Brazil Macro | February 2022

Economic Activity

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SUMMARY

- **We are updating our GDP growth forecast for 2021.** Following the releases of 3Q21 GDP data and 4Q21 timely activity indexes, we are updating our 4Q21 GDP growth estimate to +0.2% QoQ-sa (from +0.4% QoQ-sa). Our growth thesis for the quarter rests on continued recovery of mobility-related services segments that still show wide idleness relative to the pre-pandemic period, along with a rebound in farm output. Regarding our full-2021 projection, we are slightly lowering our estimate to +4.6% (from +4.7%).

- **We are maintaining our estimate for 2022 but raising our 1Q22 projection.** Regarding the 1Q22, we updated our estimate to +0.7% QoQ-sa (from +0.4% QoQ-sa) both on the heels of the improvement in the main crop yields expected for 2022 and the greater than expected mobility (both as compared to our previous estimates in December). Regarding our full-2022 estimate (maintained at +0.7%), we expect good growth contributions to come from the mechanical recovery of the services sector, mainly from those sectors that still show idleness regarding the pre-pandemic mark (e.g., services to families and public services). In addition, we expect some hand lent by the labor market recovery (with an expected real wage bill expansion as a byproduct) and by the strength in less cyclical commodity-related sectors (e.g., farm output). These factors are expected to be somehow shadowed by the delayed effects of a tighter monetary policy and worse financial conditions. **For 2023, we expect the lagged effects of monetary policy and financial conditions to prevail, leading to a retreat in overall activity (-0.2%).**

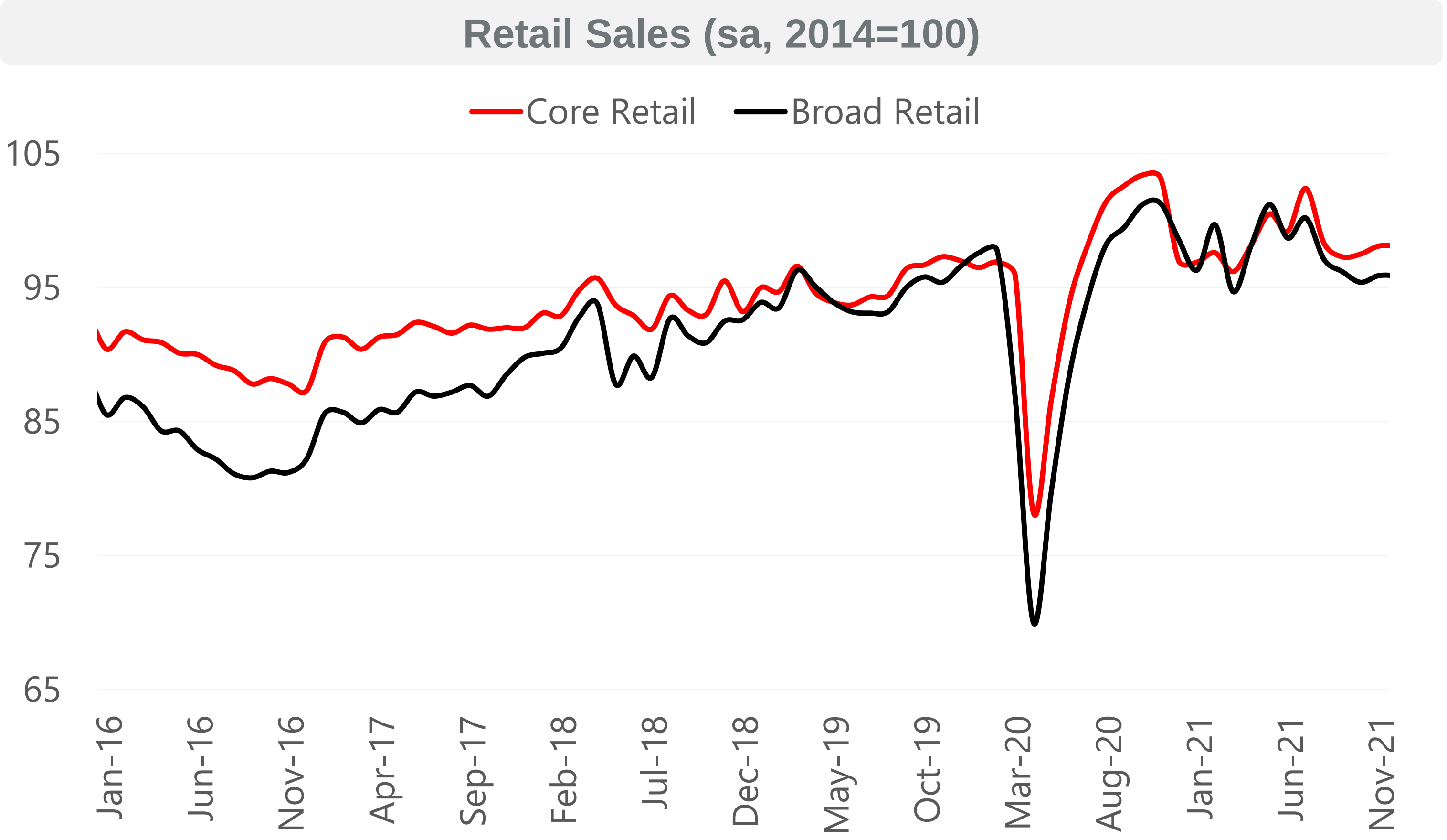
- The latest results favored lower unemployment rates for the short term, as employment had better-than-expected results throughout 2H21, and the labor force stalled after returning to pre-crisis levels. We expect the unemployment rate to rise towards 14% in the coming months, reflecting a payback in the working population, a catch up for the participation rate and the stalling of job creation. The tighter monetary policy should dominate the labor market dynamics from 2H22 onward. **We project the average annual unemployment rate at 13.5% in 2021 (down from 13.8%) and at 13.7% in 2022 (down from 14.0%). We maintain our forecast at 14.0% for 2023.**

RETAIL SALES

01

Continued Weakening Expectation For Retail Sales

- Despite the recent relief, high inflation eating on household income, weakening in consumer confidence and maintenance in supply hurdles seen worldwide continue to bring challenges to retail sales in the coming months. Moreover, the shift of spending into services as the economy reopens is an additional factor to explain the weak figures seen in the goods-related sectors.

