Brazil Macro | April 2022

Economic Activity

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SUMMARY

- **We are maintaining our GDP growth forecasts for 2022 and slightly lowering our estimate for 2023.** For 2022, if, on the one hand, the rise in risk premia and the more severe tightening of financial conditions act to stifle economic activity, on the other hand, the economy tends to benefit from the performance of less cyclical commodity-related sectors (e.g., farm output and mining) and from the remaining effects of the post-pandemic normalization process, particularly in the services sector and in the labor market. We think this will be particularly true for 1H22. From a demand standpoint, we project growth in household consumption, sustained by an expected expansion in the real wage bill (a byproduct of the labor market recovery), and an increase in government spending, given the normalization of the provision of public services (notably health and education). In our view, the deterioration in investments will be partially mitigated by resilience shown both by the building sector (with a longer cycle) and by commodities-related capital goods sectors. Conversely, in 2H22, we expect the materialization of the delayed effects of a tight monetary policy and deteriorated financial conditions, implying a relevant negative carryover for the following year. We expect a 0.7% GDP growth in 2022.

- For 2023, we expect a retreat in real GDP and, owing to an even higher terminal Selic level in 2022, we are lowering slightly our 2023 GDP estimate to -0.3% (from -0.2%), way below the consensus estimate (+1.3%).

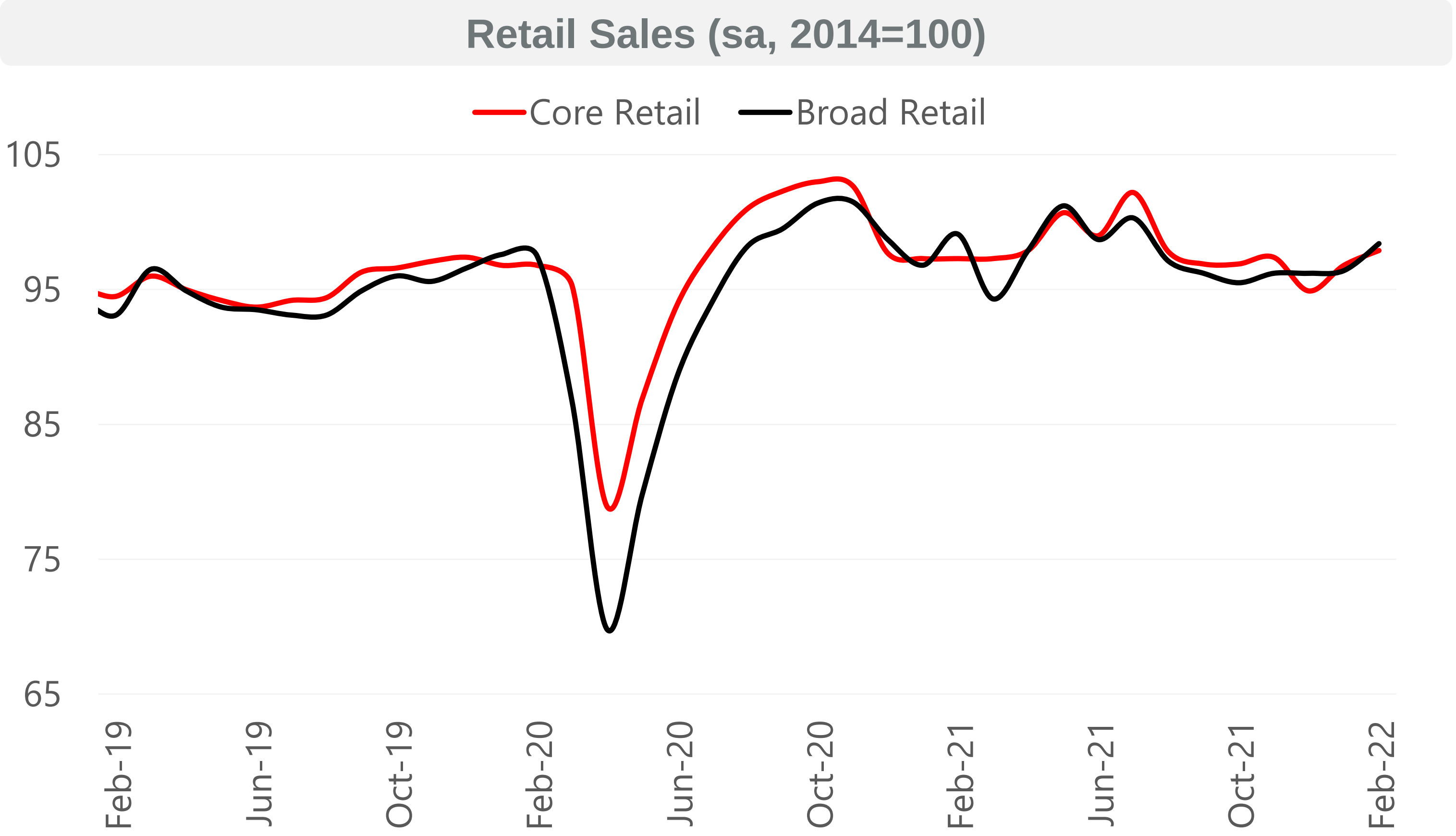
- **Considering the slower than expected recovery in the labor market participation rate, we are lowering our estimate for the average unemployment rate in 2022.** The lower unemployment rate in 1Q22 and the slower participation rate recovery led us to reduce our average unemployment rate forecast for 2022 to 12.7% (from 13.3%). We maintain our forecast for average unemployment at 14.0% for 2023. We acknowledge the risk of a lower joblessness rate in both 2022 and 2023 if the participation rate fails to return to pre-crisis levels.

RETAIL SALES

01

Continued Lukewarm Outlook for Retail Sales

- Inflationary pressures and high interest rates continue to bring challenges to retail activity, amid an environment with still high unemployment and low consumer confidence. Furthermore, in the wake of the war seen in Europe, supply hurdles are expected to last longer than previously thought. Conversely, increasing government transfers and the labor market recovery may bring some relief.

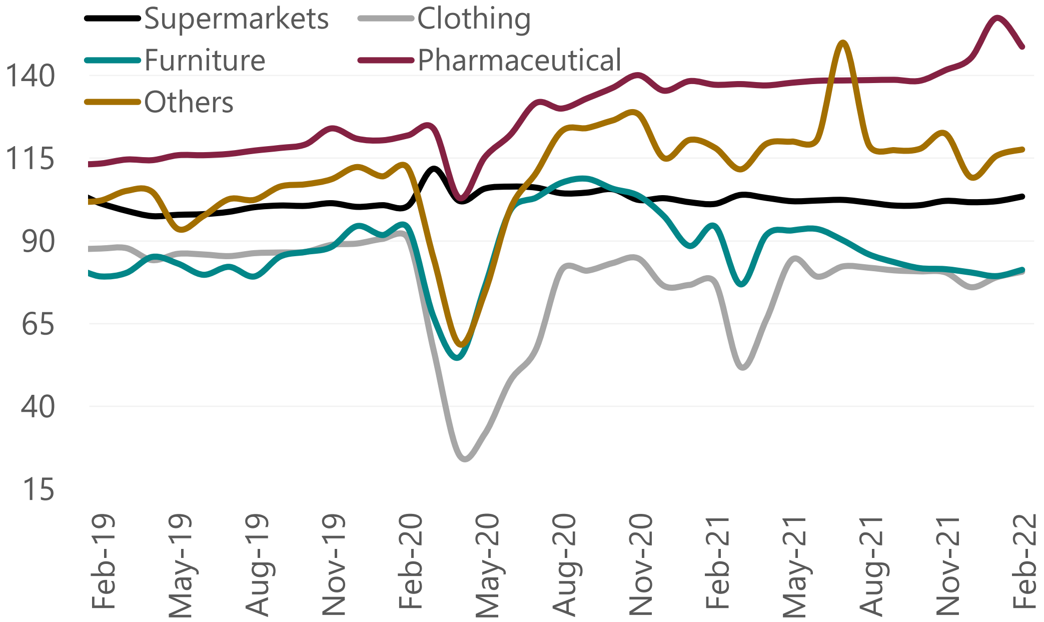


Sources: IBGE, Santander

Essential Goods May Show Resilience

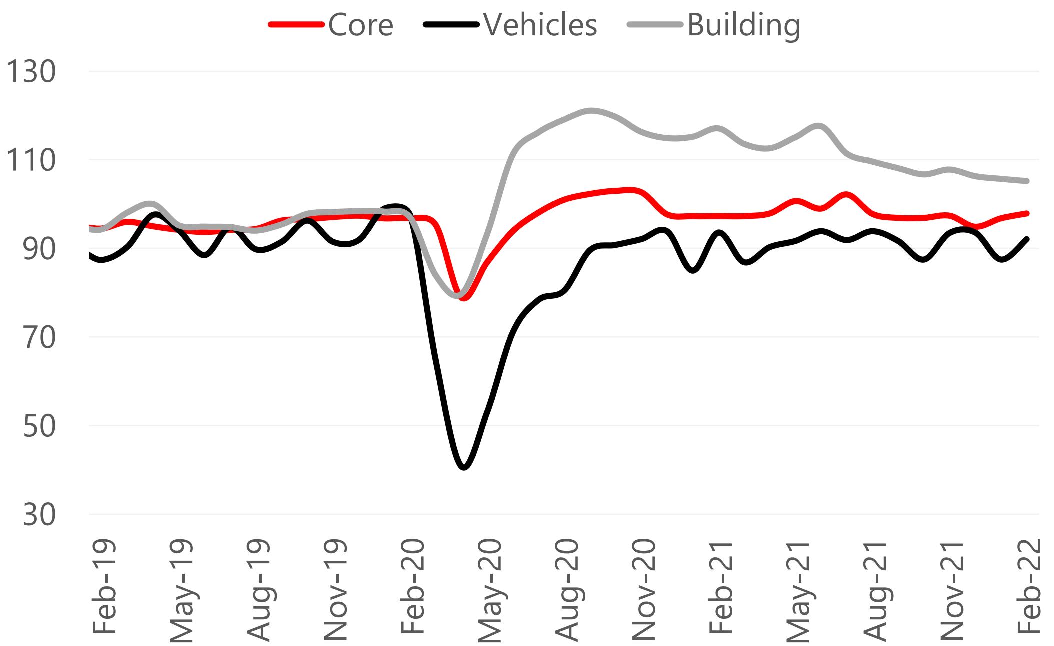
- Essential goods like food and health related products may benefit the most by the increasing government transfers, since those reach low-income households with higher consumption propensity. Conversely, we see the other categories (mainly the credit-led segments) facing a discouraging environment ahead, reinforced by the demand shifting towards services consumption.

