what has driven this good result was the service sector that also progressed 1% in these three first months of the year.

The families' consumption was another highlight of the GDP, increased by 0.7%. Consumers are gradually resuming their shopping. As a proof, we have the numbers from the retail sector, which rose 1.5% in April in the annual turnover, and accumulated a rise of 1.4% in the first four months. The highest variation in this last result, disclosed by IBGE, was the clothing and footwear sector (33.9%). Sales in supermarkets have increased 4% and in drugstores 3.5%. On the other hand, furniture and home appliances, as well as construction materials decreased 8.7% and 10.1%, respectively.

The Tourism sector is another one that has followed a path of solid recovery. According to data by FecomercioSP, the domestic turnover in April was R\$ 15.3 billion, an increase of 47.7% in the annual turnover and accumulated a rise of 32.2% a year. Air transportation is the greatest responsible for this output, with an increase of 159.7% in April, with the revenue equaling the pre-pandemic one, in April 2019, of R\$ 4.6 billion. Part of this result is due to the heated demand, but part of it is related to the expressive rise of tickets' prices, which has occurred throughout the world because of the rising cost of aviation fuel.

Another area that has had positive results is agribusiness. According to IBGE, the estimate for the grain harvest, this year, is 263 million tons, a historical record. If on one side the expectation is a downfall of 12.1% in the soy production in relation to last year, regarding the corn, there should be an increase of 27.6% in the annual counterbalance. Both products have rising prices in the international market, which contributes to the producer's profit and to regional economies, stimulating investments in employment and income.

The industrial sector, on the other hand, registered, in April, a downfall of 0.5% in the annual turnover. The current threshold is still 3% below the pre-pandemic level. The sector suffers with the rising cost of credit, and in many cases, the lack of input products for the manufacturing process, as it happened in the automotive industry, impacted by restrictions in the main Chinese seaports.

Inflation in Brazil cooled down 0.47% in May, in view of the 1.06% in April. The accumulated in 12 months is 11.73%. Although this rate is quite elevated, the analysis is that it has already attained the peak and the trend is to keep cooling down to reach the level of near 8% by the end of the year.

The inflationary process in the country has undermined the worker's income and impaired the upturn of consumption in a more significant way. Although the unemployment rate in Brazil has reached the lowest level of 10.5% since 2016, with 11.3 million people looking for a job, the actual average income is R\$ 2,540, remaining among the lowest levels since 2012, with updated values by the period's inflation. In other words, the labor market has improved, but people are earning lower salaries, and the persistent inflation decreases the worker's income.

And the instability of the exchange hinders a more certain analysis of inflation. In only a month, the dollar has cheapened to 5.15, reached 4.70, and returned to a little more than 5.10. This variable has an impact on the cost of import, commodities negotiation, and other costs. Fearing global recession, once again it's been talked about the search for safe currencies, in other words, the dollar appreciation, and consequently, the weakening of real. This will lead to the Central Bank having extra work in the interest rise.

In general, therefore, the recent numbers in Brazil have been favorable and show a more solid economy. Data for the second quarter should be positive due to the complete opening of the economy post-omicron, and to the injection of resources from FGTS (Guarantee Fund for Length of Service) and the anticipation of the 13th-month salary for retired people and pensioners, stimulating the commerce and service sectors. By now, the economy is doing well. But the radars are alert to the near future, with important challenges ahead.

IMPORTANT DATA:

- The inflation in April was 0.47% and accumulated 11.73% in 12 months. The transport group was the one that most pushed the month's index, with an increase of 1.34%, driven by the rise in flight tickets of 18.33%. On the other hand, contributing to the inflation's cooling down is the housing group, which retracted 1.70%, given the reduction of 7.95% in the average price of electric power.
- The instant payment system, PIX, has grown expressively. In November 2020, R\$ 30 billion in transactions were made. In almost a year and a half, the amount is already close to R\$ 800 billion.
- In the means of payment area, what has been in the spotlight in Brazil is the NFC (Near-Field Communication), the payment by approximation. From January 2020 to March of this year, the participation of the transactions by approximation on in-store purchases exceeded 1.3% reaching 30.1%, according to data by ABCECS. According to the National Confederation of Commerce (CNC), the rate of families that have any kind of debts has reached 77.5%.

Latin America Macro Data	Argentina	Brazil	Chile	Colombia	Mexico	Peru
Unemployment rate	7,00%	10,50%	7,70%	11,20%	3,10%	8,30%
Basic interest rate	49,00%	12,75%	9,00%	6,00%	7,00%	5,50%
Inflation (LTM - feb*)	60,70%	11,73%	11,50%	9,07%	7,65%	8,78%
*LTM - Last Twelve Months Until Dec						

