

Brazilian overview

MONTHLY REPORT

PANROTAS

FECOMERCIO SP

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MAIN FACTS

An important data released recently was the GDP of the second quarter, which fell 9.7%, following the trend of most countries. However, it is a rear view analysis and BOMR reports had already shown that the moment had hit rock bottom.

Now, reaching the last quarter of the year, the Brazilian economy continues its slow and gradual recovery process. The sectors that started to recover are showing higher growth rates, and those segments that still suffer from the crisis show more moderate retractions.

Retail trade is a case in which the situation is improving every month. The latest data released by the IBGE showed sales growth of 5.5% in July in the annual comparison, higher than the 0.5% seen in the previous month. The highlights remain the basic consumer sectors, supermarket and pharmacies, with respective increases of 9.9% and 13.4%.

The gradual reopening and expansion of the commercial service hours across the country is one of the factors for the good performance. However, the emergency aid of R\$ 600, which the federal government distributed to the most vulnerable people, was essential for the recovery of retail sales, especially in the growth of sectors, such as home appliances, which showed an annual increase of 25.6%, and construction materials, with an increase of 22.7%. It happened because people are adapting and working longer inside their homes.

Throughout the pandemic, around R\$ 200 billion were destined for this social protection program. According to FecomercioSP's calculations, approximately R\$ 150 billion were destined for trade. Given Brazil's fiscal fragility, maintaining this value for a longer time could further damage the situation and subsequently the tax burden would increase. Therefore, the decision was to cut 50% of the benefit (R\$ 300) until December. Considering the increase in unemployment, the injection of the 13th salary will be lower compared to 2019, which will negatively influence Black Friday and Christmas sales. However, emergency aid will be relevant, even with a lower amount, to balance this loss in some way.

Another point that draws attention negatively is the increase in prices, more significantly in the food and beverage group, the main expense of families. Until August, there was an increase of 4.91% for this group, while general inflation accumulates 0.70%. The villains are rice, beans and meat, the basis of Brazilian cuisine. It's happening because of the increase in demand, but also because producers are exporting part of their agricultural production, taking advantage of the devalued real and the world demand for food, mainly that of China. The government decided, for example, to zero import tax on rice to make it cheaper for consumers. It tends to be a one-off problem and there should be no pressure on general inflation in the medium and long term.

Regarding other sectors, industry still has bitter negative results, as was the case of the 3% drop in July and accumulates a 9.6% loss in the year. The emergency aid caused an increase in demand faster than imagined and many industries were not prepared. As a result, there is an occasional mismatch, a lack of products for trade. For electronics, for example, there were problems importing raw materials from China. However, this is not a structural and long-term problem.

The services are in an even more critical situation, because they are expenses on the back burner in the middle of a pandemic like the coronavirus. In July, there was a decrease of 11.9% and services provided to families, such as accommodation and food, fell 54.9%, very close to the 51.4% decrease in air transport. **In other words, sectors linked to tourism are facing great difficulties both due to the economic issue and people's fear of making long trips until they have more security.**

In the political field, the government sent to Congress the basic text of the Administrative Reform. However, as it is an election year and this is a Proposed Amendment to the Constitution and requires a qualified quorum of three fifths for approval, it should hardly be discussed this year. Its impacts should be lower than expected because it establishes that changes in the rules of civil service will be made for new civil servants after approval and not for those in office.

In summary, the signs indicate the positive direction of improvement in the economy in general terms. High unemployment can be a limiting factor for faster recovery, as many families are overdue and will need extra time to balance their budgets to return to consumption in a sustainable and long-term manner. The uncertainties about the control of the coronavirus, vaccines and medicines, do not make the long-term scenario clearer, which makes it difficult for entrepreneurs to invest, which is essential for income and jobs generation.