Core Retail Sales (sa, 2014=100)



Sources: IBGE, Santander

Broad Retail Sales (sa, 2014=100)

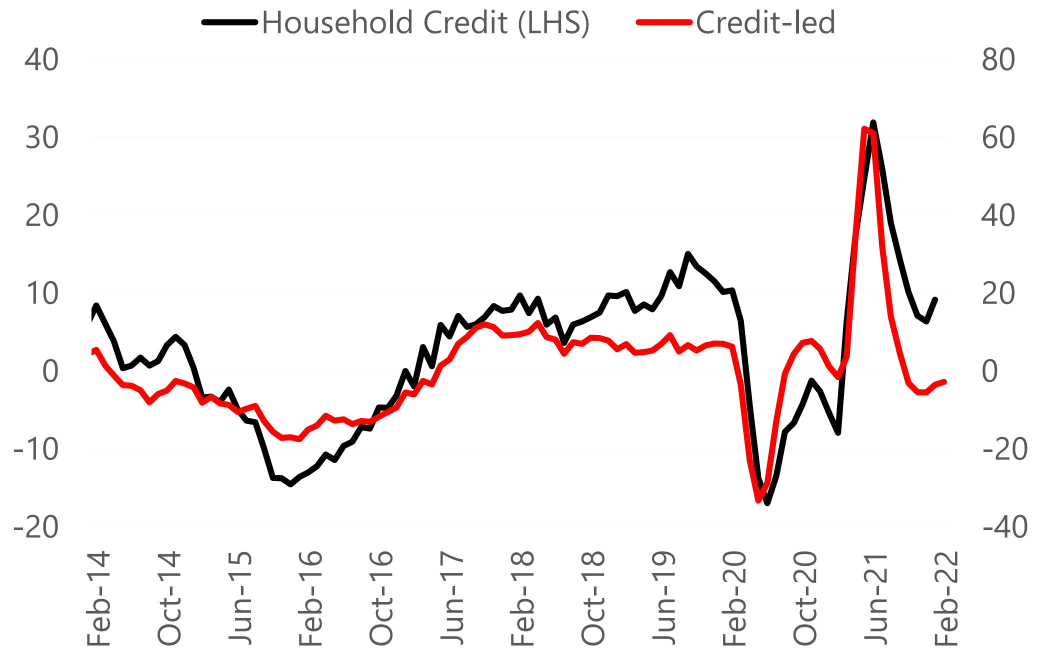


Sources: IBGE, Santander

The Expected Recovery of Real Wage Bill Should Support Income-Led Retail Sales

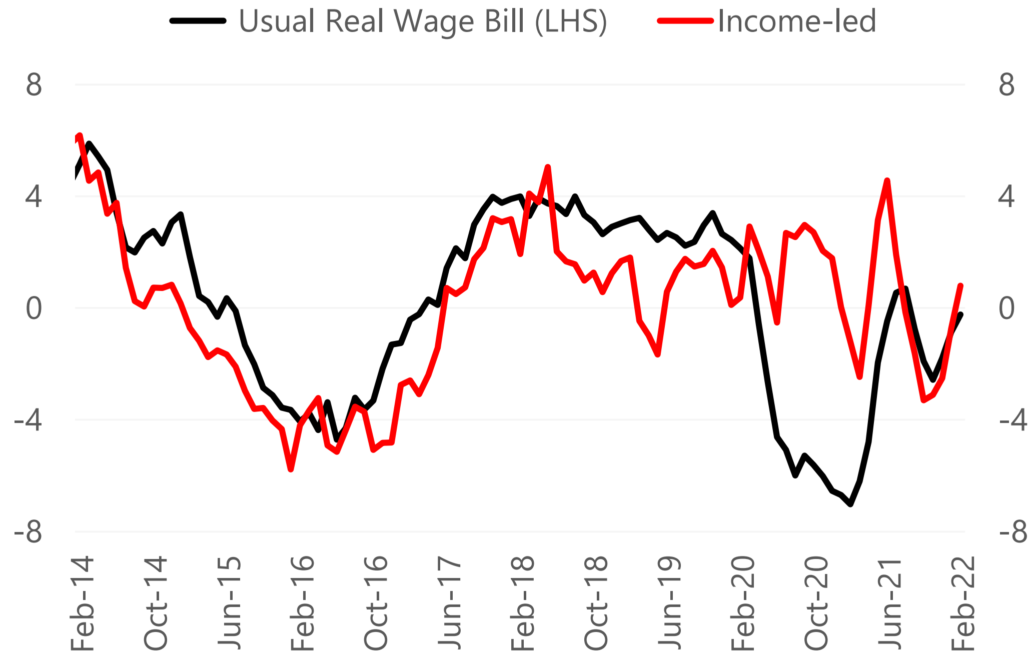
- For 2022, the resilience of household consumption should come from the labor market recovery (with an expected real wage bill expansion as a byproduct), mainly from the informal segment, and from an increase in government transfers (*Auxílio Brasil*). Amid the rising interest rates context, we don't expect credit granting to be a relevant driver of consumption (and activity) this year.

Retail Sales and Credit (3mma, % YoY)



Sources: IBGE, Santander

Retail Sales and Income (3mma, % YoY)



Sources: IBGE, Santander

Retail Sales Breakdown

Retail Sales Breakdown											
		% MoM			% YoY			% QoQ			%
Weights		Dec-21	Jan-22	Feb-22	Dec-21	Jan-22	Feb-22	Sep-21	Dec-21	Feb-22	Feb-20*
66.9%	Core Retail Sales	-2.6	2.0	1.1	-3.0	-1.5	1.3	-0.2	-2.6	-0.5	1.1
8.3%	Fuels	-0.3	0.3	5.2	-6.3	-7.0	0.2	-2.2	-3.6	1.1	-7.5
30.6%	Hypermarkets, supermarkets	-0.4	0.3	1.4	-0.4	-0.9	1.9	-0.8	0.0	1.2	2.8
6.2%	Fabrics, clothing and footwear	-5.6	3.9	2.2	-1.0	2.4	8.0	6.8	-3.3	-2.8	-11.0
7.4%	Furniture and home appliances	-1.2	-1.4	2.4	-18.0	-11.5	-12.5	-6.7	-6.2	-2.3	-13.4
5.1%	Pharmaceuticals	2.6	8.3	-5.5	7.8	14.2	9.4	0.6	2.3	7.8	22.0
0.9%	Books, papers and magazine	-0.3	-25.8	43.1	-6.0	23.4	18.6	-3.5	-2.7	-7.9	-38.7
0.6%	Office equipment and supplies	-2.2	-2.4	0.0	-6.4	-7.7	-7.2	-5.3	0.4	-0.7	-17.2
7.8%	Other personal items	-10.8	6.0	1.6	-5.8	-6.2	1.1	7.3	-9.6	-4.2	5.1
100%	Broad Retail Sales	0.0	0.2	2.1	-2.7	-1.4	0.3	-1.4	-1.9	1.1	0.9
8.9%	Building Materials	-1.4	-0.6	-0.5	-8.2	-8.1	-8.1	-4.7	-2.5	-1.7	8.5
24.2%	Vehicles	0.1	-6.5	5.3	0.4	1.7	1.4	0.6	-1.0	0.2	-5.5

Sources: IBGE, Santander

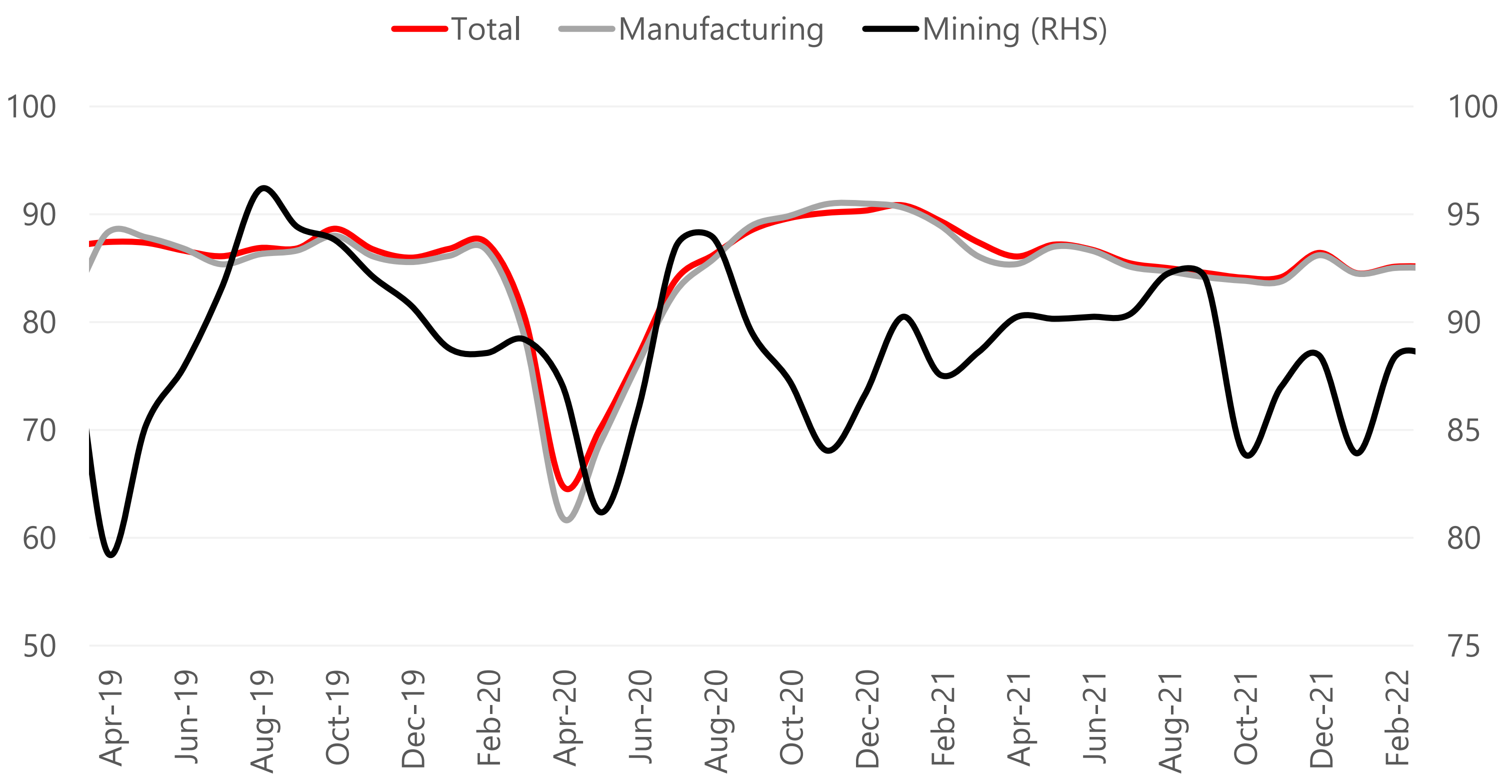
INDUSTRIAL PRODUCTION

02

Despite A Short-term Relief, A Still Tepid Outlook For Industry

- Following the continued weakening seen in 2H21, the first quarter's data point to a short-term relief in manufacturing deterioration. However, the lingering supply chain hurdles worldwide along with demand shifting from goods towards services reinforces a tepid outlook for industry ahead, reinforcing a weak scenario for goods-related sectors this year.

Industrial Output (sa, 2012=100)

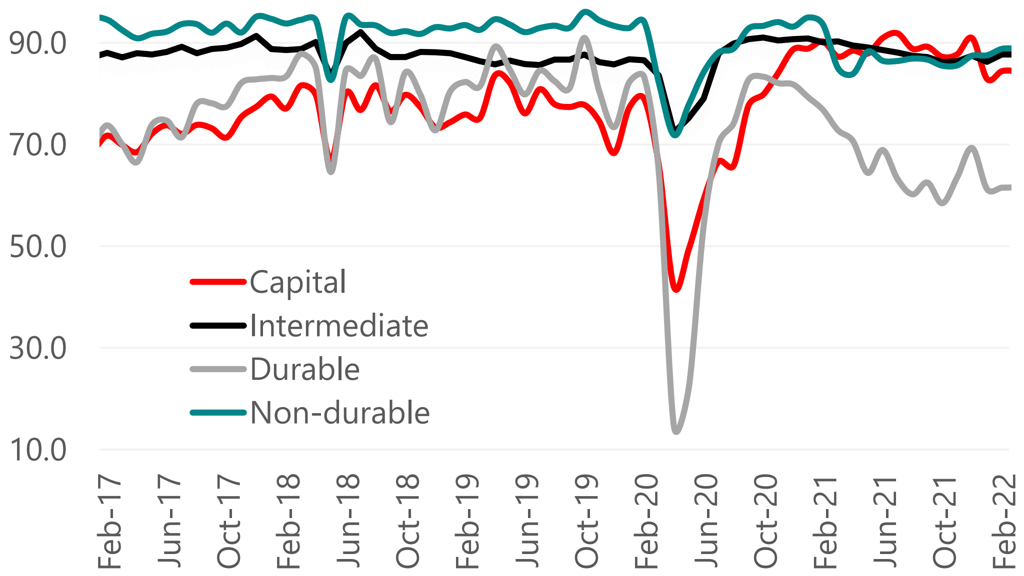


Sources: IBGE, Santander

Despite Financial Conditions Tightening, Investments Should Show Some Resilience

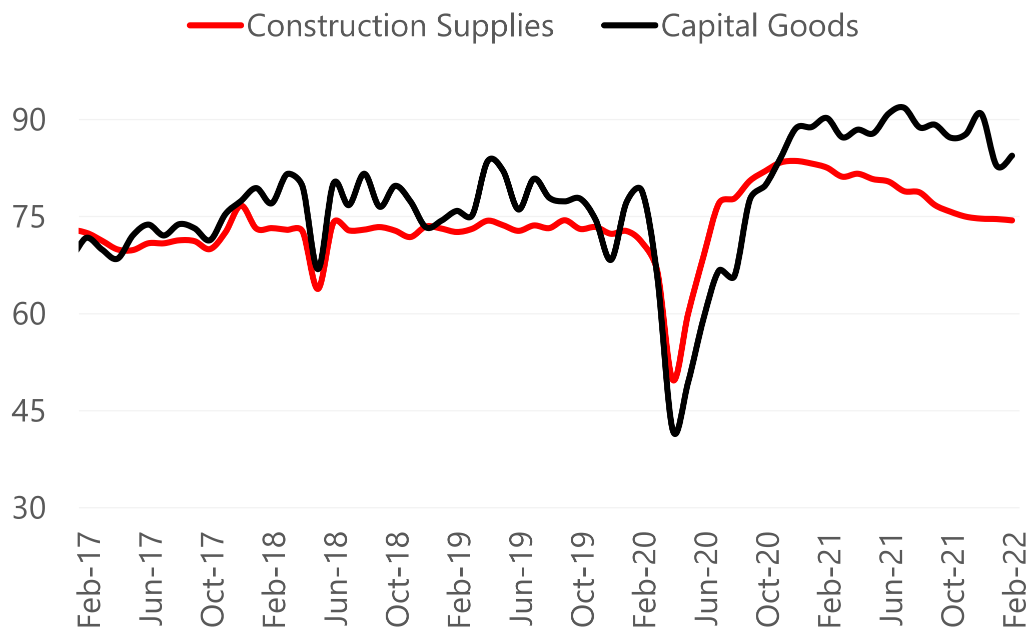
- The strong investment growth seen last year was owned mainly to historically eased financial conditions, along with rising commodities prices. The financial conditions tightening seen at the end of 2021 should bring challenges to overall activity from 2H22 ahead, but we see some resilience elements: the longer cycle of the building sector suggests a still positive outlook for 2022, while the raw material rising prices should benefit capital-goods commodities-related sector this year.

