

Brazilian overview

MONTHLY REPORT

PANROTAS

FECOMERCIO SP

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MAIN FACTS

Worldwide, the news on the economy is not following a favorable direction. The central banks' rally to increase the interest rate aiming to counteract inflation has led to a considerable fear of a global recession. On top of that, there's a concern regarding the European economy's weakening in face of energy challenges, with potential issues with the supply of Russian natural gas in the near future. Caution is taking over and it is possible to be detected in two tendencies: the valorization of the American currency, and the gradual retreat in commodities' prices. For example, the price of the Brent oil barrel, which reached 120 dollars, has been reaching a threshold below 100 dollars.

Bringing the analysis to Brazil, the Central Bank has once again increased the interest rate, from 12.75% to the current rate of 13.25% a year. Even with a very favorable real interest, above inflation, and attractive to foreign capital, the Real hasn't been valorized. On the contrary, the flow seeking the dollar's safety is so big that Real has taken up its level near R\$ 5.40, having fluctuated around 5 reais before that.

Despite the interests' escalation, inflation is still quite high in relation to the desirable levels expected by the Central Bank. According to IBGE, the prices increased 11.89% in 12 months, until June. However, the tendency is for a downturn in the next months. That's because there was a measure of maximum restriction of the rate by 17% in the main estate taxation, ICMS, on fuels. The charged range within the states went from 25% to 34%. The reduction was immediate, and right in the first week of July the gas average price decreased almost 10% in the country, according to ANP (National Agency of Petroleum). This fuel is individually what weighs the most on the price index to consumers. The downfall in commodities' prices, which is the case for corn, soy, and wheat, should also contribute to mitigate inflation throughout the semester this year. This will be important to restore the purchasing power of the population. In order to have a clear picture, Brazilian workers' real average income is R\$ 2,613, 7% below compared to the same period last year (R\$ 2,817), although the unemployment rate has reached the lowest level since the end of 2016, achieving 9.8%. In other words, the job market is heated, albeit the job outplacement is taking place along with a lower salary, and the inflation has undermined people's income.

Besides job positions, other variables have led the way for the Brazilian economy's recovery. The highlight goes to the services' sector, which increased 9.2% in May, in the annual turnover, according to IBGE. Tourism, specifically, registered an increase of 41.8% in May, and accumulated a 34.2% rise within the year, according to data presented by FecomercioSP. Among the analyzed sectors by the entity, air transportation is the one that grew the most, 131.9% in the last surveyed month.

In relation to the commerce, despite the downfall of 0.7% in May, the balance for the year is 1% positive. It is worth highlighting the asymmetric performance for the sector. For example, on the positive side, the clothing and footwear, and drugstore sectors have risen 8.3% and 9.2% in May, respectively. Whereas among the sectors that have registered a downfall, the furniture and home appliances (-12.6%), and construction materials (-7.7%) sectors have drawn attention. Data shows the weakening of activities that depend on credit, due to the significant increase in the interest rate. And the industry, in the end, presented a slight increase of 0.5% in May compared to the same period last year. Likewise in the retail, there are uneven results when we take a comprehensive look, for example, the downfall of -8.2% for the extractive industry, and the elevation of 15.3% for the oil derivate industry.

Looking slightly ahead, what should collaborate to heat the national economy in the second semester is the cash injection from the "Auxílio Brasil" (the Brazilian Aid) of R\$ 600, among other social benefits, with the intention to mitigate the impacts caused by the inflation on the poorer population, enclosed

in the government's proposal, and approved by the Congress. It's a little more than R\$ 40 billion to achieve the proposal's goals. However, it issues a warning regarding the increase in debt once this amount wasn't projected in the federal budget.

The figures, at this moment, are positive for the Brazilian economy. The question is that the probability of an economic recession in 2023 gains power continuously. Alongside, the American inflation reaching the highest level in 40 years, exceeding 9%, will force the Federal Reserve to restrain the economy even more with the increase in interests, which will lead to effects on the global economy. And Brazil won't be unscathed because it is a great commodities' exporter, in other words, there's a tendency of selling less by a lower price.

Therefore, the current positive data should be celebrated, but also keeping an eye on the several challenges ahead that Brazil, and the world, will have to face in the near future.

IMPORTANT DATA:

- The inflation was 0.67% in May. All the nine studied groups by IBGE registered an increase within the month. The highest variation was from the clothing sector, with 1.67%, followed by 1.24% from the health and personal care group. The sector of food and beverages is still under pressure, with a rate higher than the general inflation, of 0.80% within the month, and accumulating 8.42% in the first semester. Next month we should already see a deflation due to the reduction in the fuels' prices, gas, and ethanol.