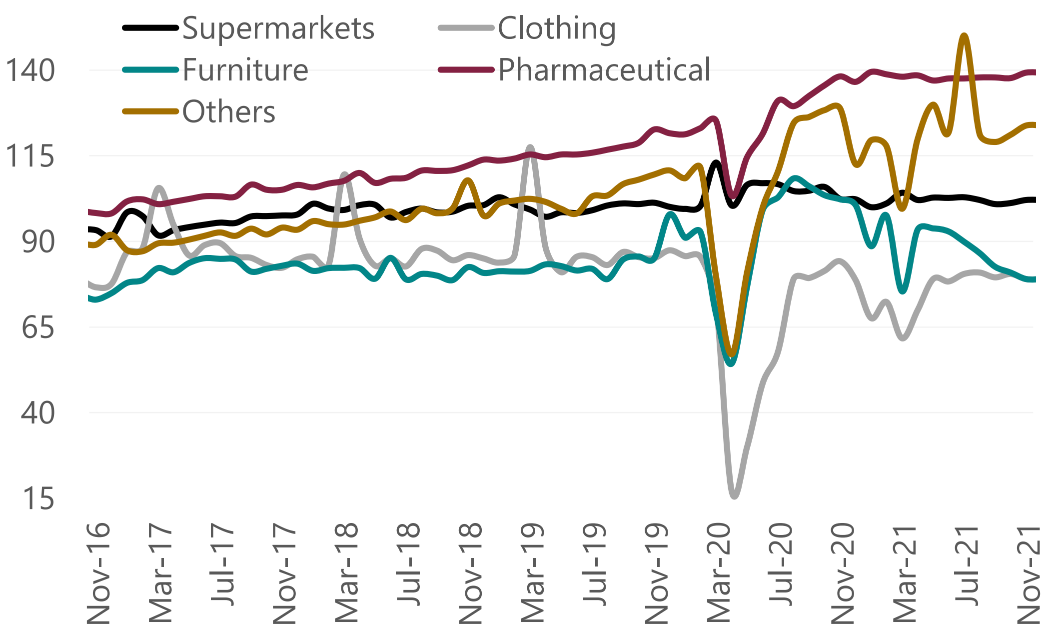


Sources: IBGE, Santander

Weak Prints For Both Credit and Income Sensitive Segments

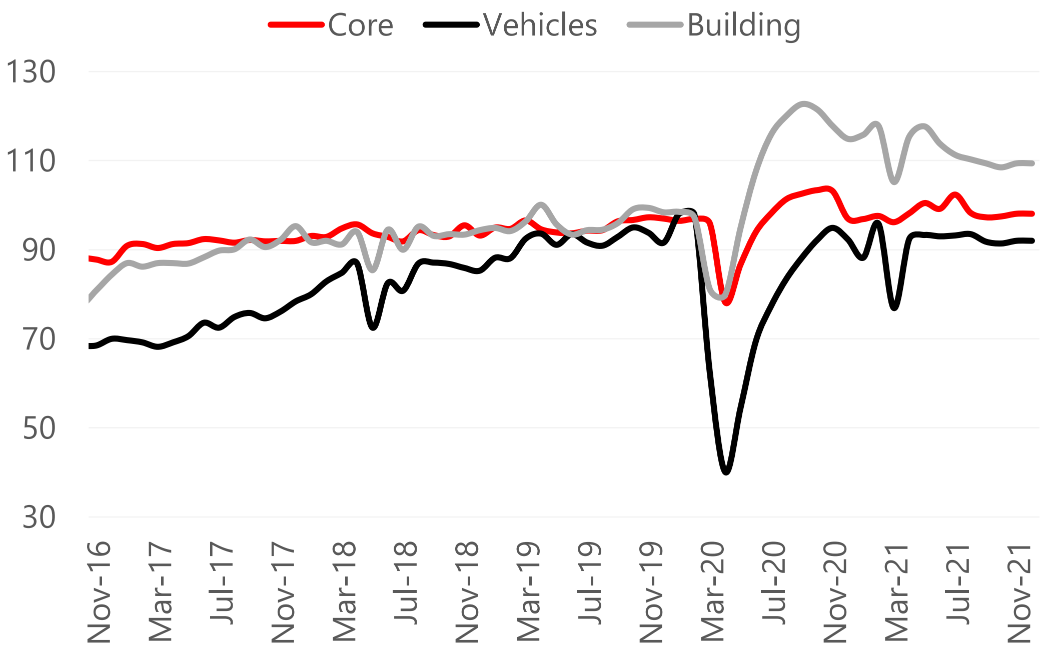
- Looking at the details, a widespread weakening among the retail activities, with credit-granting reinforcing the dragging posed by inflationary pressures. Moreover, the widespread shortage of inputs contributed from a supply standpoint to recent weak prints for durable goods sales.

Core Retail Sales (sa, 2014=100)



Sources: IBGE, Santander

Broad Retail Sales (sa, 2014=100)