Economic Categories (sa, 2012=100)



Sources: IBGE, Santander

Related to Investments (sa, 2012=100)

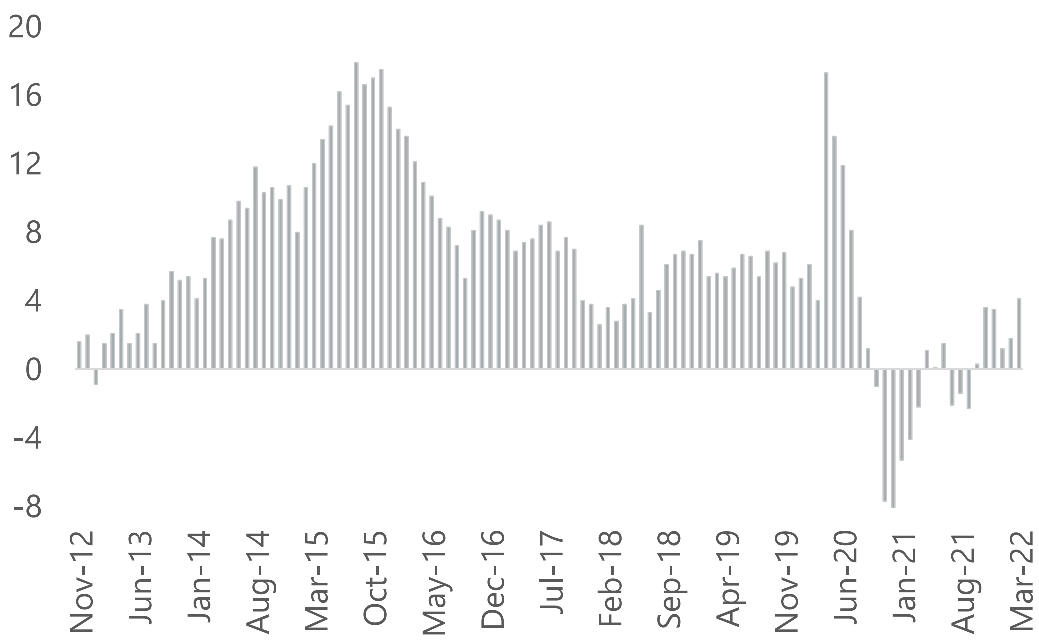


Sources: IBGE, Santander

The Recovery In Inventories Posed An Additional Upside Risk To Output

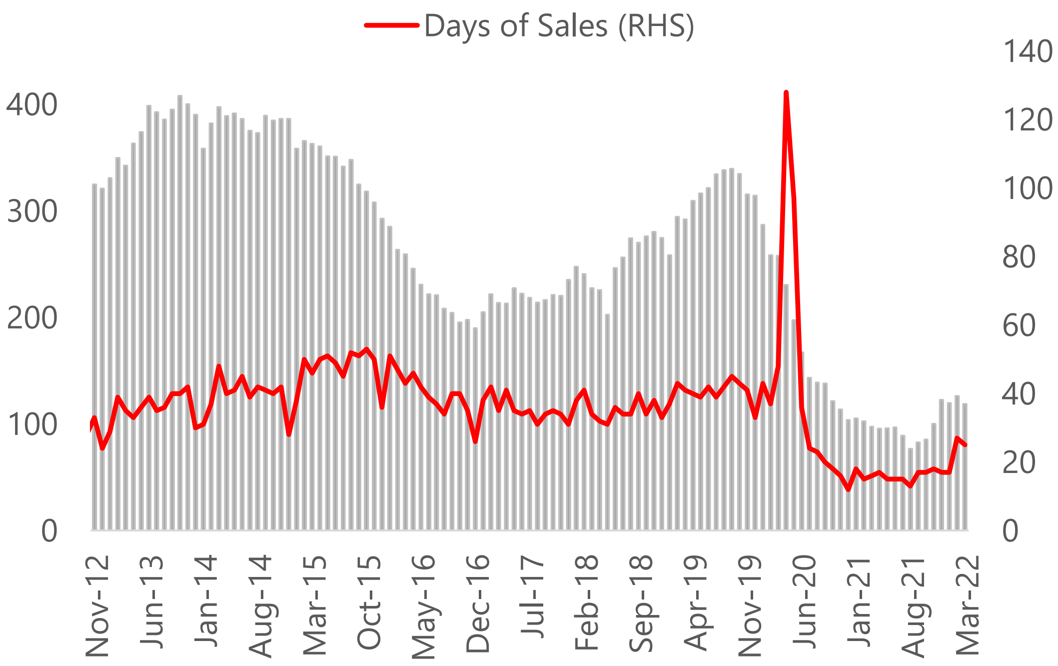
- The historically low inventories level recently reached means that local industry (not only auto factories) had a hard time overcoming high costs and widespread inputs shortage amid important supply hurdles seen widespread. However, the last results suggested better figures. Inventories replenishment used to be a tailwind for production ahead, which may contribute to support production in 2022.

Inventories Perception (sa, points)



Sources: FGV, Santander

Auto Inventories (sa, Units in Thousands)



Sources: Anfavea, Santander

Industrial Production Breakdown

Industrial Production Breakdown											
		% MoM			% YoY			% QoQ			Feb-20 %
	Weights	Dec-21	Jan-22	Feb-22	Dec-21	Jan-22	Feb-22	Dec-21	Jan-22	Feb-22	Feb-22
Total Industry	100%	2.7	-2.2	0.7	-4.9	-7.2	-4.3	-0.1	0.6	1.3	-2.6
Mining	**11%**	**1.7**	**-5.1**	**5.3**	**1.9**	**-6.6**	**0.8**	**-5.5**	**-3.3**	**-0.8**	**-0.2**
Manufacturing	**89%**	**2.9**	**-2.0**	**0.6**	**-5.9**	**-7.3**	**-4.8**	**-0.1**	**0.7**	**1.6**	**-1.9**
Capital Goods	8%	3.6	-8.8	1.9	3.7	-8.0	-5.0	-1.5	-1.4	-2.3	6.9
Intermediate Goods	60%	1.2	-1.3	1.6	-4.0	-5.1	-2.5	-1.0	-0.3	0.6	1.3
Consumer goods	32%	4.2	-1.7	0.3	-9.4	-11.9	-7.7	0.8	2.3	3.3	-10.3
Durable	7%	9.0	-11.7	0.5	-16.6	-25.8	-17.6	2.9	7.1	4.0	-26.2
Non-Durable	25%	2.2	0.1	1.5	-7.5	-8.3	-4.8	-0.6	0.6	2.4	-5.7
Construction Supplies	**-**	**-0.4**	**-0.1**	**-0.3**	**-11.8**	**-10.9**	**-9.3**	**-3.8**	**-3.0**	**-1.7**	**5.1**

Sources: IBGE, Santander

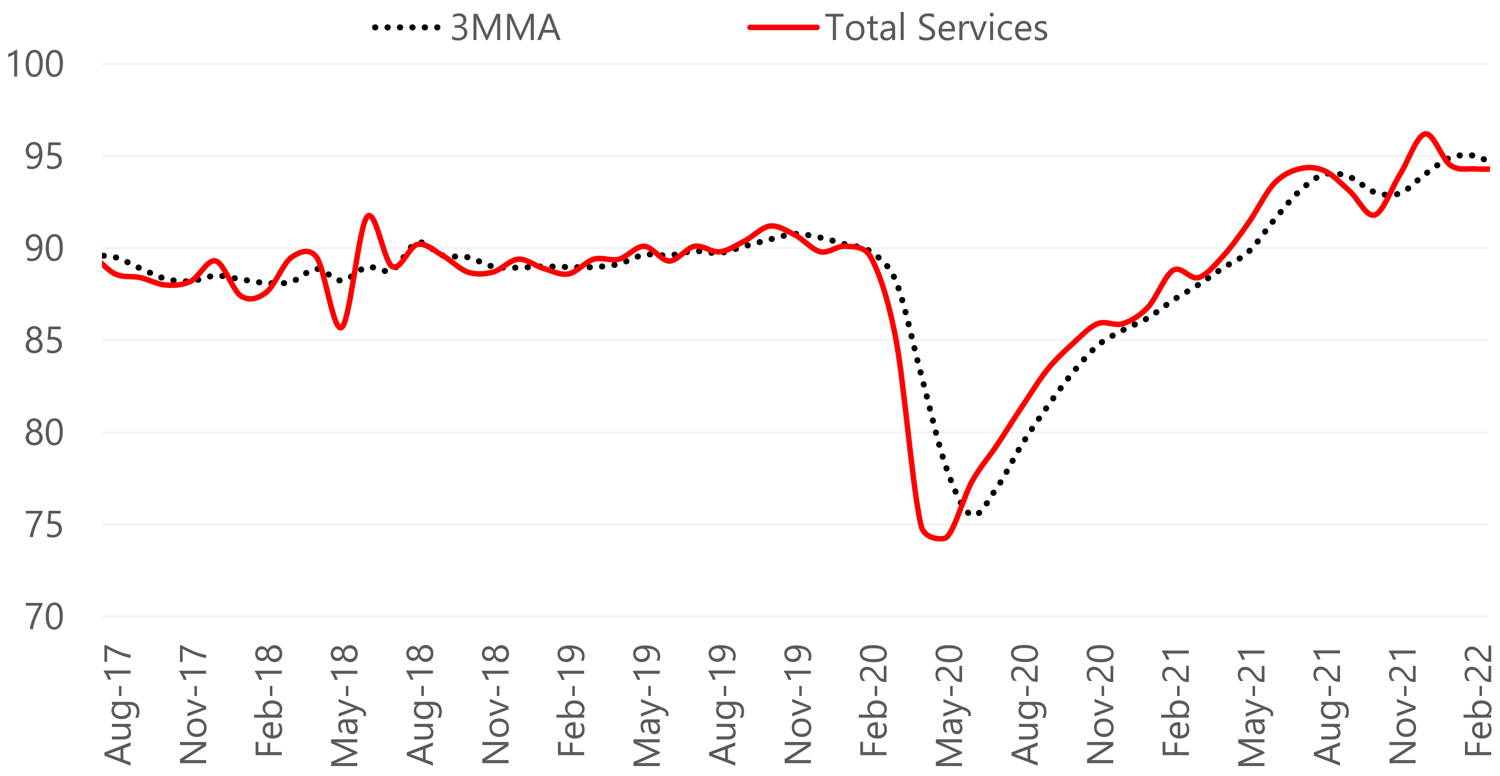
SERVICES

03

Services Continue to be Benefit from Reopening

- Advances in the reopening process (and the consequent increase in mobility) continued to strengthen the service sector. Mobility-related activities are gaining traction but some of them remain at idled levels regarding their pre-pandemic readings. The increasing digitalization throughout the pandemic outbreak boosted the provision of technological and informational services, placing the headline index far above its pre-pandemic trend. It remains to be seen whether this evolution will be permanent.