- The tourism inflation was 41% in the last 12 months, until June, according to estimates performed by FecomercioSP. The index was driven by the increase in flight tickets by 122.40%. This item has suffered on behalf of the rise in the aviation kerosene prices.

- In June, the percentage of Brazilian families presenting overdue bills was 28.5%, the first downfall after 8 months of consecutive increases. According to data by the National Confederation of Commerce (CNC), the high inflation and the more expensive credit have made it difficult for the Families to settle payments.

- The formal job market, with official work contracts, is still heated in Brazil. According to data by the General Register of Employed and Unemployed Individuals (CAGED), of the Ministry of Economy, from January to May there were the opening of slightly more than one million job positions, highlighting the services' sector (658 thousand) and the industry (175 thousand).

| Latin America Macro Data | Argentina | Brazil | Chile | Colombia | Mexico | Peru |
|---|------------------|---------------|--------------|-----------------|---------------|-------------|
| Unemployment rate | 7,00% | 9,80% | 7,80% | 11,60% | 3,40% | 7,20% |
| Basic interest rate | 52,00% | 13,25% | 9,75% | 7,75% | 7,99% | 6,00% |
| Inflation (LTM - Jun*) | 60,70% | 11,89% | 12,50% | 9,67% | 7,65% | 9,32% |
| *LTM - Last Twelve Months Until June | | | | | | |

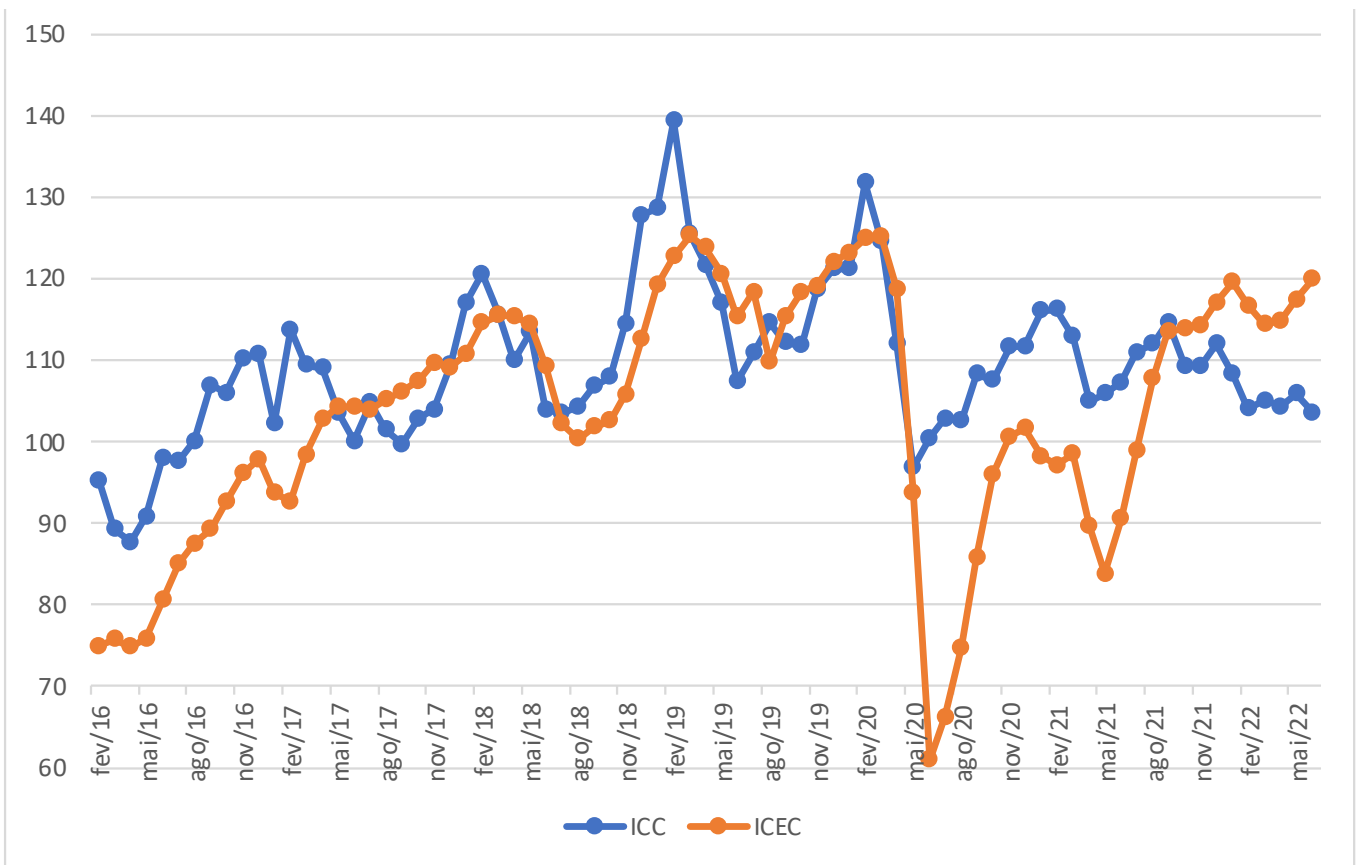
Legend: **Green**, **Red** and **Black** -
The data get better, worse and equal than the previous month.