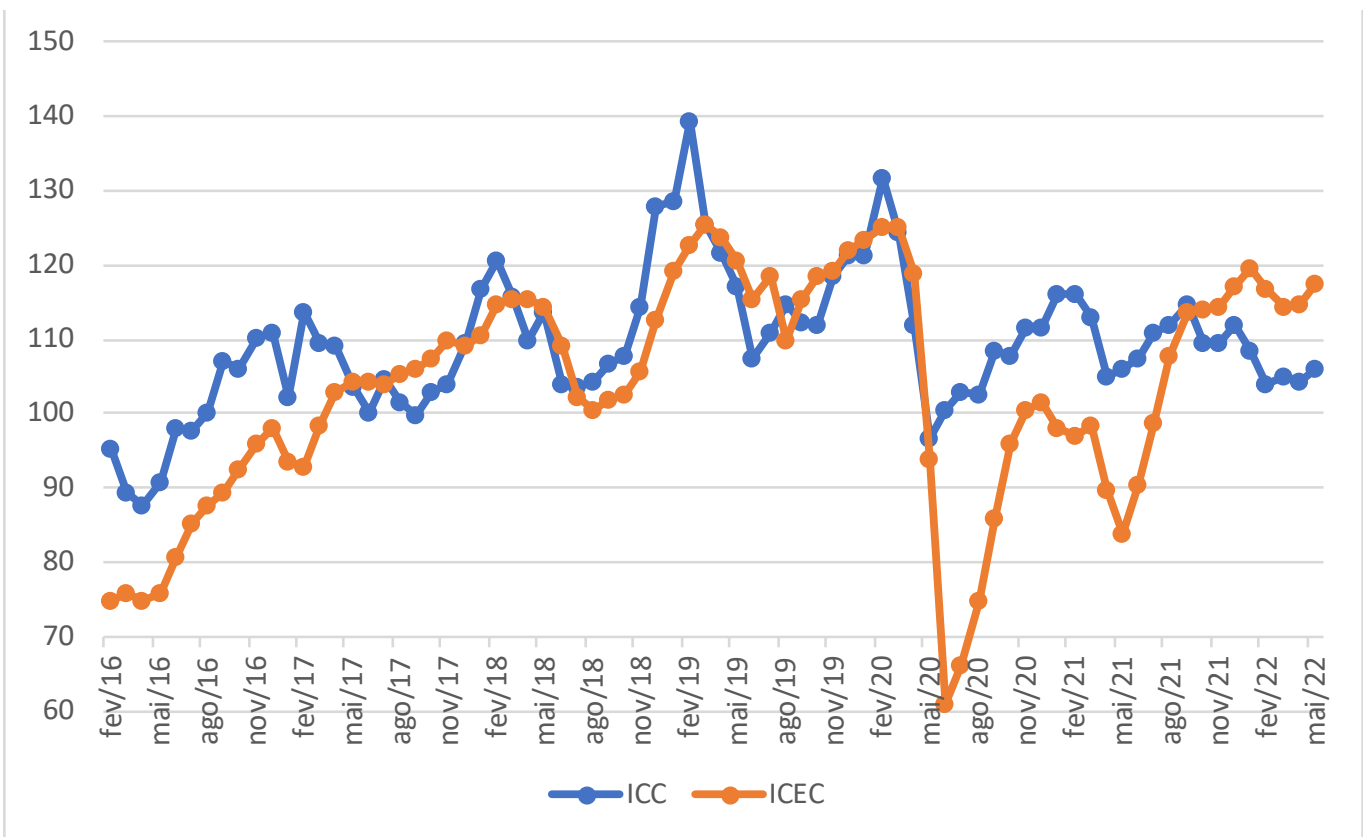
Legend: **Green**, **Red** and **Black** -
The data get better, worse and equal than the previous month.

CONFIDENCE INDEXES:

The Consumer Confidence Index registered an increase of 1.5% in May and returned to 105.9 points, exactly the same threshold of May 2021. Consumers are feeling safer and safer in their jobs and are observing more opportunities in the labor market. Besides that, the possibility of withdrawing part of the FGTS resources and the anticipation of the 13th-month salary for retired individuals also gave an uplift to consumers in this period.

The Trade Entrepreneur Confidence Index (ICEC) pinpointed 117.5 points in May, a monthly raise of 2.3% and progress of 40.2% in the annual counterbalance. Recalling that last year, the economy was gradually leaving the second wave of the pandemic, for this reason, the most significant variation in the face of a more fragile comparison basis. Anyhow, the fact that consumers are more confident, and sales are increasing, brings a relief to retailers and positive perspectives to the near future.

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



Note: The ICC and ICEC vary from 0 to 200. From a 100 to 200 points, it is considered an optimistic threshold, and below 100 points, a pessimistic one. Although the indexes are from the city of São Paulo, they follow a tendency of what is happening in the rest of the country since the city, the largest in Brazil, represents 11% of the National GDP.

IMMINENT TRENDS FOR TOURISM

The 2022 PANROTAS Forum gathered, on June 21st and 22nd, at FecomercioSP, more than 1.3 thousand Travel and Tourism professionals, and besides checking the current sector's pulse, we were also able to develop the next steps and tendencies for the industry, still negatively impacted by and experiencing the effects from the lockdown months and the restrictions engendered by the COVID-19 pandemic.

