

# Brazilian overview

## MONTHLY REPORT

PANROTAS

FECOMERCIO SP

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## MAIN FACTS

The Brazilian economy continues its recovery process after a period of more severe restrictions, between February and April. However, the inflation factor has become a focus of attention and a major obstacle in household consumption and business investments. The IPCA, the country's official index, rose by 8.35% between July last year and June this year, well above the 3.75% set as a target by the Brazilian Central Bank for 2021.

Price pressure comes from several fronts. The variation of the food and beverage group (21% in the general index) is 12.6% considering the last twelve months. The price of agricultural commodities, such as corn and soybeans, has increased a lot and affect an entire chain, from agriculture to retail. In addition, the price of meat has also increased a lot, because the price of arroba of the ox jumped more than 60% in a year and has forced Brazilians to reduce the consumption of this protein and swap it for eggs.

Another factor that has had an impact is the price of electricity and gas. The latter had a price increase of 24% in one year. And electricity had another tariff readjustment of 50%, due to the low levels of hydroelectric reservoirs. To meet energy consumption, it will be necessary to produce energy in thermoelectric plants, which have a higher production cost and, of course, this increase is passed on to the consumers and companies.

Still regarding inflation, the spike in the price of oil in the international market pressures fuel prices. So much so that, on average, gasoline price has already risen 42% and diesel price has risen 41% in 12 months.

This issue (inflation) has been a matter of concern not only in Brazil, but also in the United States, where the increase in prices in one year was 5.4%, the highest level in almost 13 years. Thus, it is understood that the Federal Reserve, the American Central Bank, has to increase interest rates. If it happens, Brazil will have one more challenge: to take an even more contractionary measure that has been done with the basic interest rate of the economy, the SELIC.

Until now, there were increases of 0.75 points in the last meetings of the Monetary Policy Committee of the Central Bank, increasing the rate to the current 4.25% per year. But, considering this scenario of accelerating domestic inflation and a possible increase in American interest rates, it may require a greater increase in the SELIC rate.

Another ingredient for this challenge is the exchange rate. The dollar, which reached R\$ 4.90, is now above R\$ 5 again. Some factors for the dollar to appreciate are signs of higher interest rates in the United States and a scenario of increased risks with the new variants of the coronavirus, especially Delta. So much so that, in addition to the dollar, gold also appreciated. In the domestic scenario, political conflicts collaborate to enhance the devaluation of the real. And a higher dollar price is another problem for the Central Bank to control inflation in view of the increase in commodity prices.

While the Central Bank must decide this crossroads at the beginning of August, sectors of the real economy are showing increasingly favorable numbers, starting with retail, which, in May, grew 26% in the annual comparison. The comparison with 2020 is not appropriate, as in this period last year the economy was at rock bottom, at the peak of the pandemic, that is, the basis for comparison is fragile. Even so, compared to the same period in 2019, before the pandemic, retail grew by 6%.

Industry and services registered a strong increase compared to 2020, but due to the weak basis of comparison. Compared to the same month of 2019, the first sector is still 3.1% below and the second -0.7%. At first glance, it may seem like a negative result, but these sectors were in an even more difficult situation, especially services, which accumulated a fall of 8.4% in the last 12 months at the beginning of the year, and reached May with a variation of -2.2%.

Specifically in tourism, according to a survey by FecomercioSP, the turnover of May this year is 31.2% below the pre-pandemic level, with emphasis on the fall in air transport (50.5%) and in the lodging and food group (33.5%). Tourism is facing a lot of difficulties to recover and is largely dependent on vaccination.

In general, the trend for the real economy is a gradual recovery throughout the second half of the year. There are still many challenges and uncertainties hanging over the world and national economies, which limits making more assertive predictions. But, certainly, as vaccination is progressing faster and faster in Brazil, it will give conditions for Brazil to be in a more comfortable situation to face these problems.

### IMPORTANT DATA:

- Retail sales in the month of Mother's Day, May, grew 6% compared to the same month in 2019. There is an asymmetric performance, with sectors, such as building materials, household appliances being highlighted and, on the other hand, the clothing sector still failing to recover from the pandemic.
- Inflation in June was 0.53%, below 0.83% in the previous month. Two-thirds of the month's increase came from three groups: food (0.43%), transport (0.41%) and housing (1.10%).
- The real estate market and the construction industry are booming. The average cost of the square meter in Brazil increased 11.1% in one year, inflation discounted. The increase in commodities of iron ore, steel, aluminum and copper make prices for companies and consumers soar.