CONFIDENCE INDEXES:

The Consumer Confidence Index retreated 2.1% in June and reached 103.6 points, considering the 105.9 points in the month of May. In comparison with the same month in 2021, there is a 3.5% decrease. On one hand, the heated job market sustains the confidence level in the optimistic threshold, above 100 points, but on the other hand, inflation has taken away the purchasing power of Families in the city and limits the index's progress. The tendency is an increase in the next months due to the significant reduction in the gas price.

The Trade Entrepreneur Confidence Index (ICEC) registered an elevation of 2.1% in June, exceeding the 117.5 points from May to the current 120 points. In the annual counterbalance, the progress was 32.4%. Sales in commerce, especially in the month of May, Mother's Day period, were positive and cheered up the sector's business owners. The resource injection, resulted from the "Auxílio Brasil" (the Brazilian Aid), should keep the sales heated in the sector, and consequently, the business owners' confidence.

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.

TRAVEL AND TOURISM

A survey performed by the Tourism Council of FecomercioSP revealed that flight ticket prices in Brazil have risen 122.4% in a year. The study also shows that services related to Tourism are 41.39% more expensive than in 2021, when comparing the inflation for the sector in June. Flight tickets contributed the most to this rise in services' prices, with this 122.4% increase in 12 months.

Although it is the high season in Brazil (June/July vacations), a factor that, itself, already contributes to the increase of the ticket value's elevation, there are other issues influencing these figures. Among them, there's the rise in aviation kerosene (70% this year), and in the dollar (R\$ 5.4 = US\$ 1), besides the limitation in the seats' offer increase, and the difficulties in the workforce reinstatement.

However, yet there is a restrained demand pushing the prices up because of vacation season, the elevation is a reflex, mainly from the inflation on companies' expenses, after two years of setbacks, and a lack of governmental support, according to Mariana Aldrigui, the CEO of the Tourism Council of FecomercioSP.

This is Tourism's great challenge at this moment in the country: traveling is more expensive, and the consumer needs payment methods that are facilitated, aggregated value to products, attractive prices (and even the possibility of financing), and conveniences in the process.

The airway chaos that we see in the United States and Europe, with several cancellations and delays in flights, hasn't happened in Brazil, which only experienced something similar in January this year, because of the distancing of crew members due to omicron.

Over here, the aviation challenges, besides the costs, include cracking how the return of 100% of corporate trips is going to be (the sector seems not having understood yet how this traveler is behaving), adjusting the return of proper offer in international flights (something that will happen completely between December 2022 and the beginning of 2024, depending on the airline), and resuming the connectivity across Brazil, since the airway network is too concentrated in the Southeast region, where São Paulo and Rio de Janeiro are located.

In July 2023, Brazil will count with 826 international flights per week, with 71% of departures being concentrated in São Paulo, especially in the GRU Airport.

BEYOND AVIATION

In other sectors, like travel operators and travel agencies, the cost challenges are also high, and the traveler counts with these professionals' expertise to manage fitting the trip in their budgets.

In a year when the Soccer World Cup is taking place, a break in the businesses is expected during the tournament (November/December), with vacations in January and February promising a return to normality. If the international travel costs continue to skyrocket, the domestic market will absorb this demand, but also with prices that haven't been seen in resorts, hotels, and national attractions in a long time.

EVENTS

The second semester will hold some of the most important events in the industry in Brazil, featuring the "Visit USA" in August (São Paulo and Campinas), "Abav Expo" in September (Pernambuco, Northeast of Brazil), "BTM" (Fortaleza, in October), and "Festuris Gramado" (November, in Rio Grande do Sul).

PANROTAS will have booths in all these events, and also is organizing, in October, the "100 Most Powerful in Tourism 2023" lunch.

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.



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