Total Services (sa, 2014=100)

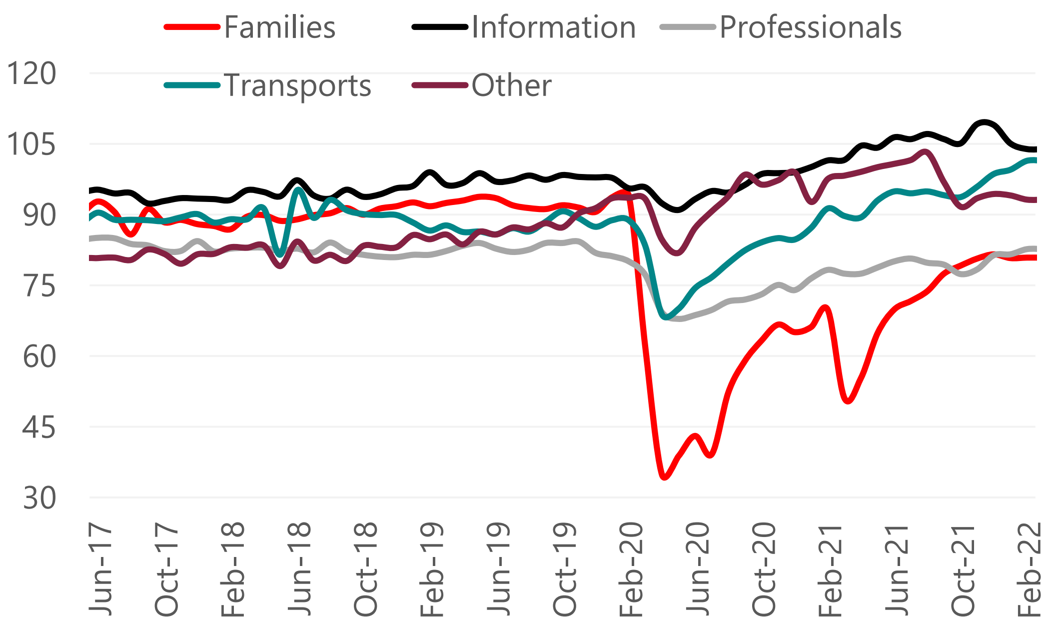


Sources: IBGE, Santander

Mobility-related Segments to be the Main Driver of Services

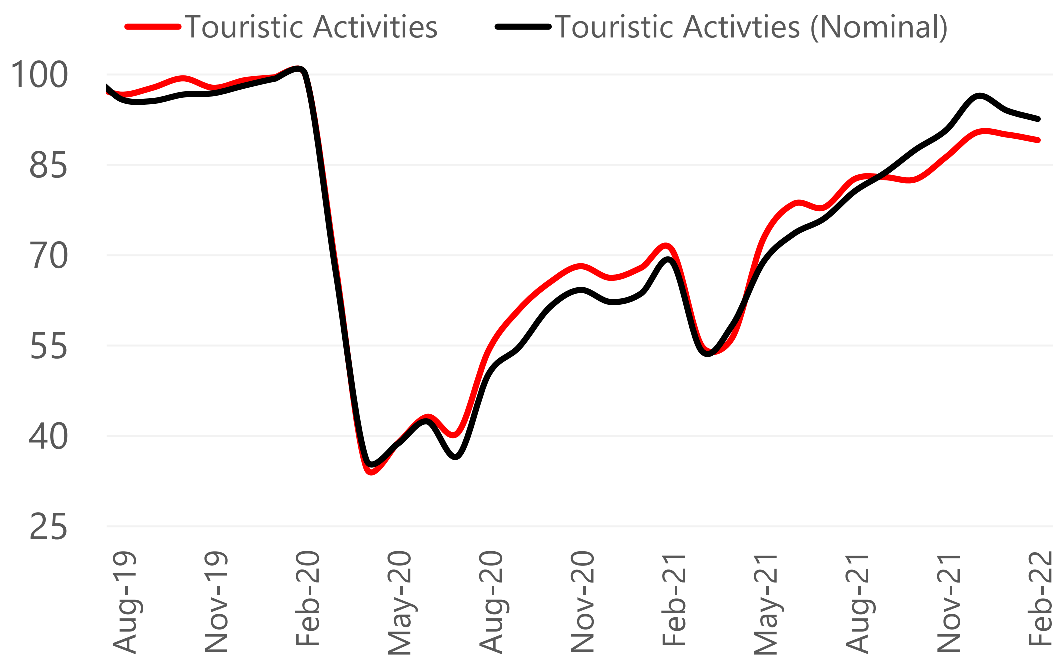
- Mobility-related segments like transports and services to families have gained traction recently. The latter still show wide idleness regarding the pre-crisis mark (roughly 14%), which leaves room for positive contributions to GDP growth from the services sector. It's worth noting that, despite the small weight in the monthly survey (less than 10%), services to families highly correlate with Other Services, which accounts for roughly 13% of total GDP.

Total Services Breakdown (sa, 2014=100)



Sources: IBGE, Santander

Touristic Activities (sa, Feb/20=100)



Sources: IBGE, Santander.

Services Sector Breakdown

Services Breakdown											
		% MoM			% YoY			% QoQ			Feb-20 %
	Weights	Dec-21	Jan-22	Feb-22	Dec-21	Jan-22	Feb-22	Nov-21	Dec-21	Feb-22	Feb-22
Total Services	100%	2.3	-1.8	-0.2	11.0	9.3	7.4	-1.1	0.1	2.2	5.4
Families	**8%**	**1.1**	**-1.0**	**0.1**	**21.6**	**19.5**	**17.3**	**10.2**	**8.3**	**2.5**	**-14.0**
Accommodation and Food	7%	1.2	-1.4	0.7	21.7	19.8	18.0	10.7	8.3	2.8	-14.4
Other Services to Families	1%	2.7	-0.6	0.3	21.2	17.2	13.7	3.0	4.6	4.1	-10.0
Information	**31%**	**-0.2**	**-3.6**	**-1.1**	**10.1**	**5.0**	**2.4**	**0.3**	**1.3**	**-0.7**	**8.7**
Technology	26%	-0.5	-4.0	-2.2	10.3	4.5	2.0	0.6	1.4	-0.9	7.4
Telecommunication	19%	-0.7	-1.3	-2.9	-2.3	-5.1	-7.4	-2.7	-3.1	-2.8	-9.1
Information Technology	7%	-3.9	-0.3	0.1	25.8	19.3	16.2	5.1	5.5	1.0	41.4
Audiovisual	5%	2.0	-4.8	-1.3	8.8	10.0	6.3	-1.0	1.4	-0.9	-8.3
Professional	**23%**	**3.8**	**0.2**	**1.3**	**8.5**	**7.5**	**7.2**	**-2.2**	**-1.1**	**4.5**	**3.2**
Professional	7%	2.5	1.8	-2.2	11.3	10.5	4.6	-3.3	-4.2	2.1	14.6
Administrative	16%	3.0	0.5	2.3	7.2	6.3	8.3	-1.4	0.4	5.0	-1.3
Transportation	**31%**	**2.8**	**0.9**	**1.9**	**15.7**	**15.1**	**14.0**	**-0.2**	**1.7**	**5.6**	**14.2**
Ground Transportation	18%	2.1	2.2	2.4	17.1	15.3	15.3	0.5	2.5	6.1	10.7
Water Transportation	2%	3.5	-0.4	-0.1	21.0	19.3	17.4	1.6	2.7	4.5	23.1
Air Transport	3%	11.8	8.9	-9.1	56.8	49.8	45.2	-7.9	1.5	21.7	-3.4
Storage and Mail	9%	-1.5	1.1	1.6	5.3	5.9	5.6	0.7	-0.3	0.1	15.8
Other Services	**7%**	**1.0**	**-0.3**	**-1.0**	**-4.6**	**1.3**	**-3.9**	**-7.7**	**-7.3**	**-0.1**	**-0.4**
Touristic Activities	-	4.7	-0.4	-1.0	31.6	29.2	28.7	5.3	6.5	7.0	-10.9

Sources: IBGE, Santander

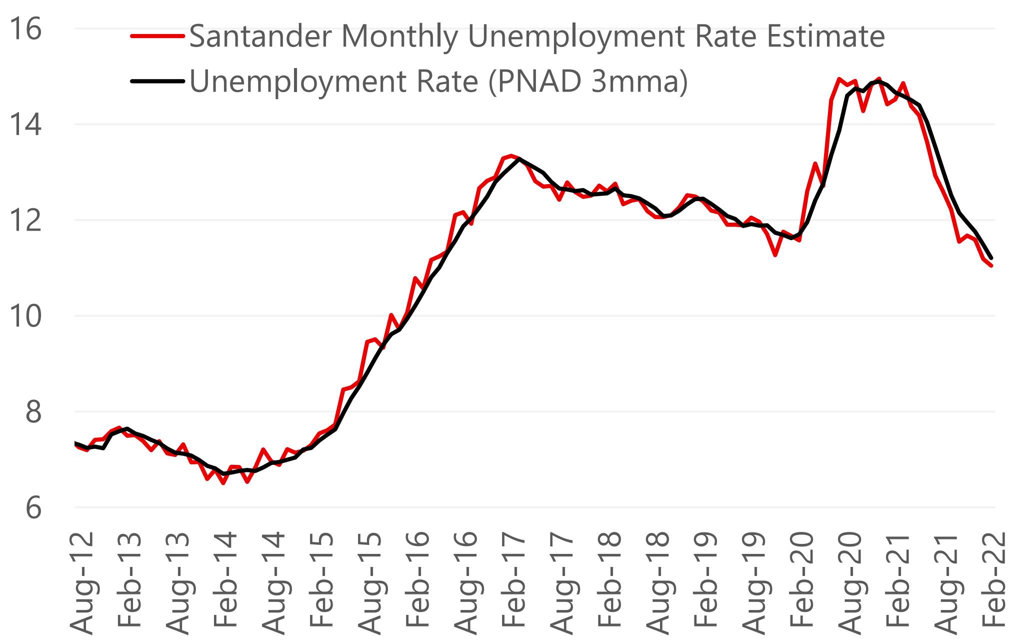
LABOR MARKET

04

Lower Unemployment Rate at the Margin, Still Influenced by Low Participation Rate

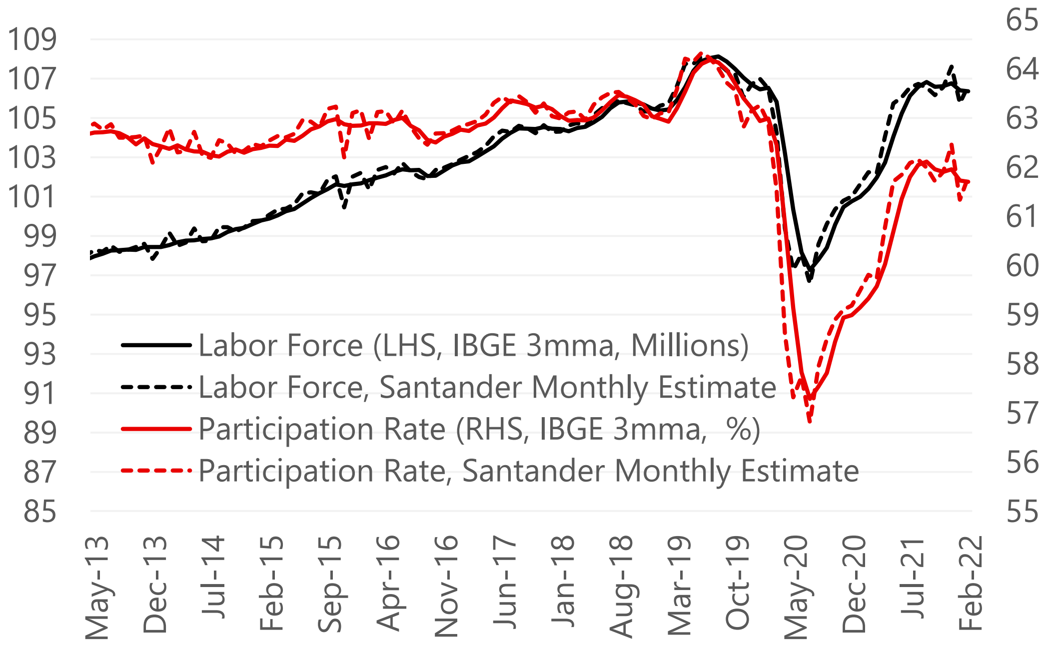
- The PNAD survey shows that the labor market has partially recovered from the Omicron outbreak. The larger recovery for the employed population compared to the labor force led the unemployment rate to drop at the margin. We expect the employed population growth to decelerate in the coming months, as the participation rate returns to levels closer to those before the pandemic.