Latin America Macro Data	Argentina	Brazil	Chile	Colombia	Mexico	Peru
Unemployment rate	10,20%	14,70%	10,00%	15,60%	4,50%	12,00%
Basic interest rate	38,00%	4,25%	0,50%	1,75%	4,00%	0,25%
Inflation (LTM - oct*)	48,80%	8,35%	3,80%	3,63%	5,88%	3,51%
*LTM - Last Twelve Months Until Dec						

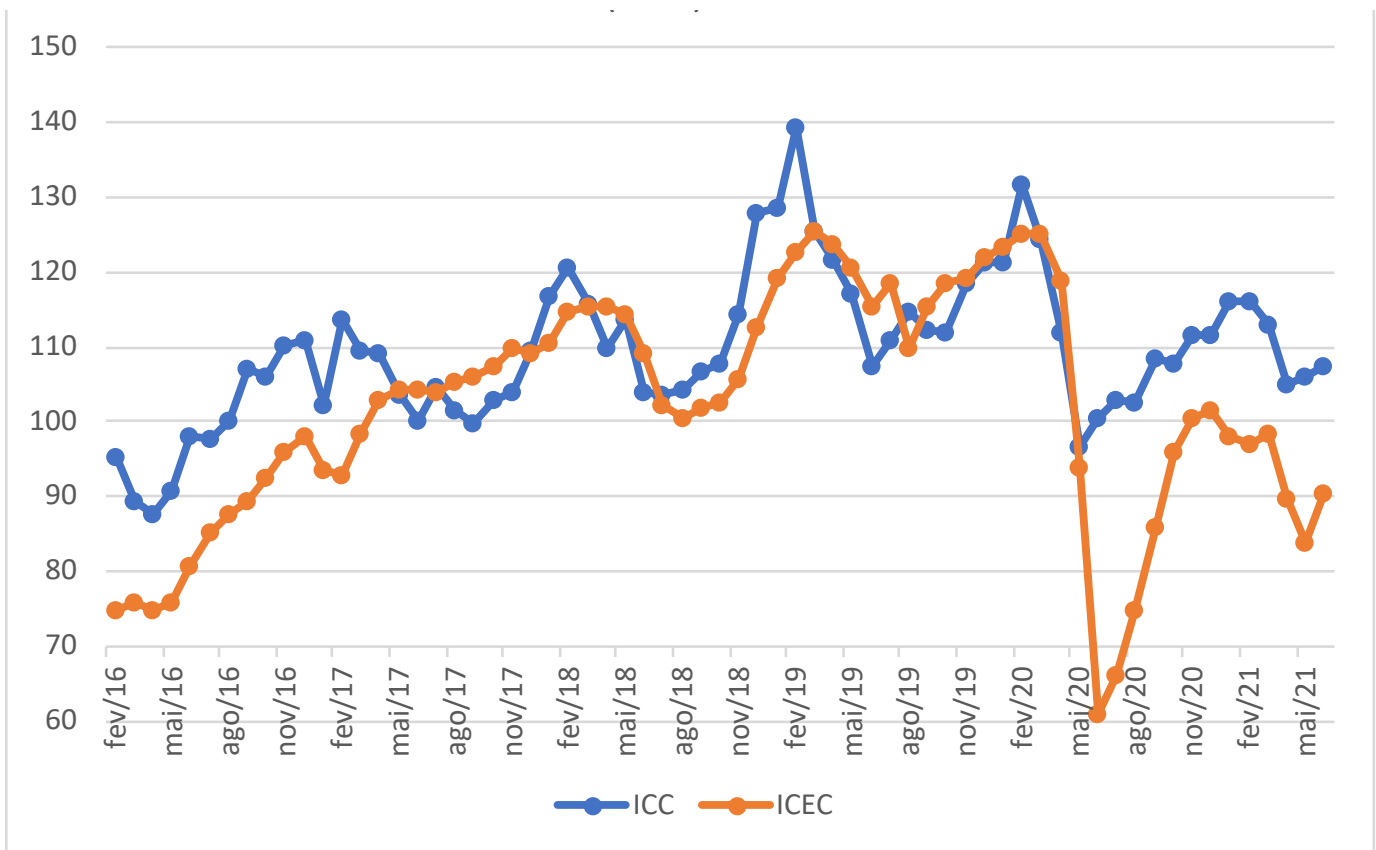
Legend: **Green**, **Red** and **Black** -  
The data get better, worse and equal than the previous month.

## CONFIDENCE INDEXES:

The Consumer Confidence Index registered the second consecutive increase. In June, the index reached 107.3 points, an increase of 1.3% compared to May and 6.8% above the level of June 2020. These latest positive results come with the reduction of restrictions on activities and circulation in Sao Paulo city. Therefore, the trend is an increased confidence in the coming months, especially with vaccination reaching the age of 30 (first dose).

The Retail Businessmen Confidence Index (ICEC) increased again after two strong accumulated drops of 15%. In June, businessmen confidence reached 90.6 points, 8.1% above the previous month. As with consumers, the reopening of the economy, after a period of nearly three months of more severe restrictions, brought relief to retailers to resume sales.

### 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 AND TOURISM

The resumption of travel is increasingly evident in Brazil, as the rates of COVID-19 cases, hospitalizations and deaths plummet. As more Brazilians are vaccinated (41% received the first dose and 16% are 100% immunized), travel plans return and future and short-term bookings also increase.

A survey conducted by TRVL LAB and Elo, which will be released in August, shows that domestic travel plans for the second semester of this year reach all types of travelers, with international travel scheduled for 2022, especially for the second half of the year.