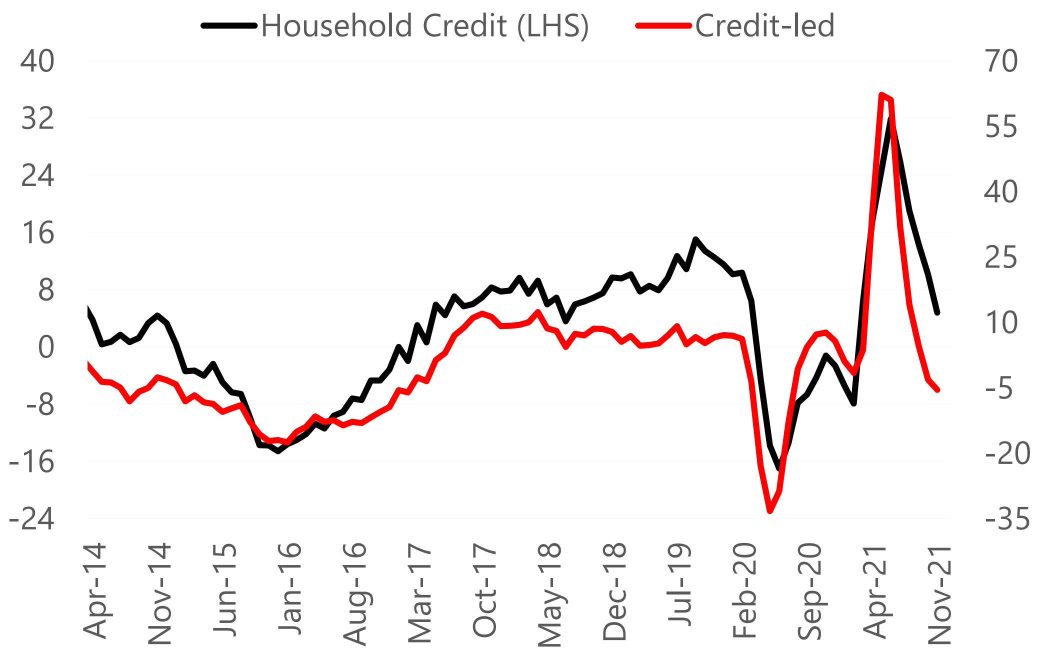


Sources: IBGE, Santander

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

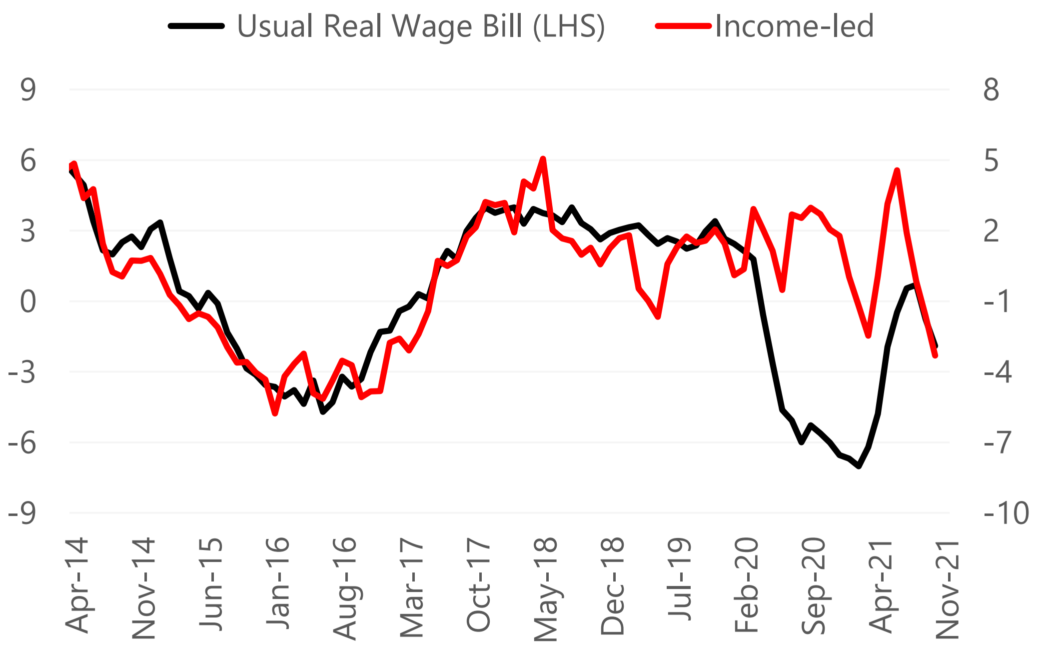
- For 2022, the resilience of household consumption should come from the labor market recovery (with an expected real wage bill expansion as a byproduct), mainly from the informal segment. Amid the environment with rising interest rates, we don't expect credit granting to be a relevant driver of consumption (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		Sep-21	Oct-21	Nov-21	Sep-21	Oct-21	Nov-21	Sep-21	Oct-21	Nov-21
66.9%	Core Retail Sales	-1.0	0.2	0.6	-5.1	-6.9	-4.2	0.0	-3.0	-2.3
8.3%	Fuels	-2.9	-0.3	-1.4	-4.2	-7.7	-7.2	-1.7	-5.4	-5.5
30.6%	Hypermarkets, supermarkets	-1.2	0.3	0.9	-3.2	-5.0	-0.5	-0.6	-1.4	-1.1
6.2%	Fabrics, clothing and footwear	-1.7	1.3	-1.9	0.4	-2.0	-4.4	6.0	1.3	-0.3
7.4%	Furniture and home appliances	-4.6	-2.1	-2.3	-22.6	-22.6	-21.5	-7.5	-9.6	-10.0
5.1%	Pharmaceuticals	0.0	-0.1	1.2	4.2	-0.1	2.5	0.1	0.3	0.4
0.9%	Books, papers and magazine	0.3	-1.0	-1.4	-3.5	-7.8	-14.4	-2.7	-3.9	-3.7
0.6%	Office equipment and supplies	-3.0	5.7	-0.1	-14.6	-11.2	-5.6	-6.1	-6.4	-2.6
7.8%	Other personal items	-1.9	1.8	2.2	-6.7	-7.2	-2.6	5.1	-10.1	-7.5
100%	Broad Retail Sales	-0.9	-0.8	0.5	-3.9	-7.0	-2.9	-1.5	-3.8	-2.9
8.9%	Building Materials	-0.8	-0.8	0.8	-10.1	-14.1	-4.1	-4.6	-4.3	-2.4
24.2%	Vehicles	-1.8	-0.4	0.7	2.9	-4.0	1.6	-0.1	-1.0	-1.6

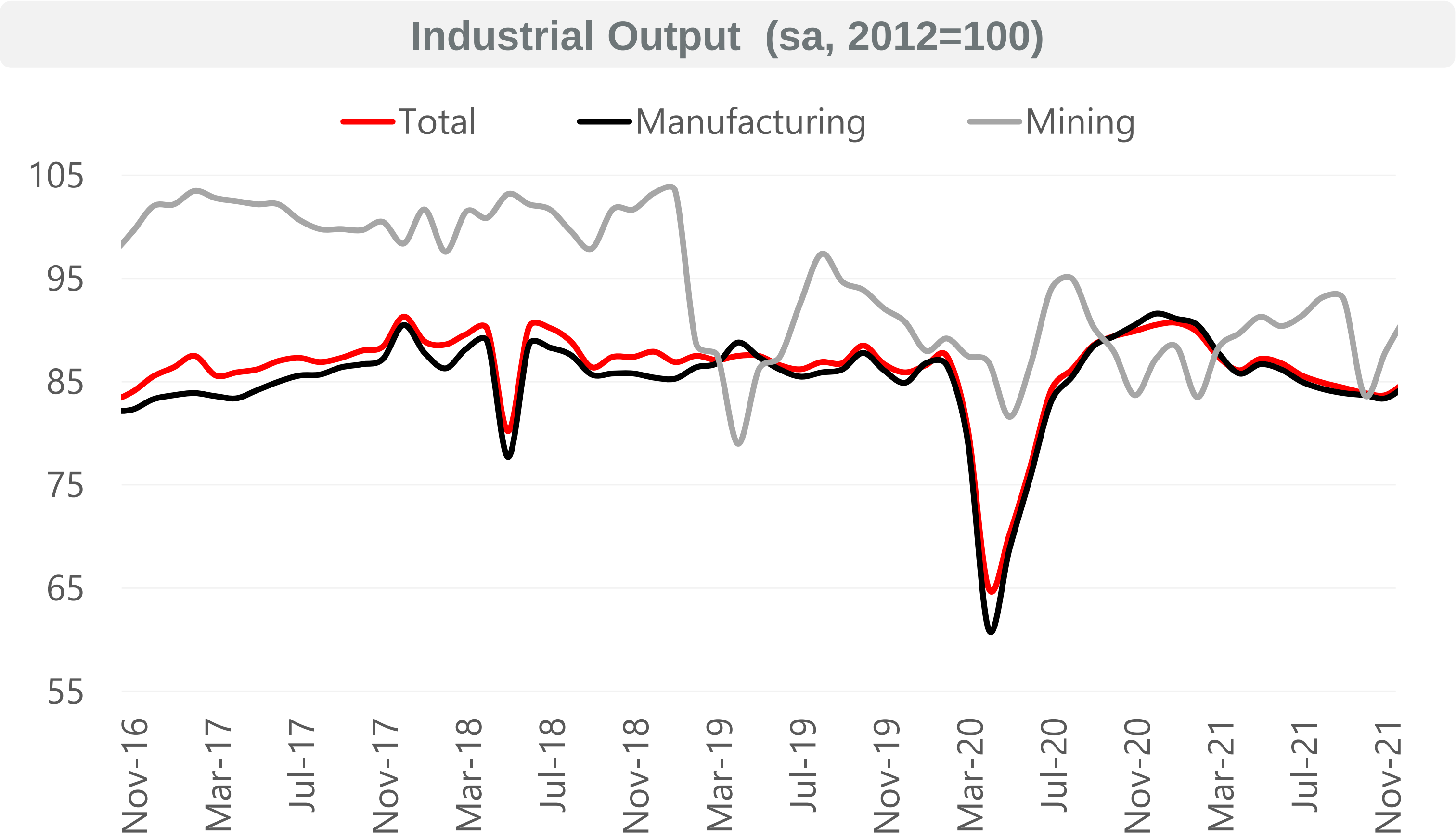
Sources: IBGE, Santander

INDUSTRIAL PRODUCTION

02

Industry Continued To Weigh On Activity But With A Better Short-term Outlook

- Manufacturing continued to weaken but with expectations for positive prints in the short-term, stemming mainly from a favorable seasonality in auto factories. If confirmed these expectations, we may see relief in the negative contributions from industrial GDP to broad activity in the short term.