Unemployment Rate (sa)



Sources: IBGE, Santander.

Labor Force and Participation Rate (sa)

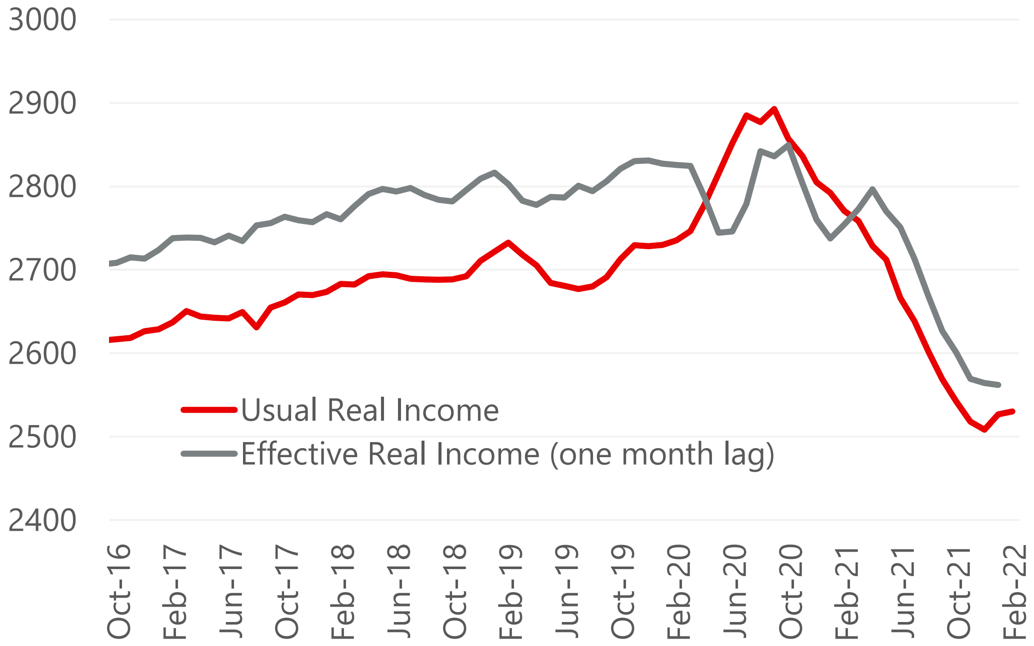


Sources: IBGE, Santander.

Real Income in Depressed Levels

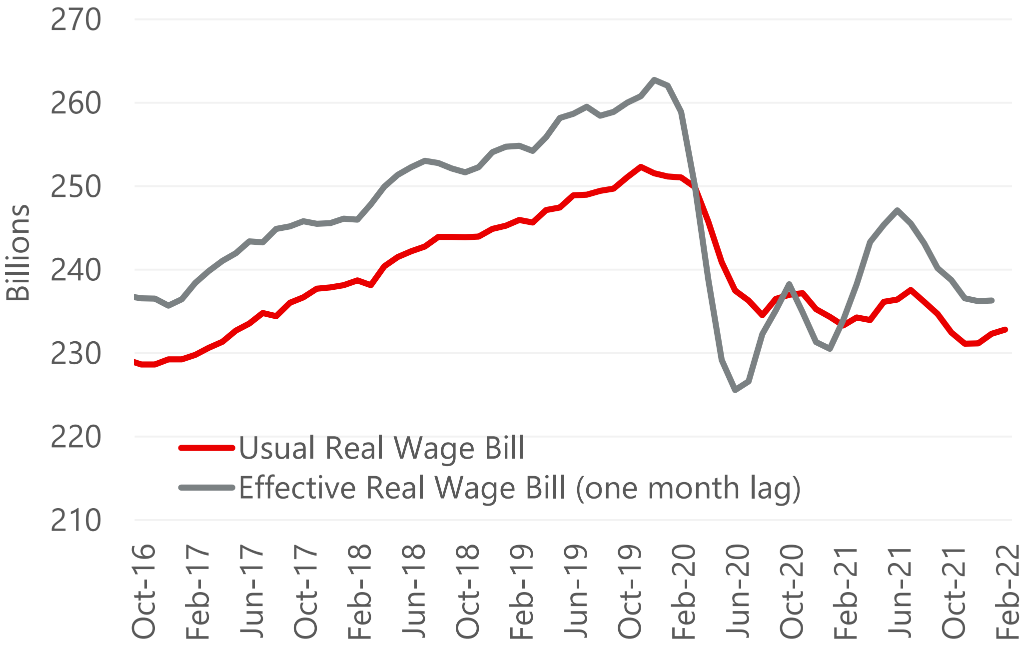
- The effective real wage bill posted a 0.0% MoM-sa variation in January (data lagged one month relative to other PNAD series), while the usual real wage bill increased 0.2% MoM-sa in February. The two series are 8.7% and 7.3% below their pre-crisis marks, respectively. Real income has stabilized at low levels, as inflation remains high.

Average Real Income (BRL, sa)



Sources: IBGE, Santander.

Real Wage Bill (BRL, sa)

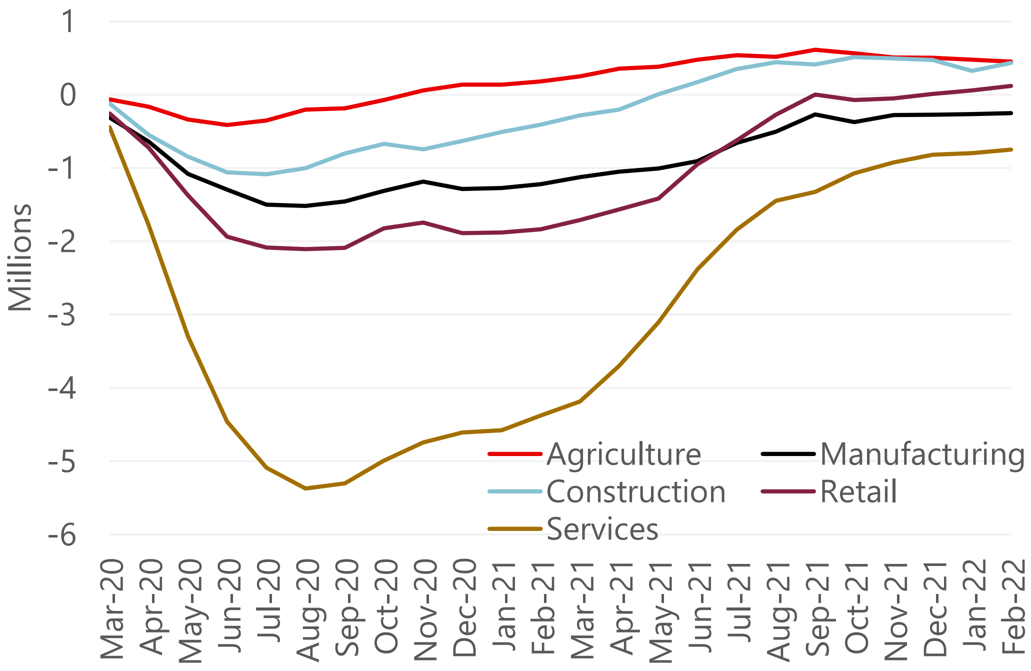


Sources: IBGE, Santander.

Services Sector Still Below the Pre-Crisis Mark

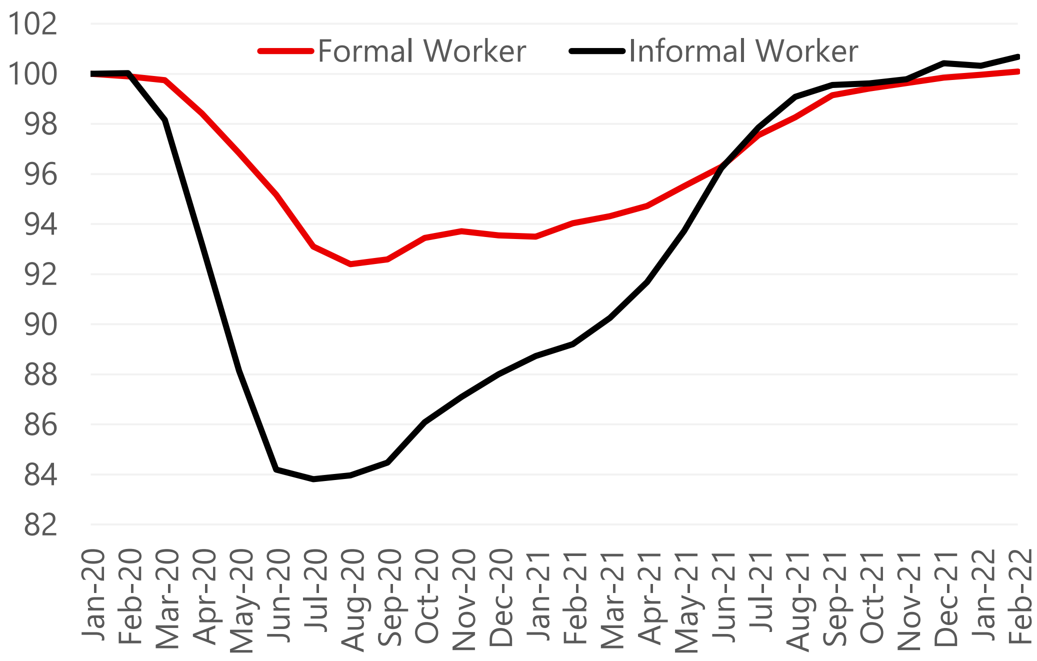
- Retail has been the highlight of employment growth among the main sectors, consolidating the full recovery of its job losses during the pandemic. As for the services sector, the accumulated job losses continue to close the gap and remain slightly below 1.0 million. The growth in formal employment has decelerated and is now closer to a long-term growth trend.

Post-Pandemic Accumulated Job Losses (sa)



Sources: IBGE, Santander.

Employment by Position (sa, Jan-20=100)

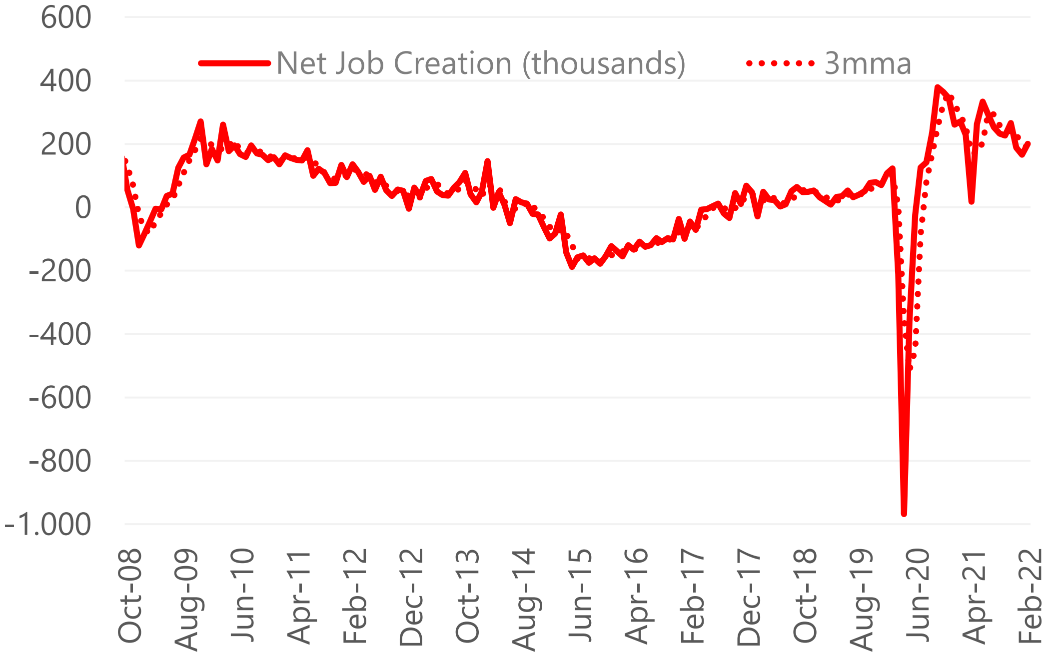


Sources: IBGE, Santander.

