

Brazilian overview

MONTHLY REPORT

PANROTAS

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MAIN FACTS

Five months after the start of a public calamity decree due to the coronavirus pandemic, the **Brazilian economy has been recovering faster than expected**. Agribusiness has performed very well, managing to supply the whole country and avoiding food shortages, in addition to taking advantage of the devalued real to increase exports. As mentioned in the previous report, the grain harvest, for example, should reach a record of 250 million tons.

The most recent data about the retail sector released by the IBGE (June) shows a slight decrease of 0.9% compared to the same period last year. However, it's noticeable the growth of home appliances and furniture sectors (+25.6%) and building materials (+22.8%), after having a sequence of negative results.

These performances show the relevance of the emergency aid of R\$ 600 that the government offered, whose installments end, at first, in September. In total, about R\$ 200 billion were allocated to Brazilian families and, according to a study by FecomercioSP, R\$ 150 billion was spent on trade. As a result, the entity has revised the rate of decrease for national trade this year, from 14% to 7%.

In addition, the city of São Paulo and other major centers gradually reopened their business in June. There was a repressed demand, however, people having to adapt themselves to the "new normal", staying at home for longer periods, contributed to the greater demand for small renovations, computer products, household appliances, cleaning articles and so on.

If, on the one hand, the government contributed with resources for families, on the other hand, it helped – a lot – the businessmen through PRONAMPE (National Small Business Support Program). In the first group, R\$ 16 billion were made available to the companies. The interest rate was 3.5% per year and it had special payment terms, such as 8 months grace period and payment in 36 months. The conditions were so good that the money ran out in less than a month and, therefore, the government is about to inject another R\$ 12 billion.

One factor that has helped the credit market is the interest rate of the economy. At the last meeting of the Monetary Policy Council, the Central Bank decided to reduce it from 2.25% to 2% per year, renewing the historical record. The expectation is that it will remain at this level until the end of the year.

And credit is expanding again, as banks become less selective in the credit supply, since the gradual reopening of the economy and the scenario offer less risk than April and May. In June, for example, according to data from the Central Bank, consumers took 14.3% more resources for credit than in May and the variation for companies was 10.3%. It also indicates that companies are starting to have a greater propensity to take risks, reducing the caution of previous months.

Although the economic data has a more favorable trend, it is important to note that its characteristics are not sustainable in the long term. It is more than notorious that the federal government is in a delicate fiscal situation, this year with a deficit of R\$ 700 billion and the debt x GDP ratio reaching 100%. Thus, it is hard to grant credit with special conditions for companies and also to offer emergency aid for a longer period.

In this way, after the end of the emergency aid, the restriction of the families' income due to the high level of unemployment will become evident again and it will bring consumption limitations for the retail sector. Therefore, while we can't see the economic scenario and, above all, the political scenario, more clearly, it will be hard to stimulate investments that are essential for generating jobs and income in the long term and to reduce the risk of a "chicken flight".

IMPORTANT DATA:

- **Retail sales in June surprised positively.** According to the IBGE, compared to the previous month, there was an increase of 12.6%. However, in the annual account, the decrease was only 0.9%. As mentioned in the text, home appliances and furniture (+ 25.6%), building materials (+22.8%), drugstores (+7%) and supermarkets (+6.4%), were the sectors that contributed to the overall performance to be close to the one of 2019.

- **Prices are controlled.** In July, the IPCA, the official indicator calculated by the IBGE, showed an increase of 0.36% and accumulated 2.31% in 12 months. The general increase was due to adjustments in administered prices, fuels (+3.12%) and electricity (+2.59%). With the still weak demand and the excellent agricultural harvest, it does not pressure, for example, food prices, which were practically stable in July, 0.01%.

- **The Services sector is still experiencing a very difficult moment,** even presenting less accentuated variations, as, for example, in the month of June, when it decreased 12.1% in the annual comparison, in view of -19.3% in May and -17.3% in April. The negative highlights are related to the services provided to families, such as **restaurants and accommodation**. For this group, the performance in the month was -57.5%. Air transport also recorded a sharp decline of 59%. In other words, Tourism is suffering the most in this pandemic and should be the last to recover.

- The IBGE revised the grain harvest for this year from 245 to 250 million tons, 3.9% more than last year.

- In June, 11,000 formal jobs were closed in the country. It may seem a small number, but the accumulated total since March is -1.54 million formal jobs, according to data from the Ministry of Economy.