Obviously, when the borders reopen, there is an immediate increase in travel and Brazilians seeking trips. This is what happened with Switzerland, France, Canada and other destinations already consolidated in the pandemic, such as Dubai, Cancun, Mexico City and Punta Cana (the most searched destinations on Kayak), as well as the Maldives, Egypt and more distant countries, which are open to Brazilians.

The airlines are already offering between 70% and 80% of the pre-pandemic domestic flights and will reach 100% at the end of the year, with a restructured air network and more focused on leisure.

### JULY SALES ARE HEATING UP

Sales of leisure travel in Brazil in the first half of July were the best since the beginning of the pandemic. Hotel rates and airfares for travel in Brazil are already at pre-pandemic levels. For tour operators, according to Braztoa, results are equal or better than pre-pandemic levels for 22% of the members.

#### **Internationally, there are still some obstacles:**

- 1** – closed borders;
- 2** – the high exchange rate, as the dollar at R\$ 5 – five reais – slows down travel plans for the majority of the population; only the upper classes are more anxious for the reopening of the borders;
- 3** – slow vaccination (16% of the 100% vaccinated population is still a very small part of the population, but Brazilians vaccinated abroad are not taken into account in these data);
- 4** – lack of an international vaccination certificate in Brazil, which would facilitate the verification of the vaccine taken by the authorities abroad;
- 5** – lack of recognition of the Chinese Sinovac vaccine (here called CoronaVac) in some countries, such as France, Canada and Qatar, despite being already accepted by the World Health Organization (WHO);
- 6** – the economic situation, which has left some families with smaller travel budget.

### **In favor of traveling abroad:**

- 1** – the longing to explore new and old destinations, especially in Europe and the United States;
- 2** – the long period indoors;
- 3** – Brazilians love and want to travel, all the surveys affirm it;
- 4** – Brazilians accept all travel health and safety protocols and are inclined to disclose health data for this purpose;
- 5** – the upper classes have businesses and properties abroad;
- 6** – traveling abroad – from Disney to Italy – remains one of the strongest dreams among Brazilians;
- 7** – the offer of airlines must increase with the reopening of borders and prices must decrease to compensate for the unfavorable exchange rate. Latam returned to fly to Paris and Bogota this month.

### **WHAT BRAZILIANS NEED**

For traveling abroad again, besides the reopened borders, Brazilians need information about entry procedures, protocols at destinations and assistance in planning the trip.

Destinations need to continue investing in education, training and training travel agents and operators, showing that the travel resumption is a great opportunity for everyone.

Having confidence in traveling and not having problems with cancellations and rebooking is essential. And also the confidence in an better, even if different, experience than pre-pandemic times.

Luxury, LGBTQIA+ travel, outdoor sports (from cycling to water sports), older travelers, multigenerational travel, contact with nature, discovery of secondary destinations, bleisure (business + leisure), remote work in destinations ready for the digital nomads, and multipurpose travel are some of the post-pandemic traveler trends.

### **CHANNELS**

Direct sales (on suppliers' websites or channels) grew a lot in the pandemic, but indirect channels are beginning to regain their strength, especially with operators that bet on niches and in the relationship with agencies, and also with travel agencies that bet on niches and consulting services throughout the client's journey. These are the two channels that emerge strengthened from the pandemic: direct booking and travel agencies. Other players, such as OTAs, are still fighting to restore their image, which was damaged by their service during the pandemic.

### **SURVEYS**

Data from FecomercioSP and the IGBE show tourism growth in Brazil in May, which should continue in June and July. But the sector still needs to grow more than 50% to reach pre-pandemic levels.

Brazilian retailers confidence grew for the second consecutive time in July, according to the Retail Businessmen Confidence Index (ICEC), calculated by the National Confederation of Commerce of Goods, Services and Tourism (CNC). The indicator continued to rise at a strong pace, with an increase of 11.7% compared to the previous month, reached 107.8 points and returned to the satisfaction zone, which has not happened since March of this year. Compared to July 2020, the growth was even greater: 55.6%. If no major deviations occur in Brazil and in the world, we will have the best end of the year and summer for domestic travel, in the hope that the international travel will gain part of this euphoria with the reopening of borders.

## LUXURY TRAVEL WITH



### LATIN AMERICA IN OCTOBER

With news of the decline in the 'R' rate in Brazil, not to mention the country's ongoing vaccination roll out success, the eyes of the luxury travel world are turning to ILTM Latin America 2021 which takes place 26 – 29 October in São Paulo.

And the world really will be there. 90% of exhibitors are the finest of international travel brands, attracted by the richness of Latin American culture and the list of the region's most trusted luxury travel agents who will be leading the charge for the potential boom in – primarily Brazilian – outbound travel in 2022.

ILTM Latin America 2021 continues the ILTM theme of the Conscious Travel, ensuring that luxury travel agents can explore the practicalities of helping their clients make their travel decisions count in a new post pandemic era. The event will welcome both new and established advisors, as well as journalists from across the continent to reconnect and build business and business opportunities.

**TO KNOW MORE ACCESS:** [www.ilm.com/latin-america](http://www.ilm.com/latin-america)

*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](mailto:ri@fecomercio.com.br) [redacao@panrotas.com.br](mailto:redacao@panrotas.com.br).*

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