CAGED Remains in a Slow Deceleration Trend

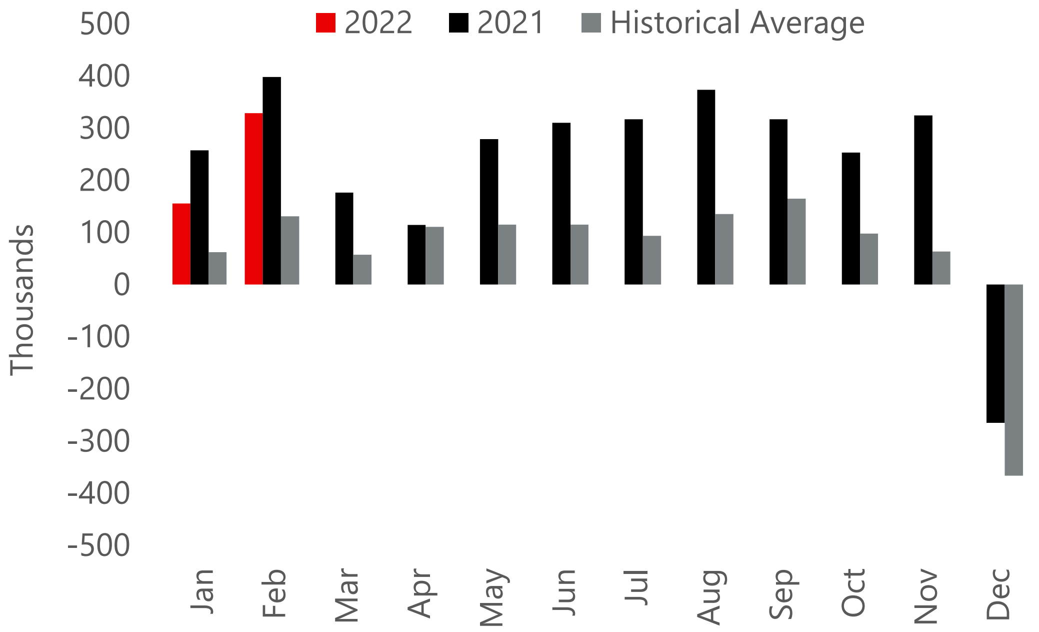
- According to the February CAGED survey, net formal job creation stood at 328.5k (vs. consensus at 220k and Santander's estimate of 180k), above its historical average (130.4k) and below its all-time record for the month (397.9k in February 2021). After our seasonal adjustment, we calculate that net formal job creation accelerated to 200.2k, from 165.8k in January.

CAGED Net Job Creation (sa)



Sources: Ministry of Labor, Santander.

Net Job Creation and Historical Average

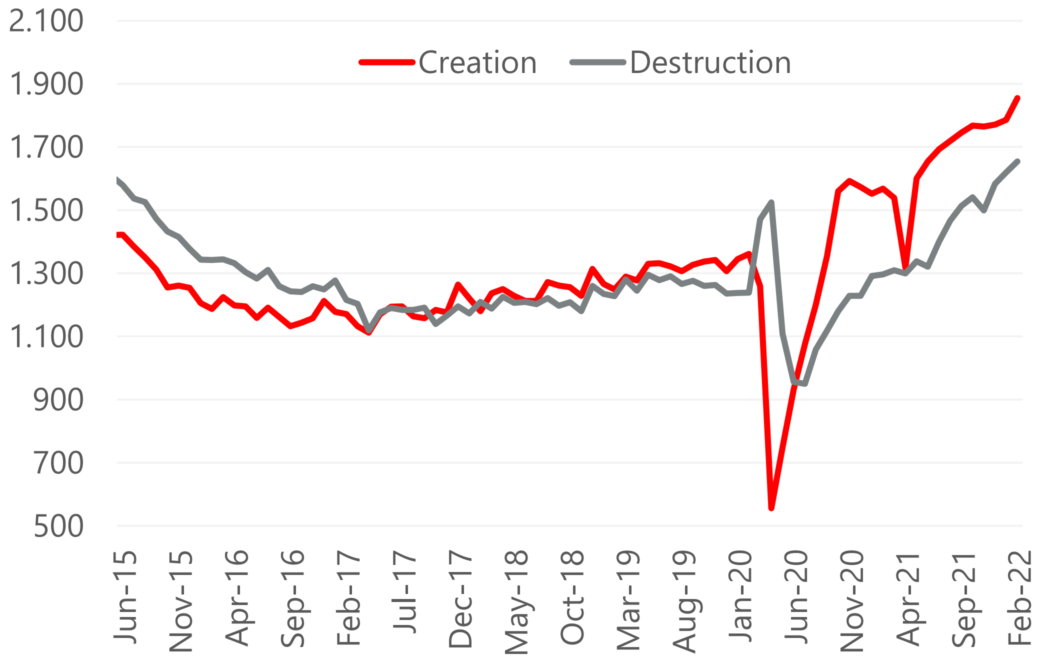


Sources: Ministry of Labor, Santander.

CAGED: End of BEm Program Continues to Affect the Results

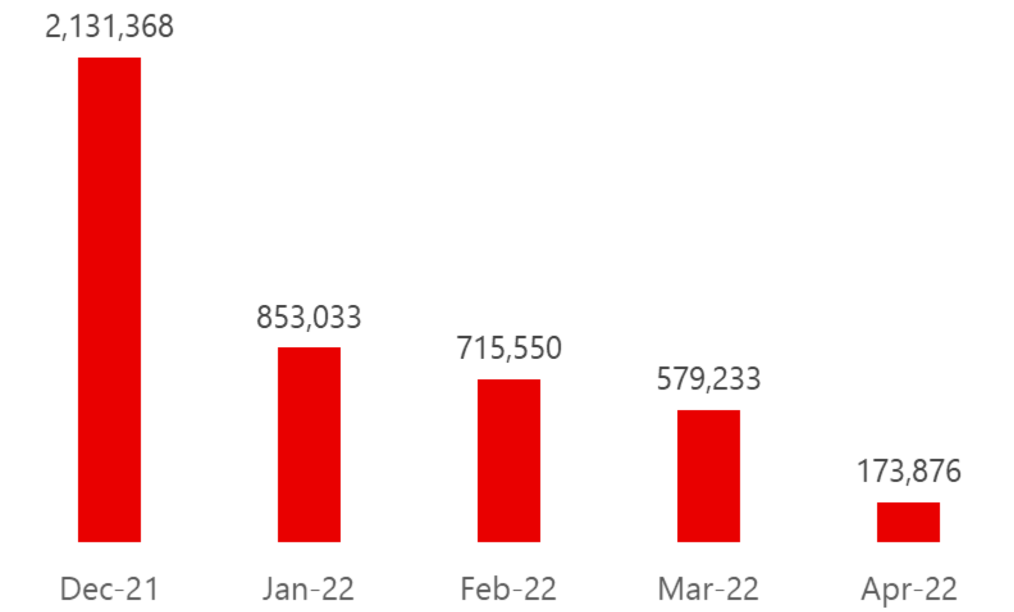
- We believe that the end of the formal employment program (BEm) continued to affect the data, as the layoffs series renewed its recent highs in seasonally adjusted terms. Each month, fewer workers are included in the program's temporary job guarantee as the waiver periods for layoffs of the program's beneficiaries gradually expire.

CAGED: Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

Jobs Secured by BEm Program

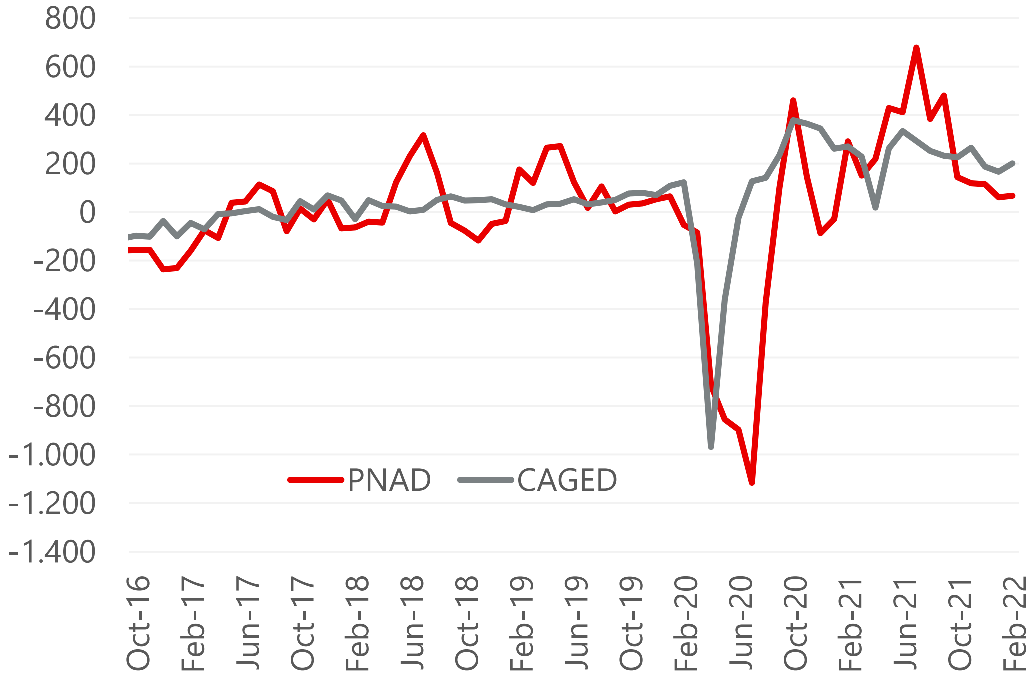


Sources: Ministry of Labor, Santander.

PNAD and CAGED Data Converged

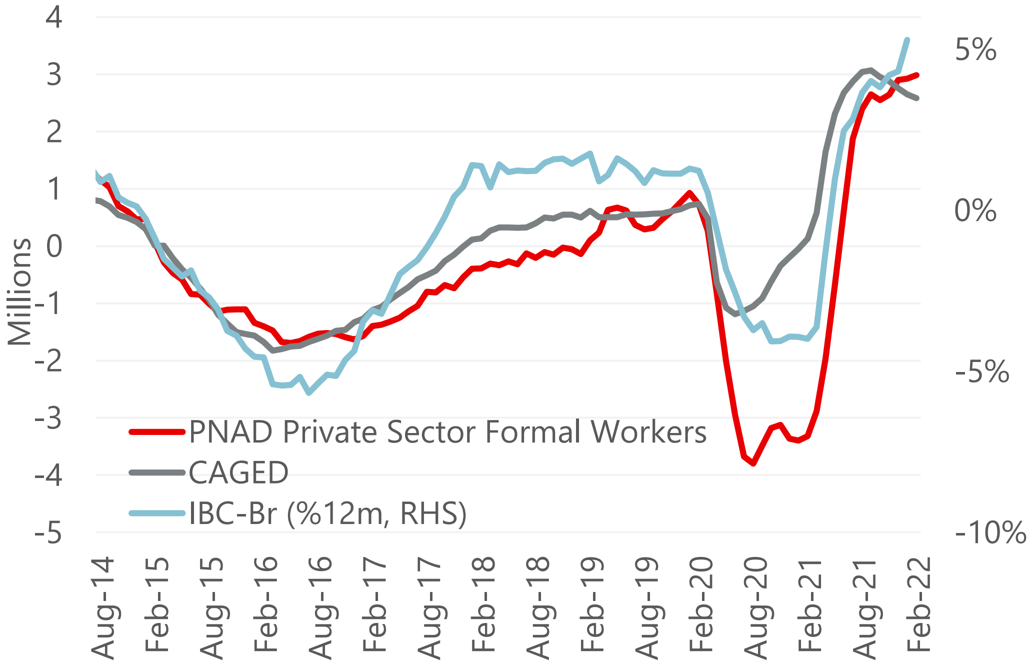
- In our view, after methodological problems in both surveys, CAGED and PNAD have converged. As the BEm program ended, the gap to core economic activity indicators has also closed.

Net Formal Job Creation (thousands, sa)



Sources: Ministry of Labor, IBGE, Santander.

Net Job Creation and IBC-Br (12m)



Sources: Ministry of Labor, BCB, IBGE, Santander.