Latin America Macro Data	Argentina	Brazil	Chile	Colombia	Mexico	Peru
Unemployment rate	10,40%	12,20%	12,20%	19,80%	3,50%	16,30%
Basic interest rate	38,00%	2,00%	0,50%	2,25%	4,50%	0,25%
Inflation (LTM - jul*)	42,80%	2,31%	2,50%	1,97%	3,62%	1,84%
*LTM - Last Twelve Months Until Jun (Except Argentina)						

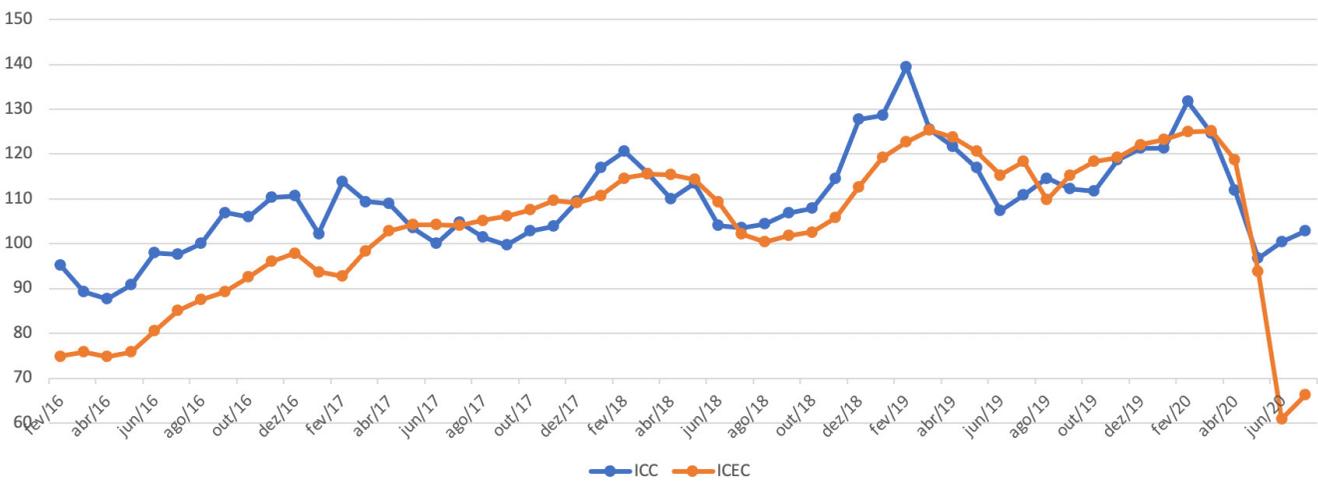
Legend: Green, Red and Black - The data get better, worse and equal than the previous month.

CONFIDENCE INDEXES:

The Consumer Confidence Index (ICC) registered the second consecutive increase and, in July, reached 102.8 points, **an increase of 2.4% compared to June**. The relatively less uncertain future scenario compared to the previous months has influenced the recovery of consumer confidence. For the present moment, the situation is pessimistic due to the fear people have of losing their job and reducing the family's purchasing power.

The Retail Businessmen Confidence Index (ICEC) starts to react with an increase of 8.6% in July, when it passed from 61 points in June, the lowest level in the historical series, to the current 66.2 points. As it occurred with the ICC, the recovery of this indicator is related to the improvement of expectations, in the medium and long term, while in the short term the evaluation by businessmen is pessimistic.

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.

TRAVEL & TOURISM

Slow and gradual recovery, starting with short leisure trips through Brazil (preferably by car), visits to relatives and weekend getaways. In other words, we are no exception and follow the recovery trends seen around the world.

The national airlines are operating about 30% of their pre-pandemic network and should operate 60% to 70% until the end of the year.

International airlines have already resumed operations, but a few, such as Alitalia and Turkish Airlines, still haven't established a date to resume. The three American companies (American, Delta and United) already operate between Brazil and the United States, still with much less capacity compared to the period before the crisis.

Among the European companies, Air France-KLM, Lufthansa-Swiss and TAP have the largest number of operations in the resumption, and TAP is going to inaugurate a new flight during the pandemic: Lisbon-Maceió (in the Northeastern Brazil).

Argentina still hasn't reopened its borders for flights from other countries and the new forecast is that this will only occur in early October. Copa Airlines is operating connecting flights in August and September (that is, Brazilian passengers cannot stay in Panama, but can go to other destinations) and must return with regular non-stop flights in October.

In hotels, the majority of the resorts have reopened (a few have left the reopening for September) and almost 80% of the chain hotels are open. Budget hotels have had better results in the resumption, which, in this case, should be faster.

Avid to travel, Brazilians prefer the Northeast region and national destinations for the end of the year, but keeping an eye for promotions, especially to Florida, the Caribbean and Europe. Information about Brazilians' resumption and intention to travel can be found in the three surveys launched by TRVL LAB during the pandemic. The most recent survey is from the beginning of August. Download it for free, in Portuguese, at: www.trvl.com.br. TRVL LAB is a market intelligence laboratory, a partnership between PANROTAS and MAPIE.

Another source of information is Braztoa's research, which shows the still modest return of sales. The tour operators association shows that sales have been growing, but still represent 10% to 30% of the pre-pandemic volume. Check the data at: www.bratzoa.com.br.

The events sector, including tourism fairs, will take a long time to recover. WTM Latin America has recently cancelled the 2020 edition and has already announced that it will return in April 2021, following ILTM Latin American, Forum PANROTAS, among other events. Abav will also hold its fair only in 2021, but in September 2020 it promotes the Abav Collab, a hybrid event, with a virtual part and some social events in drive-ins. It will occur from September 27 to October 2 at: www.abavcollab.com.br.

The federal government promises a campaign to encourage domestic travel, reaching 100 million consumers. The goal is to heat up summer sales (December to February) and make travel a habit of Brazilians again.

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