

Brazilian overview

MONTHLY REPORT

PANROTAS

FECOMERCIO SP 

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MAIN FACTS

The most recent information indicates a somewhat surprising economic recovery from what was projected at the beginning of the pandemic, in March and April. So **the GDP forecasts for 2020 are being revised for the better**. For example, the International Monetary Fund (IMF) estimated a recession with a drop of 9.1 percent for the country and now it is expected a drop of 5.8 percent.

And retail trade has been the highlight of the recovery, with sales growth of 3.9% in August compared to the same period in 2019. According to the IBGE survey, sales reached the highest level since 2000; before that, it had been the month of October 2014. The furniture and home appliance sector has shown the best performance with a 36.6% increase in sales. Another activity that draws attention is that of building materials, which presented an annual increase of 24.1% in sales.

These sectors are benefiting from the emergency aid given by the federal government to the most vulnerable people because the resources, almost entirely, go directly to retail trade with people buying basic products, such as food and medicine, but also using the resources for small renovations in the house and purchase of appliances and furniture, since families are spending more time in their homes due to the pandemic.

The injection of emergency aid was essential for this retail recovery. From April to August, 67 million people were benefited, that is, 32% of the population, with a total of R\$ 182 billion. This amount represents about 10% of the amount the trade sector sells in one year in the country, practically one more month. It is important to remember that from September the value of the aid, which was R\$ 600, was reduced to R\$ 300 and to a more restricted population.

Although it still presents negative figures, the industry has been showing negative rates that are getting **smaller and smaller**, as in August, when it fell 2.7%. However, the recovery has been driven by specific sectors, such as the manufacture of food products (5.7%), the manufacture of oil and oil products (6%) and the manufacture of beverages (11.7%). There are some specific problems of lack of inputs in the industry, as businessmen were not prepared for the resumption of demand earlier than expected.

With the figures presented, it may seem that the recovery is taking place in a solid and sustainable way over the long term. However, the Brazilian economy will face a major challenge in 2021: how will the economy react when emergency aid ends?

This question is posed by the fact that the generation of formal jobs is relatively slow. According to data from the Ministry of Economy, even though the employment balance between hired and fired was positive in 250,000 in August, in the accumulated result for the year, the total is 850,000 closed positions. This smaller contingent of formal workers compared to 2019 will lead to a lower injection of the 13th salary at the end of the year. These resources are important to give impetus to Black Friday and Christmas sales.

Another important point to be added to the analysis is that inflation has alarmed families. The official index, accumulated in the year until September, is at 1.34%, however, the food and beverages group, which makes up the largest part of household budget, is up 7.3% in 2020. It ends up limiting the consumption, as consumers need to reduce spending in groups such as health, transportation and housing to be able to maintain the purchase of the same basic food products.

On the other hand, household savings figures alleviate concerns. **The savings account reserve broke the historical record of R\$ 1 trillion.** Since March, the balance between deposits and withdrawals has totaled R\$ 153 billion, a monthly average of R\$ 20 billion. To get an idea of the magnitude of it, net funding was positive (almost R\$ 70 billion) in the last three years. Therefore, during the pandemic, families, by staying more at home, were also able to save and these resources can immediately return to the economy and give traction to it in early 2021.

It is important to be optimistic, but also to have the feet on the ground, because the situation is still delicate and there are many challenges ahead. However, arriving in October with significant revisions for the better of expectations for the economy can already be considered a relief for those who have gone through a crisis of unprecedented global proportions in history.

IMPORTANT DATA:

- The service sector still could not show the strength for a faster recovery. According to the IBGE, in August, there was a 10% decrease in the annual comparison, driven by activities related to tourism, such as accommodation and food services (-45.3%) and air transportation (-39.6%).
- The IPCA, the official indicator calculated by the IBGE, registered an increase of 0.64% in September and accumulates 3.14% in 12 months, still below the target established by the government (4%). The highlight has been the food and beverages group, with an increase of 2.28% in the month. The pressure is concentrated in this group, while in the other eight groups analyzed percentages are closer to the general average. There are a number of factors, such as the rapid increase in demand and the relocation of part of the production abroad, that explain the higher food prices increase.
- E-commerce has increased its sales pace since the beginning of the pandemic. According to the Cielo Broad Retail Index (ICVA), in the first half of September, when the Patriotic Week took place, the performance was 91.1% higher than the previous year.