February 2021 PNAD Results

PNAD Breakdown									
	s.a.			% YoY			% Feb-20*		
	Dec-21	Jan-22	Feb-22	Dec-21	Jan-22	Feb-22	Dec-21	Jan-22	Feb-22
Unemployment rate (%)	**11,8**	**11,5**	**11,2**	**-3,1**	**-3,3**	**-3,4**	**0,1**	**-0,2**	**-0,5**
Participation rate (%)	**62,0**	**61,7**	**61,7**	**3,0**	**2,6**	**2,4**	**-1,0**	**-1,3**	**-1,3**
Labor force (millions)	**106,8**	**106,4**	**106,4**	**6,0**	**5,4**	**4,9**	**0,2**	**-0,1**	**-0,2**
Employment	94,2	94,2	94,4	9,8	9,4	9,1	0,1	0,1	0,4
Unemployment	12,6	12,2	11,9	-16,7	-18,3	-19,5	0,7	-2,0	-4,4
Formalization Rate (%)	**57,2**	**57,2**	**57,2**	**-1,6**	**-1,3**	**-1,4**	**-0,1**	**-0,1**	**-0,1**
Formal Workers (millions)	53,8	53,9	53,9	6,7	6,9	6,4	-0,1	0,1	0,2
Informal Workers (millions)	40,3	40,3	40,4	14,0	13,0	12,9	0,4	0,3	0,7
Average usual earnings (BRL)**	**2.508**	**2.527**	**2.530**	**-10,7**	**-9,7**	**-8,8**	**-8,3**	**-7,6**	**-7,5**
Average effective earnings (BRL)**	**2.564**	**2.562**	**-**	**-7,2**	**-6,6**	**-**	**-9,2**	**-9,3**	**-**
Usual wage bill (BRL bn)**	**231,2**	**232,3**	**232,8**	**-1,8**	**-0,9**	**-0,2**	**-7,9**	**-7,5**	**-7,3**
Effective wage bill (BRL bn)**	**236,2**	**236,3**	**-**	**1,8**	**2,2**	**-**	**-8,8**	**-8,7**	**-**

* Seasonally adjusted variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

** In real terms

Sources: IBGE, Santander.

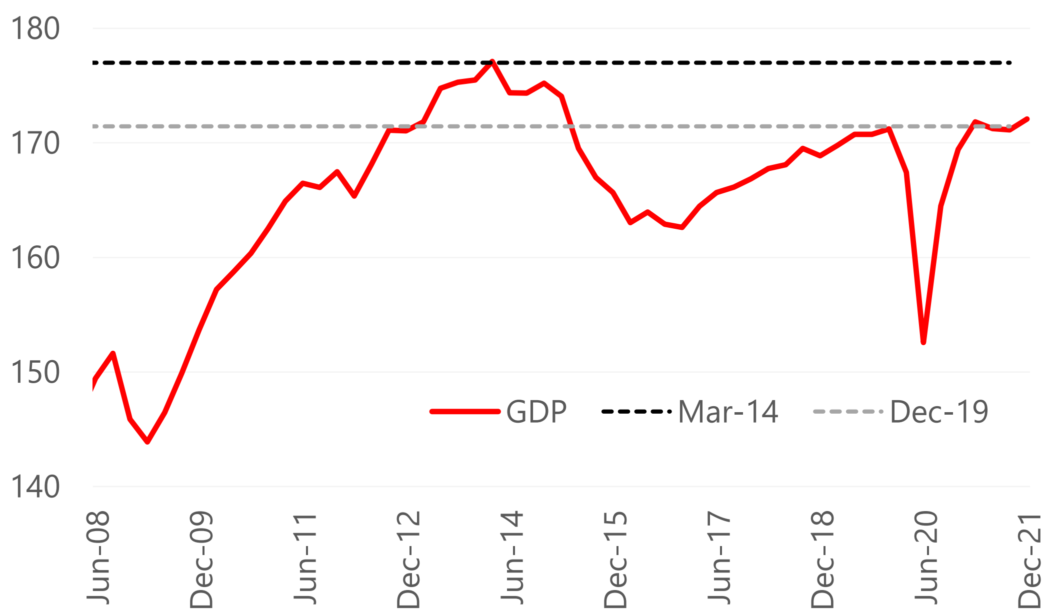
GDP

05

A Stronger Than Anticipated 4Q21

- The 4Q21 positive figure continued to reflect a heterogenic composition of economic activity. The services sector continues to rebound, in the wake of the economy's reopening while industry continues to weigh on activity, reflecting the weakness of manufacturing (in the period reinforced by mining) but partially mitigated by construction. Following 3Q21's sharp tumble, farm output partially rebounded, and we still see this sector giving a positive contribution to GDP growth in 1Q22 and 2022.

GDP (sa, 1995=100)**



	4Q21		2021	2020	4Q19*	Carry **
	% YoY	% QoQ	%	%	%	%
GDP	1.7	0.5	4.6	-3.9	0.5	0.3
Supply						
Taxes	2.2	0.4	6.4	-4.7	2.0	0.3
Farm Output	**-0.8**	**5.8**	**-0.2**	**3.8**	**1.1**	**-0.4**
Industry	**-1.3**	**-1.4**	**4.5**	**-3.4**	**-0.4**	**-1.2**
Mining	4.5	-2.4	3.0	1.3	-1.6	0.0
Manufacturing	-6.9	-2.5	4.5	-4.4	-2.8	-3.2
Construction	12.2	1.5	9.7	-6.3	8.4	3.8
Utilities	0.7	-0.2	-0.1	-0.3	-1.5	-0.7
Services	**3.3**	**0.5**	**4.7**	**-4.3**	**1.2**	**1.1**
Retail	-2.9	-2.0	5.5	-3.1	-0.1	-2.1
Transports	9.3	2.6	11.4	-8.4	5.6	3.3
Information	13.8	3.4	12.3	0.8	17.8	5.1
Financial	-0.4	0.0	0.7	4.5	3.6	-0.2
Other Services	9.7	2.1	7.6	-12.3	-1.4	4.2
Rents	0.2	-0.4	2.2	2.6	4.0	-0.3
Public Services	2.0	1.0	1.5	-4.5	-1.7	1.2
Demand						
Consumption	**2.1**	**0.7**	**3.6**	**-5.4**	**-1.3**	**1.0**
Government	**2.8**	**0.8**	**2.0**	**-4.5**	**-0.7**	**1.4**
Investments	**3.4**	**0.4**	**17.2**	**-0.5**	**16.9**	**-0.9**
Exports	**3.3**	**-2.4**	**5.8**	**-1.8**	**-1.0**	**-3.8**
Imports	**3.7**	**0.5**	**12.4**	**-9.8**	**0.1**	**-2.4**

Sources: IBGE, Santander.

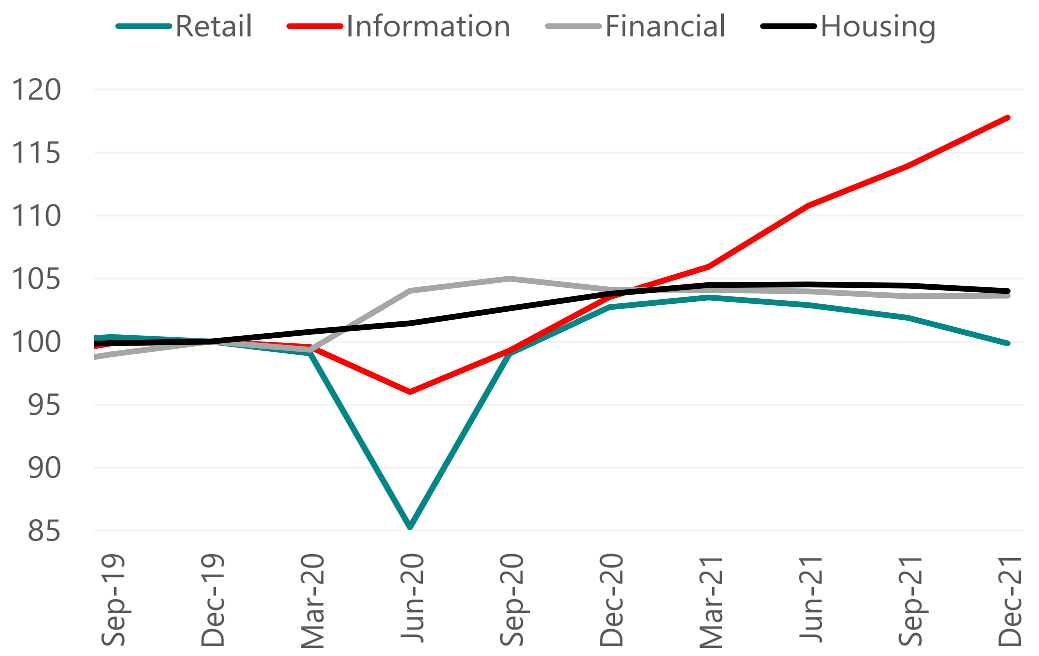
* *"GDP Consolidates a Stronger Than Anticipated 4Q21"* – March 04, 2022 - Available on: https://bit.ly/Std-GDP-4Q21

** GDP is 0.5% above the pre-pandemic mark (Dec-19) but 2.8% below the all-time high (Mar-14).

Services Sector Surpassed the Pre-Covid Mark and we Expect it to Continue to Strengthen

- Other Services and Public Services account for almost 30% of GDP and are still running at a depressed basis (1.4% and 1.7% below 4Q19 level, respectively). We saw these segments gradually recovering throughout 2H21 and we expect a continued rebound in 1H22, contributing to GDP growth from 1Q22 onwards. The transports segment had already surpassed the pre-crisis mark, but air transport still shows wide idleness*, which leaves room for sequential growth ahead.

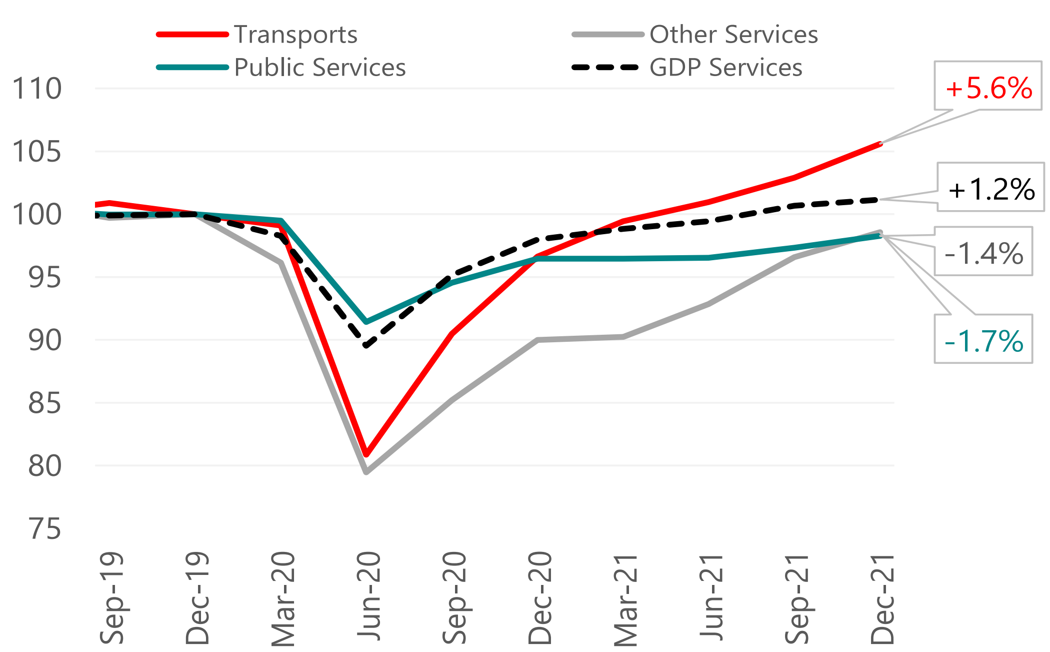
Selected Segments of Services (sa, 4Q19=100)



Sources: IBGE, Santander.

"Services Output Surprised to the Upside in December" – February 10, 2022 - Available on: https://bit.ly/Std-econact-021022

Health and Mobily-Related Segments (4Q19=100)



Sources: IBGE, Santander.

- Transports, Other Services and Public Services account for 4%, 13% and 15%, respectively, summing up 30% of GDP.
- Other Services: Leisure, restaurants, health and education (mercantile).
- Public Services: Public administration, health and education (non-mercantile).

BASELINE SCENARIO

06

GDP: Key Hypotheses, Basic Description and Risks

- We assume the process of economic reopening will be consolidated in 1H22. We also assume the absence of further weather-related problems, thus limiting the room for further downward revisions in grain crop estimates for 2022.