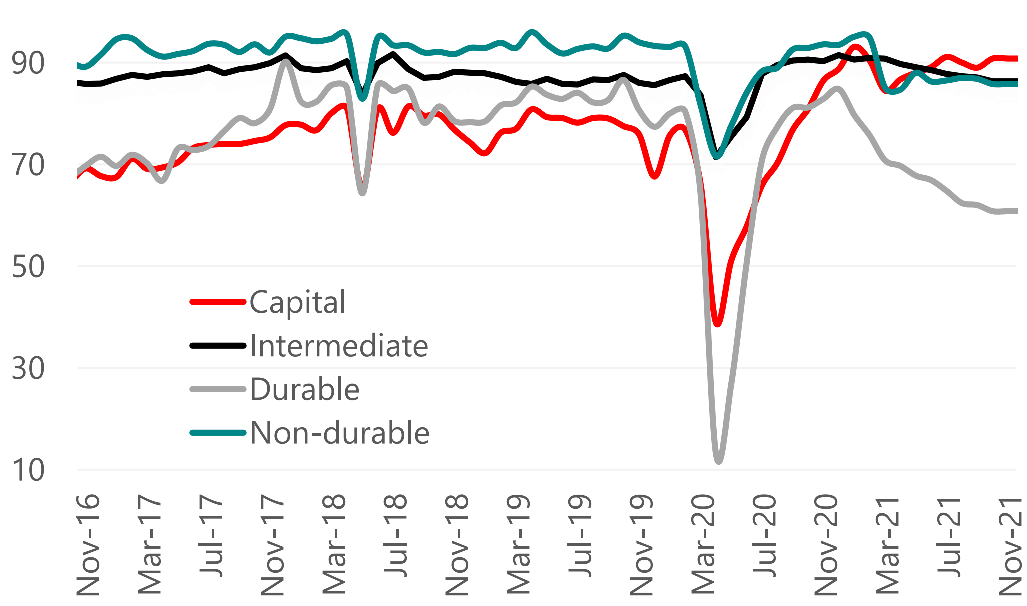


Sources: IBGE, Santander

Investments Growth Still At High Prints But Should Slow Ahead

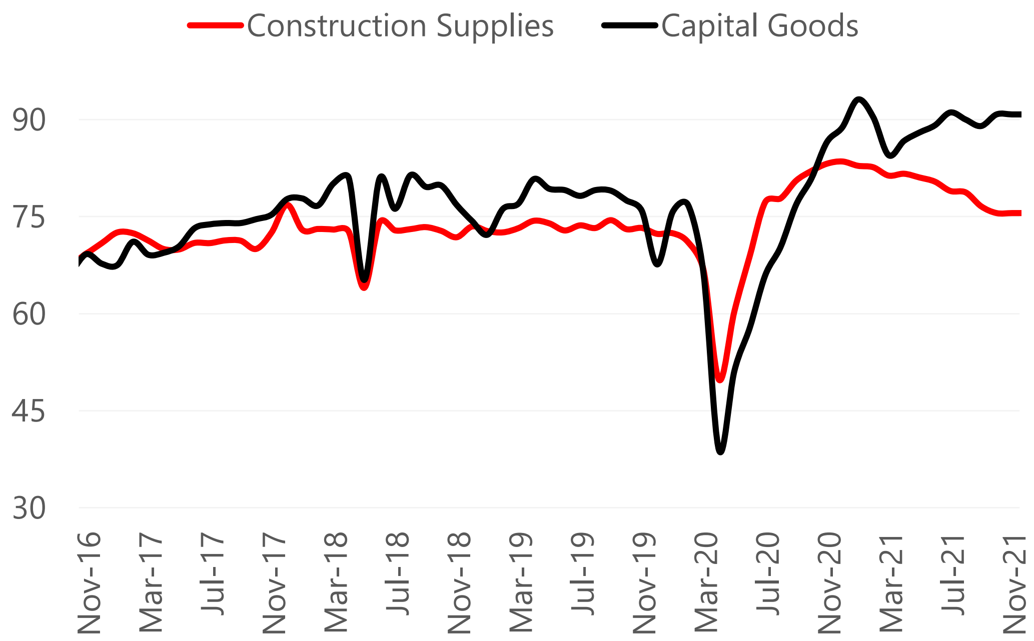
- Still reflecting the easing in financial conditions and the positive commodities cycle, selected segments of industrial output still point to high levels of investments, which should likely reach two-digits growth in 2021. This element can contribute to support activity next year, with demand finding more supply capacity ahead. The longer cycle of the building sector should help to mitigate the impact in 2022 of the financial conditions worsening.

Industrial Production (sa, 2012=100)



Sources: IBGE, Santander

Related to Investments (sa, 2012=100)

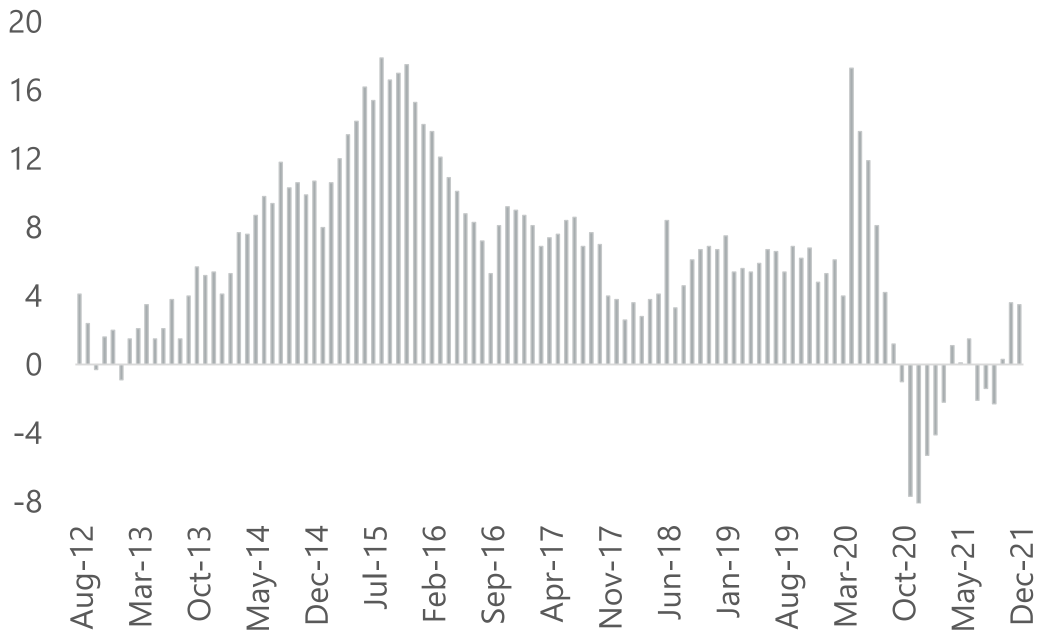


Sources: IBGE, Santander

Do Inventories Begin to Recover?