Latin America Macro Data	Argentina	Brazil	Chile	Colombia	Mexico	Peru
Unemployment rate	13,10%	13,30%	12,90%	16,80%	3,50%	15,60%
Basic interest rate	38,00%	2,00%	0,50%	1,75%	4,25%	0,25%
Inflation (LTM - sep*)	40,70%	3,14%	3,09%	1,97%	4,01%	1,80%
*LTM - Last Twelve Months Until Aug (Except Argentina)						

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

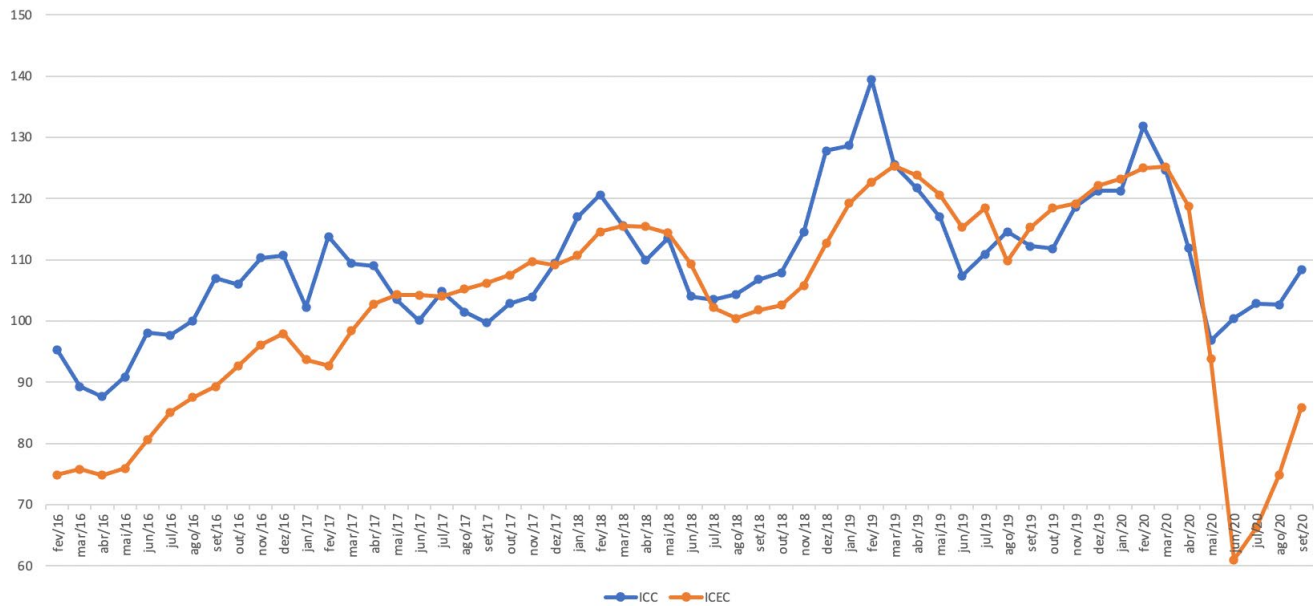


CONFIDENCE INDEXES:

The Consumer Confidence Index (ICC) increased 5.6% in September, from 102.6 points in August to the current 108.4 points. Despite being 3.6% below the level of September 2019, the ICC is above 100 points, that is, in the optimistic area. The reflection of more confident consumers can be seen in shopping trips and in the good result presented by the retail trade. Creating more jobs would give a faster pace for the indicator, but given the situation that the country has just left, it can be considered satisfactory.