Here are some of these trends:

1 – Flight tickets are 70% higher in comparison to the same period in 2019 (data by Latam Airlines) and all available research on the topic point to the same result, with different indexes, depending on the analyzed period and routes. Latam's CEO, Jerome Cadier, was straightforward in his presentation: the flight tickets will keep rising, since there is no perspective of cost reduction (from fuel to the necessity of hiring more people, from the dollar exchange rate in relation to real to inflation).

2 – The high cost of tickets already impacts the demand. The ascending passengers' curve in Brazil already presents signs of downfall in some moments, due to the price of tickets skyrocketing. Passengers hold back and seek out alternatives for dates and destinations.

3 – The recovery of the international air network goes at a slower pace, but perspectives are positive. Gol should recover its international air network by the end of 2022. Latam Airlines only in 2023, with the addition of more offers still this year. Among the announcements that were made during the PANROTAS Forum, we had more flights of Latam (like Fortaleza-Miami and Porto Alegre-Lima, besides the return of the flight Sao Paulo-Rome); Gol (air network restored by the end of 2022, to Argentina; Bolivia; Chile; the United States; Mexico; Paraguay; Peru; Dominican Republic; Surinam; and Uruguay); the return of the flight Rio de Janeiro-New York, of Delta Air Lines; and a shuttle service Sao Paulo-Buenos Aires, a partnership between Gol and Aerolineas Argentinas. Companies like Copa Airlines and Aerolineas Argentinas have their current air network higher than in 2019, holding prospects for more connections. The low-cost Colombian carrier "Viva", which will be part of the Abra Group, the same one of Gol and Avianca, entered in Brazil offering flights to its hub in Medellin, and from there to the Caribbean and the United States.

4 – The Airlines declared war on the OTAs that sell miles from their loyalty programs. Latam's CEO, Jerome Cadier, termed these OTAs "the cancer of Tourism", and promised to put an end to this practice, which is not allowed according to the airlines' programs. Brands such as MaxMilhas and 123 Milhas are on the airlines' radar.

5 – The apparent return to normality in fact hides a reality that cannot be denied: the Tourism consumers' habits have changed. Digital nomads, employees having more flexible routines, bleisure, and anywhere of-fice are here to stay. The national airlines, for example, already notice Thursdays as being a new peak traveling day (and not, or not only, Fridays anymore). Countries and destinations, such as Rio de Janeiro, have a program for digital nomads, with easier visa processes. Hotels are more flexible and ready for long stays.

6 – Leisure is in the spotlight. In the 2022 PANROTAS Forum, we had the launching of the Leceres Group, the new name of GJP Hotels, which will count with 40 hotels by the end of the year, besides water parks, restaurants, and attractions. The focus on leisure was also a theme in the cruise and thematic parks panels, and the perspective is for big investments in these sectors in Brazil.

7 – Corporate trips are gradually returning, with stricter contracts, TMCs are more alert to how much they charge for their services, and the travel approvals are taking longer and including more rules. More companies such as Flytour Business Travel, Kontik, and Copastur are already preparing themselves for sales above R\$ 1 billion this year. Regarding Copastur, the revenue of R\$ 1.5 billion will be 50% higher than the one in 2019.

8 – The big distribution companies in Latin America, Despegar, CVC Corp and BeFly leading the way, should invest, even more, in consolidation and expansion throughout the region. They manage to be upfront in relation to big players such as Expedia and Booking, but from what we saw in the PANROTAS Forum anything can happen among these players. Busy days ahead, keeping an eye on the Latin American traveler.

9 – Diversity, inclusion and sustainability are no longer theories or quotes of social marketing. Not only do the companies invest in businesses based on these social issues, as the public (diverse and inclusive) wants to do business with companies that are attentive to these items. Whoever bases their businesses on their own opinions, and keeps their eyes closed to the market of diversity, maybe will not be heard of in a few years.

10 – Research by TRVL Lab, disclosed in the PANROTAS Forum, showed that the travelers' perception regarding travel agents is extremely positive. Consumers will keep using multichannelling, and will buy from suppliers, from OTAs, wherever suits them better. But the travel agent is acknowledged as a distinguished channel that adds value, expertise to the service, and facilitates all the process.

Check out some of the presented numbers:

- 33.8% of passengers get motivated for traveling nationally when receiving a promotional email or a recommendation from a travel agency, and the number rises to 42.25% when the topic is traveling abroad.
- According to the research, for national trips, the preferential channels are online travel agencies, but in 2nd place with 55.07%, are the traditional travel agencies. Data shows that 19.81% prefer going to a physical store. Considering that part of this number is travel agencies, this sum would broaden the advantage of traditional agencies to OTAs.
- Using the services from a travel agency is crucial to 49.76% of individuals. The travel agent is seen as a facilitator, someone important, who offers technical information. Brazilians use travel agencies for the easiness and convenience, safety, and personalized service.
- 64.79% of people who were heard will talk to a travel agency/agent for their next international reservation.

You can access the full research on trvl.com.br.

Watch the presentations given during the 2022 PANROTAS Forum on our Facebook profile.

This report is produced by PANROTAS and FECOMERCIO SP 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.