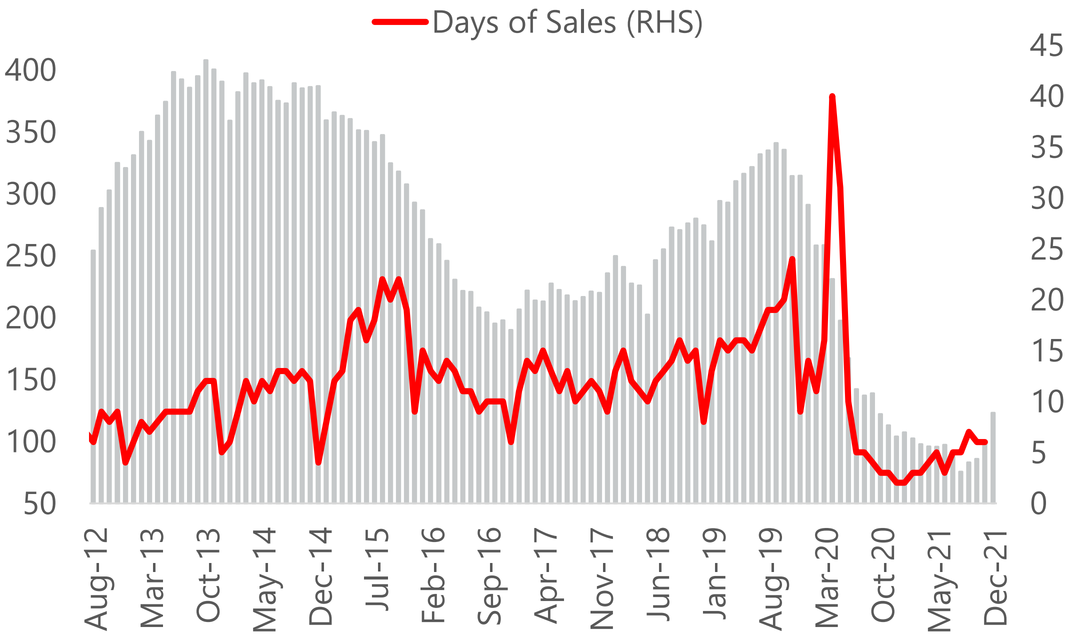
- The historically low inventories level recently reached means that local industry (not only auto factories) had a hard time overcoming high costs and widespread inputs shortage amid important supply hurdles seen widespread. However, the last results suggested better figures. Inventories replenishment 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		
	Weights	Sep-21	Oct-21	Nov-21	Sep-21	Oct-21	Nov-21	Sep-21	Oct-21	Nov-21
Total Industry	**100%**	**-0.6**	**-0.6**	**-0.2**	**-4.1**	**-7.8**	**-4.4**	**-2.0**	**-2.5**	**-2.1**
Mining	**11%**	**-0.2**	**-10.0**	**5.0**	**3.1**	**-4.7**	**5.0**	**2.3**	**-1.2**	**-3.8**
Manufacturing	**89%**	**-0.5**	**-0.2**	**-0.4**	**-4.9**	**-8.2**	**-5.6**	**-2.1**	**-2.3**	**-1.8**
Capital Goods	8%	-1.3	1.8	-3.0	15.1	8.4	4.9	1.9	0.1	-1.3
Intermediate Goods	60%	-0.2	-0.9	0.0	-3.5	-6.4	-2.7	-1.8	-1.7	-1.4
Consumer goods	32%	0.1	-0.5	0.1	-9.3	-14.0	-9.6	-1.0	-1.2	-0.5
Durable	7%	-0.6	-1.8	0.5	-23.3	-27.9	-21.0	-7.1	-6.9	-5.0
Non-Durable	25%	-0.2	-1.3	0.0	-5.7	-10.2	-6.3	0.5	-0.5	-0.6
Construction Supplies	**-**	**-2.8**	**-1.4**	**-1.0**	**-4.4**	**-9.8**	**-8.0**	**-3.7**	**-4.1**	**-4.8**