IMPORTANT DATA:

- According to the IBGE, sales in July grew by 5.5% and when the sectors of vehicles and building materials were included, the so-called expanded trade, the variation was 1.6%. Despite the improvement, the accumulated result for the year is still negative at -1.8%. As already noted in the report, supermarkets, pharmacies, building materials and electronics are the sectors that are driving growth in sales. Sales of vehicles and clothing remain in the negative field, as they are not essential products, as is the case with the first, and because there is no need for new clothes during the pandemic.
- The IPCA, the official indicator calculated by the IBGE, increased 0.24% in August and accumulated 2.44% in 12 months, still well controlled in view of the established goal of 4% for this year. Gasoline (+ 3.22%) led the transport group (+0.82) and some foods, such as rice, milk and meat, influenced the increase in food and beverages (+ 0.78%).
- The IBGE revised the grain harvest for this year from 245 to 251.7 million tons, 4.2% more than last year.
- After four months of negative balance between hired and fired workers, in July, 131,000 new formal jobs were created. However, the balance for the year is quite negative, approximately 1.1 million closed vacancies.

Latin America Macro Data	Argentina	Brazil	Chile	Colombia	Mexico	Peru
Unemployment rate	10,40%	13,30%	13,10%	20,20%	3,50%	16,40%
Basic interest rate	38,00%	2,00%	0,50%	2,00%	4,50%	0,25%
Inflation (LTM - aug*)	42,40%	2,44%	2,45%	1,88%	4,05%	1,67%
*LTM - Last Twelve Months Until Jun (Except Argentina)						

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

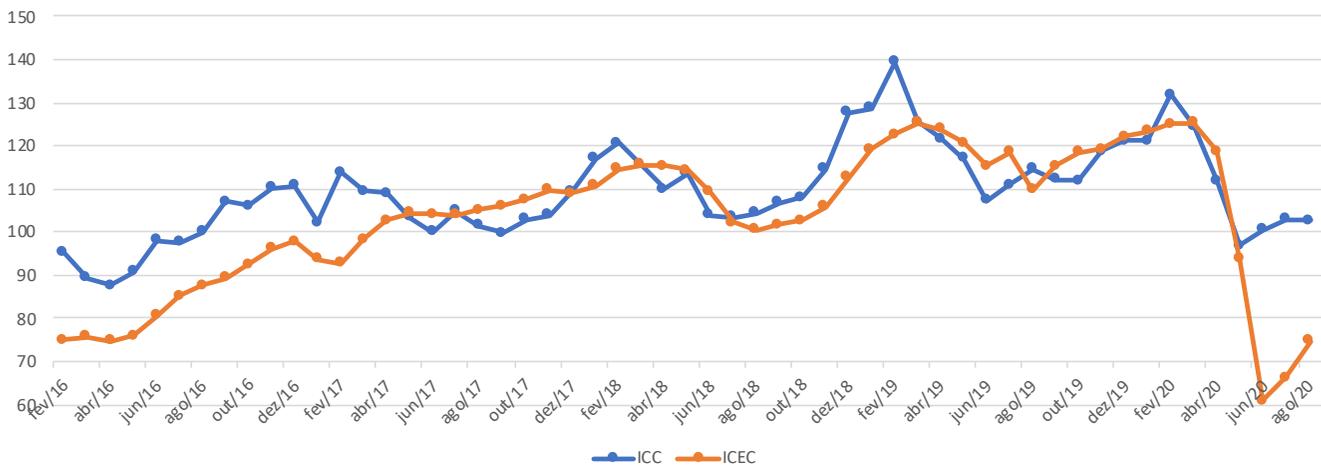


CONFIDENCE INDEXES:

The Consumer Confidence Index (ICC) was technically stable from 102.8 points in July to 102.6 points in August. The indicator is 10.5% below the level of 2019, but still remains at the optimistic level, above 100 points. The recovery of confidence is in charge of the economy, slowly and gradually. Only with a stronger job generation the ICC should move forward more quickly.

The Retail Businessmen Confidence Index (ICEC) rises for the second consecutive month and reached 77.8 points in August, an increase of 12.9% compared to July, and 22.6% compared to June, which was the worst monthly result during this pandemic. Although it remains at the level of pessimism, below 100 points, the reopening of trade and expansion of opening hours have brought relief to businessmen who manage to recover their sales in some way.