- We are maintaining our GDP growth forecasts for 2022 and slightly lowering our estimate for 2023.The 4Q21 GDP data pointed to a stronger than anticipated economic growth in the period, implying a greater carryover (+0.3%) to the current year. For 2022, if, on the one hand, the rise in risk premia and the more severe tightening of financial conditions act to stifle economic activity, on the other hand, the economy tends to benefit from the performance of less cyclical commodity-related sectors (e.g., farm output) and from the remaining effects of the post-pandemic normalization process, particularly in the services sector and in the labor market. We think this will be particularly true for 1H22. Conversely, in 2H22, we expect the materialization of the delayed effects of a tight monetary policy and deteriorated financial conditions, implying a negative carryover (-0.4%) for the following year. We expect a 0.7% GDP growth in 2022.

- Our expected GDP path is as follows: we forecast strong 1Q22 GDP growth (+0.5% QoQ-sa), stemming from both a continued recovery of mobility-related segments of services and a jump in farm output, followed by stability in 2Q22 (0% QoQ-sa). Conversely, we expect the materialization of the delayed effects of a tight monetary policy and deteriorated financial conditions (-0.3% QoQ-sa per quarter in 2H22). For 2023, we expect a retreat in real GDP and, owing to an even higher terminal Selic level in 2022, we are lowering slightly our 2023 GDP estimate to -0.3% (from -0.2%), way below the consensus estimate (+1.3%).

- **Upside risks:** stronger than expected effect of economic reopening on services reliant on social interaction. Faster than expected solution to supply-chain disruptions in manufacturing. Better than expected recovery (or resiliency) in farm output.

- **Downside risks:** prolonged shortage of inputs in some production chains in manufacturing. A stronger inflationary shock making the BCB’s policy stance even tighter. Worsening weather problems, further compromising the grain crops and electricity supply.

GDP Path and Breakdown

GDP Baseline Scenario			
	YoY	QoQ	Full Year
4Q20	-0.9%	3.0%	-3.9%
1Q21	1.3%	1.4%	
2Q21	12.3%	-0.3%	
3Q21	4.0%	-0.1%	
4Q21	1.7%	0.5%	4.6%
1Q22	1.0%	0.5%	
2Q22	0.8%	0.0%	
3Q22	0.5%	-0.3%	
4Q22	0.2%	-0.3%	0.7%
1Q23	-0.6%	0.0%	
2Q23	-0.6%	0.0%	
3Q23	0.0%	0.3%	
4Q23	0.0%	0.3%	-0.3%

Sources: IBGE, Santander

GDP Projections						
	2018	2019	2020	2021	2022e	2023e
Total GDP	1.8	1.2	-3.9	4.6	0.7	-0.3
Farm Output	1.3	0.4	3.8	-0.2	3.2	0.5
Industry	0.7	-0.7	-3.4	4.5	-1.4	-0.3
Services	2.1	1.5	-4.3	4.7	1.3	-0.1
Household	2.4	2.6	-5.4	3.6	0.8	0.0
Government	0.8	-0.5	-4.5	2.0	2.5	0.1
Investments	5.2	4.0	-0.5	17.2	-1.1	-0.6
Exports	4.1	-2.6	-1.8	5.8	6.5	2.7
Imports	7.7	1.3	-9.8	12.4	2.9	3.0

Sources: IBGE, Santander

Labor Market: Upward Pressure on the Unemployment Rate

- The lower unemployment rate in 1Q22 and the slower participation rate recovery led us to reduce our average unemployment rate forecast for 2022 to 12.7% (from 13.3%). We maintain our forecast for average unemployment at 14.0% for 2023. We acknowledge the risk of a lower joblessness rate in both 2022 and 2023 if the participation rate fails to return to pre-crisis levels.

- According to our monthly employment data estimates, the outbreak of the Omicron variant sparked rapid shrinkage in both the labor force and the employed population in January. This led the participation rate, which was already running historically low, to return to a slight downward trajectory at the margin. As a result, the unemployment rate has fallen even further and now hovers close to 11%. We still expect the unemployment rate to rise toward 14% in 2H22, reflecting an upsurge in the working population, a catch-up for the participation rate, and the stalling of job creation.

- **Upside risks:** Faster than expected growth in employment on the heels of the economic reopening.

- **Downside risks:** Stronger inflationary pressures leading the BCB to adopt an even tighter monetary policy stance.

	2019	2020	2021	2022e	2023e
Unemployment Rate *					
Average	12.0	13.8	13.2	12.7	14.0
End of Period (s.a.)	11.7	14.9	11.9	13.8	13.6
Unemployed Population **					
Average	12.8	13.8	13.9	13.8	15.4
End of Period	12.5	15.0	12.7	15.1	15.0

Sources: IBGE, Santander.

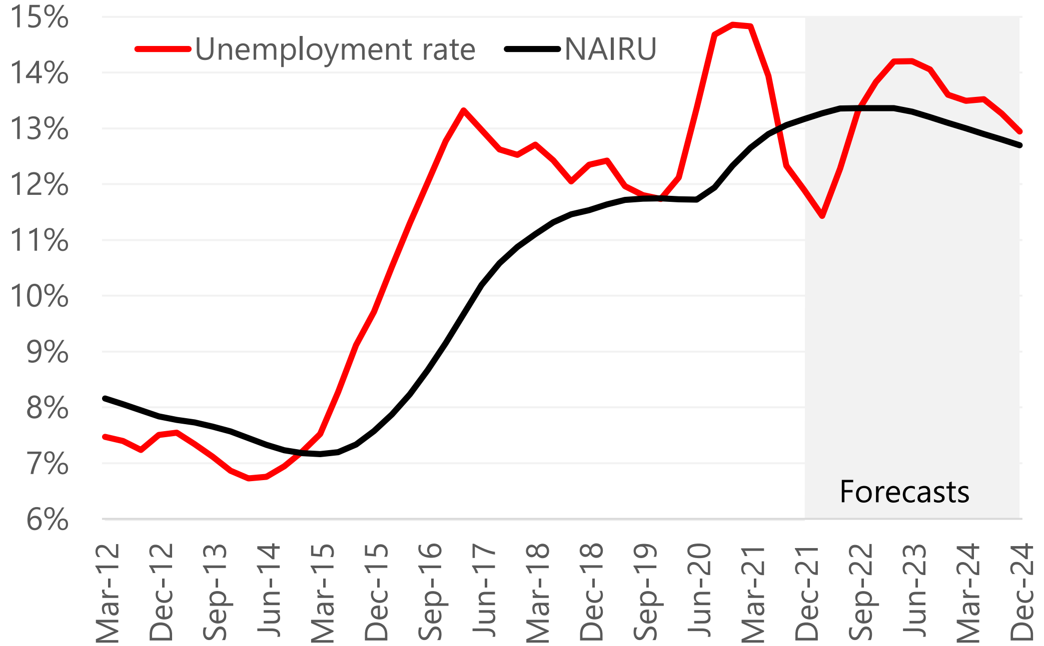
Unemployment Rate to Rise in the Following Months

- Despite our projection of the jobless rate below the NAIRU level in 2022, we still see a slackened labor market in the medium term, with the unemployment rate approaching its natural level by YE2024.

		Feb-22	Apr-22
Unemployment Rate (avg)	2022	13.3	12.7
	2023	14.0	14.0
	2024	13.3	13.3
Unemployment Rate (YE, sa)	2022	13.9	13.8
	2023	13.8	13.6
	2024	12.9	12.9
Unemployed (YE, Millions sa)	2022	15.2	15.1
	2023	15.2	15.0
	2024	14.3	14.3
NAIRU (avg)	2022	13.3	13.3
	2023	13.2	13.2
	2024	12.8	12.8

Sources: IBGE, Santander.

New Unemployment Rate Trajectory (sa)

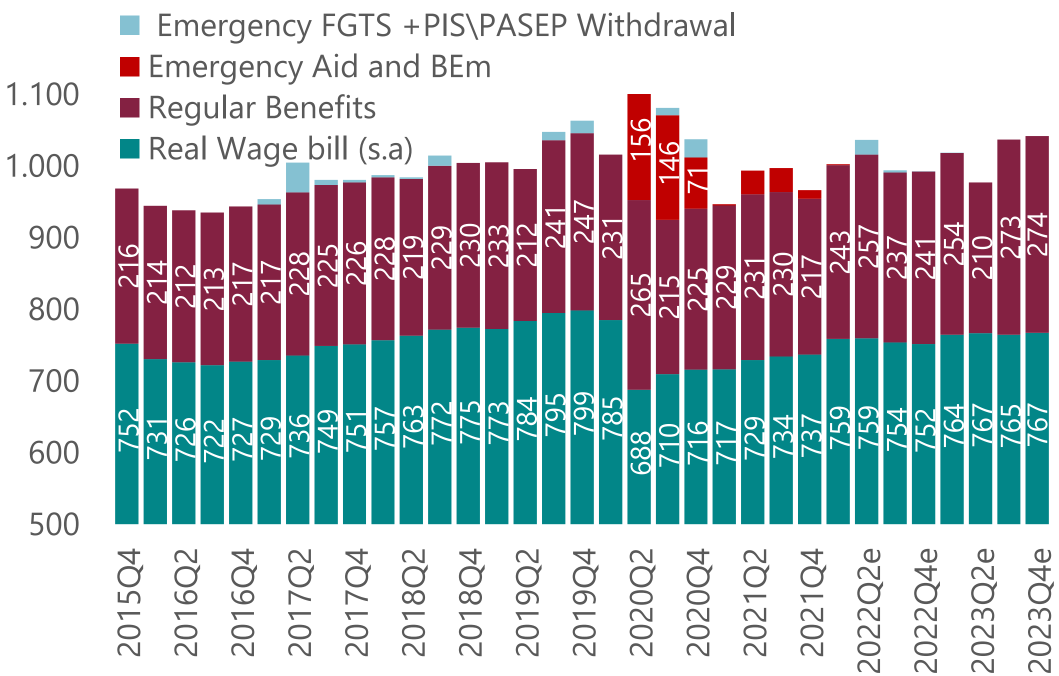


Sources: IBGE, Santander.

“Expanded” Real Wage Bill Largely Impacted by Inflation

- As for the “expanded” real wage bill scenario (considering government transfers and social programs), we see a gradual recovery after a sharp tumble in 2021 (-8.0%, according to our estimate). As inflation decelerates, the average real income indicators tend to more than offset the worsening in the employment dynamics. We project that the “expanded” real wage bill will grow 3.2%, 1.1%, and 1.8% in 2022, 2023, and 2024, respectively. See details in the link*.

“Expanded” Real Wage Bill (BRL billion)



Sources: National Treasury, IBGE, Ministry of Economy, Santander.

*https://bit.ly/Std-SPECIAL-041322

	2021	2022(E)	2023(E)	2024(E)
Real Wage Bill (No Fiscal Stimulus)	0.6%	3.7%	1.4%	2.5%
Real Wage Bill (With Fiscal Stimulus)	-8.0%	3.2%	1.1%	1.8%

Sources: National Treasury, IBGE, Ministry of Economy, Santander.

Macro Scenario: Projections

- For our Scenario Update 'SURFING AN EXTENDED COMMODITY WAVE' (sent on April 14, 2022), click on the link: https://bit.ly/Std-scenupdate-apr22

Macroeconomic Variables		Previous		Current
GDP (%)	2022E	0.7	➡	0.7
	2023E	-0.2	⬇	-0.3
	2024E	1.5	➡	1.5
IPCA (%)	2022E	6.0	⬆	7.9
	2023E	3.7	⬆	4.0
	2024E	3.0	➡	3.0
Selic Rate (% end of period)	2022E	12.50	⬆	13.25
	2023E	9.00	⬆	10.00
	2024E	7.00	➡	7.00
FX Rate - USDBRL (end of period)	2022E	5.40	⬇	5.00
	2023E	5.25	⬇	4.80
	2024E	4.90	⬇	4.70
Current Account Balance (% of GDP)	2022E	-1.4	⬆	-1.2
	2023E	-1.8	⬆	-1.0
	2024E	-3.2	⬆	-2.0
Primary Fiscal Balance (% of GDP)	2022E	-0.8	⬆	0.0
	2023E	-1.1	⬆	-0.8
	2024E	-0.9	⬆	-0.6
Gross Public Debt (% of GDP)	2022E	84.8	⬇	80.6
	2023E	89.0	⬇	84.1
	2024E	92.2	⬇	87.5

Sources: IBGE, The National Treasury Secretariat, BCB and Santander.

Thank you.

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Our culture is based on believing that everything we do should be:

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