Sources: IBGE, Santander

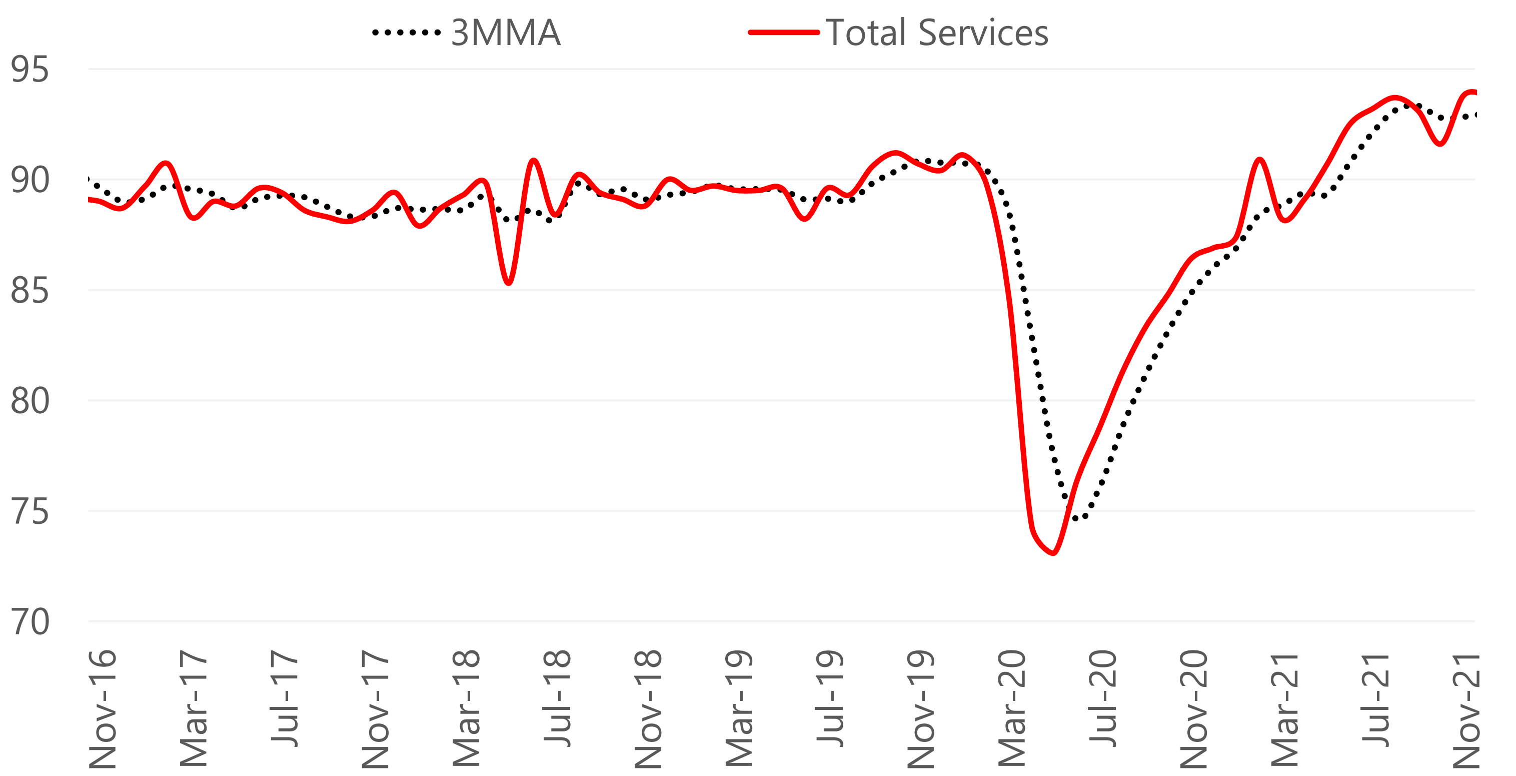
SERVICES

03

Services Continue To Be Benefit From Reopening

- The advances in the reopening process (and the subsequent increase in mobility) continued to strengthen the services sector, despite the recent weak prints. According to the monthly survey, we should see a positive contribution to overall activity from the more cyclical segments in 4Q21.

Total Services (sa, 2014=100)

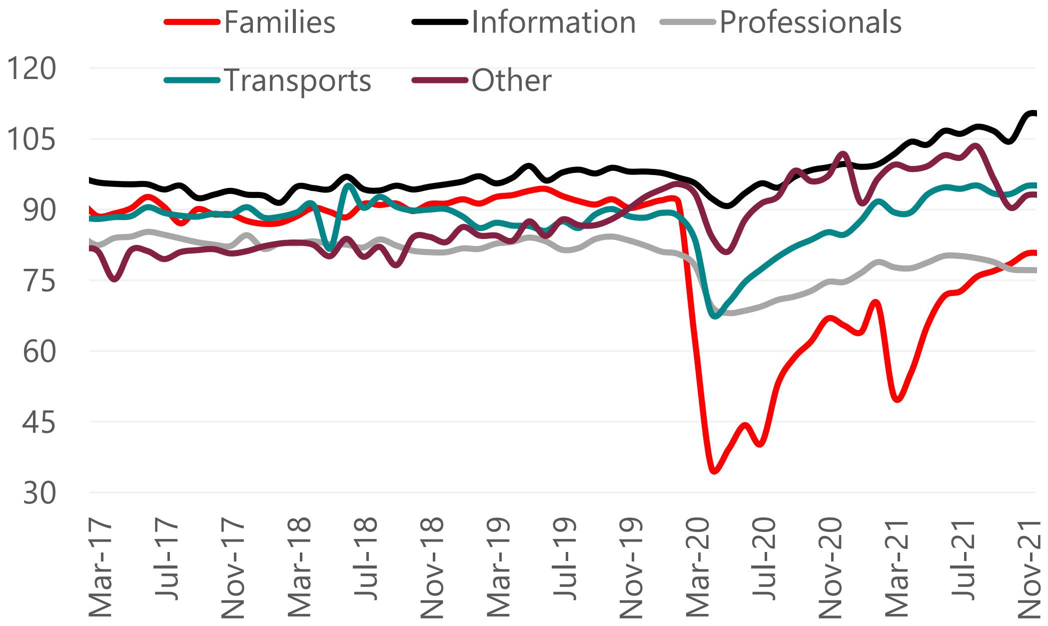


Sources: IBGE, Santander

Mobility-related Segments To Be The Main Driver Of Services

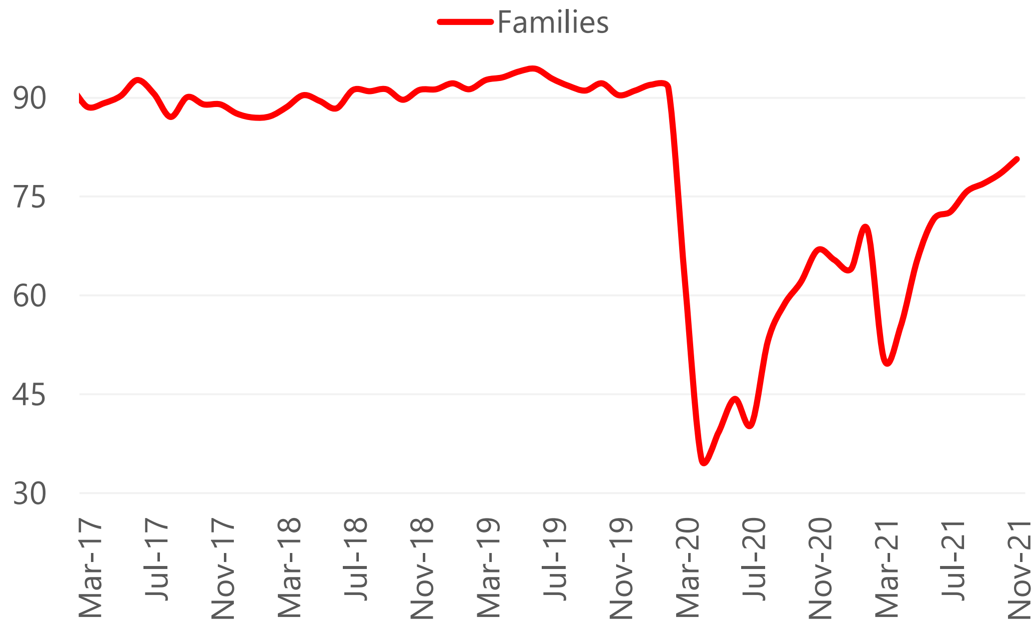
- Mobility related segments like Transports and Services to Families continued to strengthen recently. The latter still show wide idleness regarding the pre-crisis mark (almost 12%), which leaves room for positive contributions to GDP growth from the services sector. It's worth noting that, despite the 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

Services to Families (sa, 2014=100)



Sources: IBGE, Santander.