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.

10 FACTS ABOUT THE TRAVEL RESUMPTION IN BRAZIL

1 - The simple announcement of a possible removal of travel restrictions from Brazil to the United States made sales and searches for airline tickets to American cities soar. As companies are offering flexible rebooking policies, many Brazilians are taking advantage of promotion opportunities and buying tickets for the end of the year and summer (December to March).

On September 14, the United States changed the rules for aircraft landings from Brazil, China and Europe, which are no longer limited to 15 airports (funnel airports). The health inspection of these flights upon arrival in the United States isn't made anymore. President Donald Trump must revoke his proclamation that restricts the entry of tourists and business travelers. On the other hand, Brazil has already opened the skies to visitors from the United States, who should only present travel insurance when they arrive in the country.



2 - There is also a great expectation for the sea cruises to return and the information is contradictory. Alleging uncertainties in Brazil and Argentina, Costa Cruzeiros canceled its summer season in South America. MSC, which has four ships stopped in Brazil since the beginning of the pandemic (which coincided with the end of the cruise season), maintains plans to take cruises from November to March.

3 - Companies bet on Brazil and the Caribbean as the main destinations for the resumption of travel at the end of the year. Other destinations that are already open to Brazilians have also shown good signals for sales for the coming months, such as Dubai, Turkey and the Maldives. One of CVC Corp's consolidators sold 300 tickets to Dubai in August alone and the group also confirms the good performance of the Caribbean and the Maldives destinations.

4 - The wave of layoffs at operators and travel agencies has created another phenomenon: the creation of new agencies and independent consultants that seek the structure of larger companies to serve their customers. In August, CVC Corp's RexturAdvance received 428 applications for registration from new travel agencies (in July, there were 290 applications). Several companies are beginning to create a structure to serve independent consultants.

5 - Updated numbers of travel agencies in Brazil: + 70,000 CNPJ (publicly-held companies) in this segment; + 34,000 companies registered at Cadastur (mandatory official registration of the federal government), 7,000 active companies in the largest consolidator in the country (12,000 per month in 2019 and 1,600 in April 2020, the peak of the crisis) and 2,400 companies associated with Abav.

6 - Car rentals and vacation rentals (where there is room for family or group of friends to gather) are in high demand by tourists. Hotels with bungalows and chalets and connectable rooms, boutique hotels and more isolated properties are also in good demand. For urban hotels, the tip is to make it very explicit and clear what the cleaning policy, sanitizing and protocols to combat covid-19 are.

7 - As direct flights will be preferred when resuming, to avoid more flights and more time at airports, destinations such as Miami, Orlando, New York, Lisbon, Buenos Aires, Paris, Rome, Istanbul, Dubai... tend to return earlier compared to those flights that need connections and more flight time to be accessed.

8 - The events are still not occurring in Brazil, but there are already hybrid experiences taking place, both in the corporate segment (corporate travel) and in the Tourism industry. A good example is the Abav Collab, which will take place in the last week of September and will combine activities on an online platform and some in-person activities.

9 - Another trend is the live streaming showing the products and the operations, which are transmitted directly from the reopened places. Now the training team needs to show how the experience after the protocols were implemented is.

10 - Obstacles for the economic resumption: dollar still high against the real (which may inhibit the impulse to travel) and the 25% tax on remittances abroad to pay for travel services. Regarding this second item, there is already a procedure for a provisional measure that lowers the tax to 6%, but it still has no deadline to be edited. Meanwhile, tourism companies focus on payment through countries that do not require this charge (as it would be considered double taxation).

PORTAL PANROTAS FIGURES IN THE LAST 30 DAYS

721,000 unique visitors or 24,000 per day, including weekends

Peaks of more than **30,000** on weekdays

2.4 MILLION pageviews

Average time per session: **10.4 MINUTES**

MEET **PANROTAS** AT TELEGRAM

Daily analysis
from our editors and
our weekly magazine
(Revista **PANROTAS**)

EVERY FRIDAY



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