The Retail Businessmen Confidence Index (ICEC) follows the positive trend with the third consecutive rise, reaching 85.9 points in September, 14.9% above the previous month. However, in the annual comparison, the result is negative (25.5%). The improvement in retail sales has encouraged businessmen who are gradually recovering what was lost during the pandemic. São Paulo, for example, is in the "phase green", one step before the "phase blue", which will allow the full reopening of the economy, and, as a consequence, the mood of businessmen is improving.

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.

BOM REPORT TRAVEL

Summer is coming and Brazil is preparing for the high season of the resumption. There is already a big movement for domestic travel and a great desire among people to see the borders reopened for international travel.

In the meantime, Brazilians travel to possible international destinations, especially Mexico, the Caribbean, Dubai, the Maldives and, more recently, Turkey. Neighbors Argentina, Peru and Colombia just reopened its borders for Brazilian tourists. Argentina expects 100,000 Brazilians for the summer season.

In Brazil, the Northeastern region is the preferred destination, because of the beaches, but cities close to large capital cities, in mountain areas, have also been much sought after.

TOUR OPERATORS

Operators had to focus almost 100% of their sales efforts on domestic travel for the summer, but also on selling international travel for 2021. The results are promising: in September, CVC Corp announced that the sale of resorts and hotels packages was already at 80 percent compared with 2019 volume. The operator anticipated the return of air charters and started offering charter flights to Porto Seguro, in Bahia, in October. In the summer, there will be flights throughout Brazil, showing the long-awaited recovery.

Other companies are also showing signs of recovery. At Diversa Turismo, previously focused on international travel, sales already exceed 50% compared with the pre-pandemic period. At Orinter, sales in September were higher than in September 2019.

The Brazilian Tour Operators Association (Braztoa) released data for September, which confirm the recovery, albeit slowly. The monthly survey by Braztoa revealed that Brazilian travelers are beginning to plan their trips in advance. In September, 75% of operators associated with Braztoa said they had sold trips for the first half of 2021, followed by itineraries that will take place in December (60%); 47% of operators sold trips for the second half of 2021.

In September, 87% of the operators associated with Braztoa made sales, 16% of which had revenues between 50% and 100%, and 2% registered revenues higher than September 2019.

The number of companies whose revenues are still up to 90% lower than in the previous year was reduced to 28% (in August it was 40%), while other companies had revenues between 11% and 50% in the same period. However, even with the improvement in business, high season sales will not reach 50% compared to the same period in 2019.

According to the entity's survey, internationally, the most sought-after destinations are: **Cancún, accompanied by other Caribbean regions, followed by the United States and the Maldives. Portugal, Italy and Argentina are also in great demand.**

AIRLINES

Practically, all international airlines have resumed flights to Brazil. Among the exceptions is Alitalia, which is expected to return in December (this also applies for Argentina). Brazilian Gol has not yet resumed its international flights.

In the domestic market, Azul has the highest number of flights, with more than 500 per day, Gol has more than 400 (and is the market leader, since it operates larger planes) and Latam still has less than 300 daily flights. The market forecast is to reach December with 80% of the domestic pre-pandemic network.

CRUISES

There is great pent-up demand for cruises and, initially, the Brazilian season, which starts in December, will have only MSC Cruises, with ships sailing along the Brazilian coast. Sales for international cruises for 2021 are booming, but the constant postponement of the resumption of economic activity in the United States and the Caribbean and the borders still closed in Europe are of concern to Brazilian cruisers.

HOSPITALITY

In September, more than 92% of chain hotels were reopened. But they are still operating with limited capacity. The resorts, also with restricted capacity, have been in high demand on holidays and several of them are already fully booked for end of the year.

The demand for accommodation in houses, villas, chalets and condominiums, where the family can be together in the same environment, has grown a lot.

JOBS

About 50% of all jobs lost in Brazil due to the pandemic were in tourism (including the food sector) and it is estimated that 50,000 companies have ceased to exist in the sector.

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