Services sector breakdown

Services Breakdown										
		% MoM			% YoY			% QoQ		
	Weights	Sep-21	Oct-21	Nov-21	Sep-21	Oct-21	Nov-21	Jun-21	Sep-21	Nov-21
Total Services	100%	-0.6	-1.6	2.4	11.5	7.4	10.0	2.2	2.8	-0.3
Families	**8%**	**1.6**	**1.9**	**2.8**	**32.9**	**24.6**	**21.0**	**4.3**	**17.3**	**7.3**
Accommodation and Food	7%	1.9	1.8	2.8	37.7	26.3	21.1	4.4	18.8	8.1
Other Services to Families	1%	0.0	1.6	0.4	9.2	14.8	20.3	6.2	3.7	1.2
Information	**31%**	**-0.8**	**-2.1**	**5.4**	**10.1**	**6.4**	**11.4**	**4.8**	**1.7**	**0.3**
Technology	26%	-1.1	-1.8	5.6	9.5	5.8	11.8	3.8	1.8	0.7
Telecommunication	19%	-1.5	-2.4	1.4	-0.3	-2.8	-1.2	0.0	0.1	-2.2
Information Technology	7%	-0.1	-0.4	10.7	25.4	19.3	31.3	8.5	4.3	5.5
Audiovisual	5%	0.7	-2.0	1.4	15.5	10.8	7.8	15.0	0.3	-3.4
Professional	**23%**	**-1.0**	**-1.9**	**-0.3**	**10.1**	**4.8**	**4.7**	**1.4**	**0.9**	**-2.7**
Professional	7%	2.8	-4.6	-1.9	17.5	5.8	2.4	3.1	3.3	-3.7
Administrative	16%	-1.7	-1.6	1.1	7.1	4.3	5.7	1.0	0.6	-2.5
Transportation	**31%**	**-1.8**	**-0.1**	**1.8**	**13.8**	**9.9**	**13.3**	**3.2**	**2.0**	**-0.9**
Ground Transportation	18%	-0.7	1.1	0.7	10.8	8.3	12.5	2.0	1.2	-0.2
Water Transportation	2%	0.0	1.7	1.6	13.6	14.8	18.2	5.9	1.9	1.5
Air Transport	3%	-9.0	-5.1	7.6	39.6	26.6	32.7	6.2	20.6	-7.8
Storage and Mail	9%	0.1	-1.2	1.6	13.3	8.3	9.3	2.0	0.4	0.8
Other Services	**7%**	**-6.7**	**-6.3**	**2.9**	**-1.6**	**-6.1**	**-4.4**	**4.1**	**0.5**	**-8.5**

Sources: IBGE, Santander

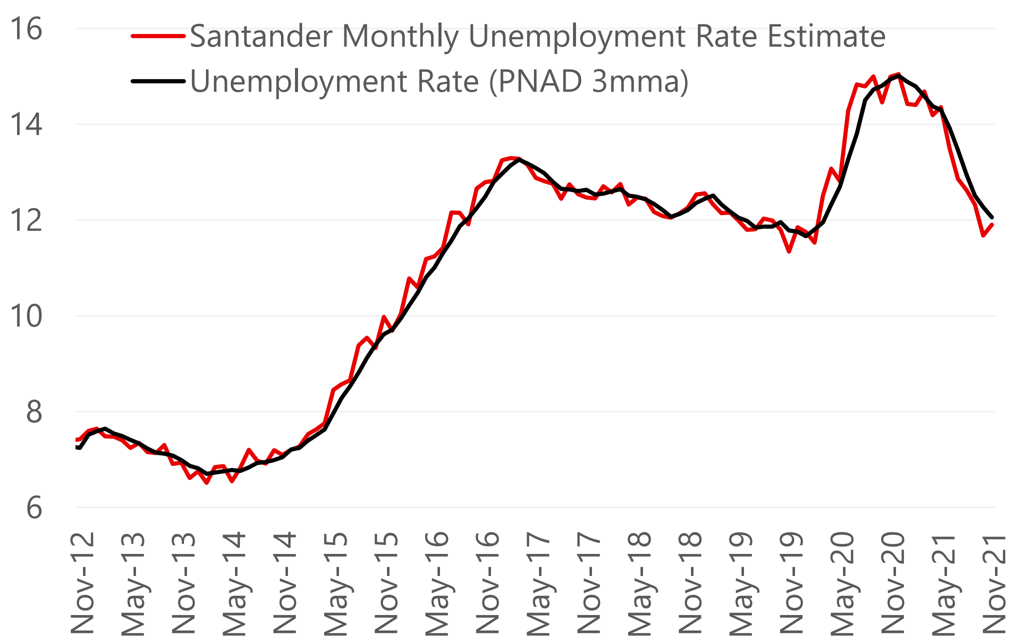
LABOR MARKET

04

Unemployment Rate Stabilizing at the Margin, with Still Low Participation Rate

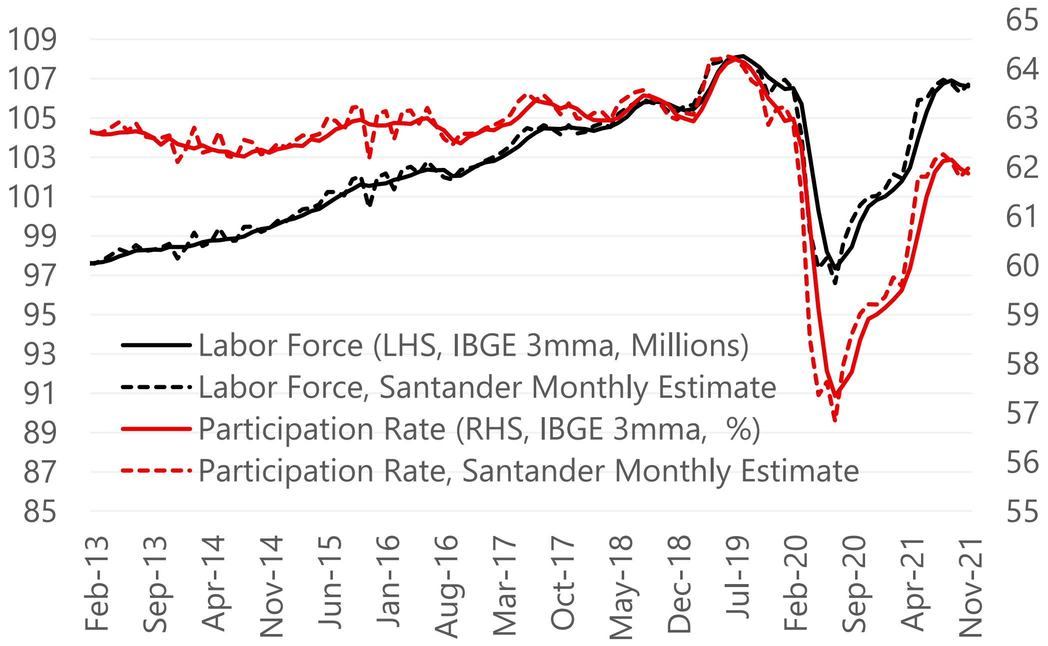
- Based on the PNAD survey, the resumption of growth in the labor force has limited the drop in the unemployment rate, as the employed population grows at a slower pace. We expect this behavior to persist in the coming months, as the participation rate returns to pre-crisis levels and the effects of the economic reopening on employment tend to fade.

Unemployment Rate Revisions



Sources: IBGE, Santander.

Employment and Unemployment (millions, sa)

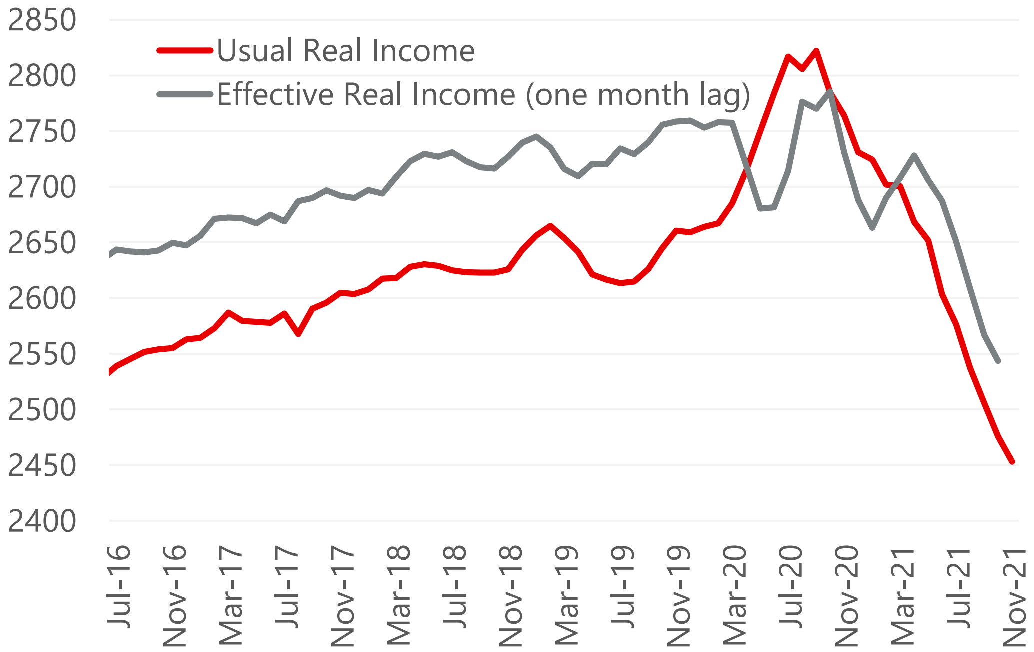


Sources: IBGE, Santander.

Real Income in Depressed Levels

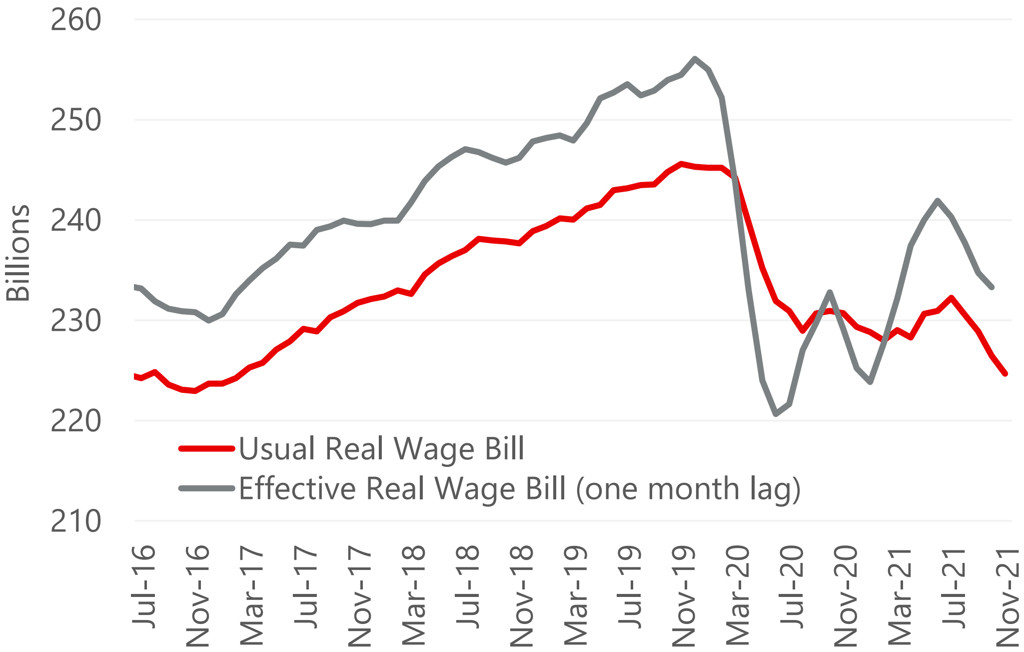
- The effective real wage bill posted a 0.6% MoM-sa decrease in October (data lagged one month relative to other PNAD series), while the usual real wage bill decreased 0.8% MoM-sa in November, due to the sharp drop in average income. Real income continues to show a negative trend, as people returning to the labor market are obtaining lower wages, and inflation remains high.

Average Real Income (BRL, sa)



Sources: IBGE, Santander.

Real Wage Bill (BRL, sa)

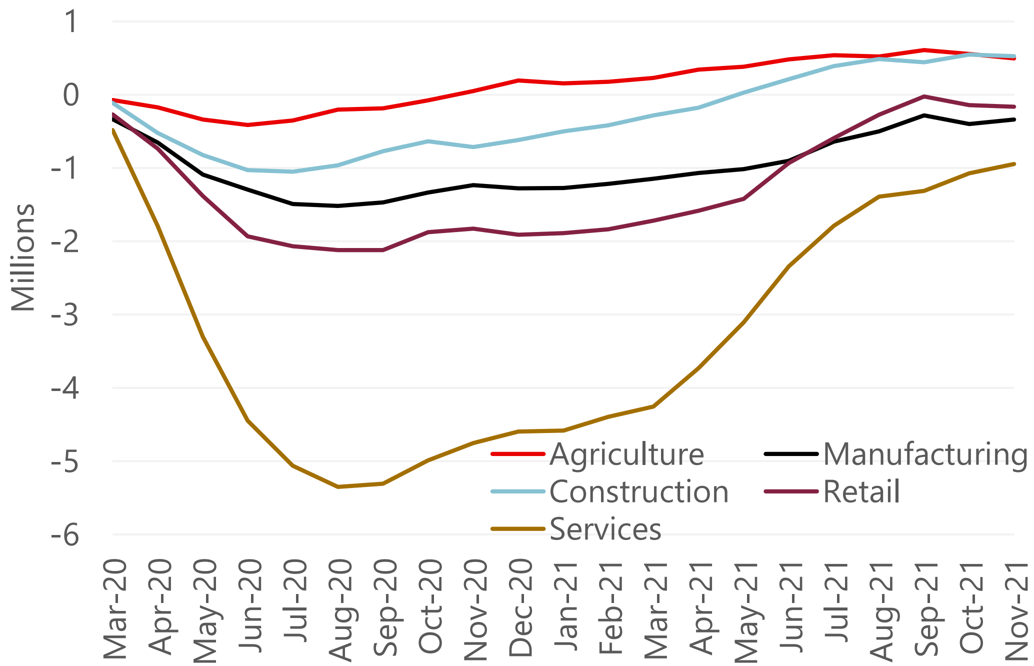


Sources: IBGE, Santander.

Informal Employment Stalled, as Formal Employment Loses Momentum

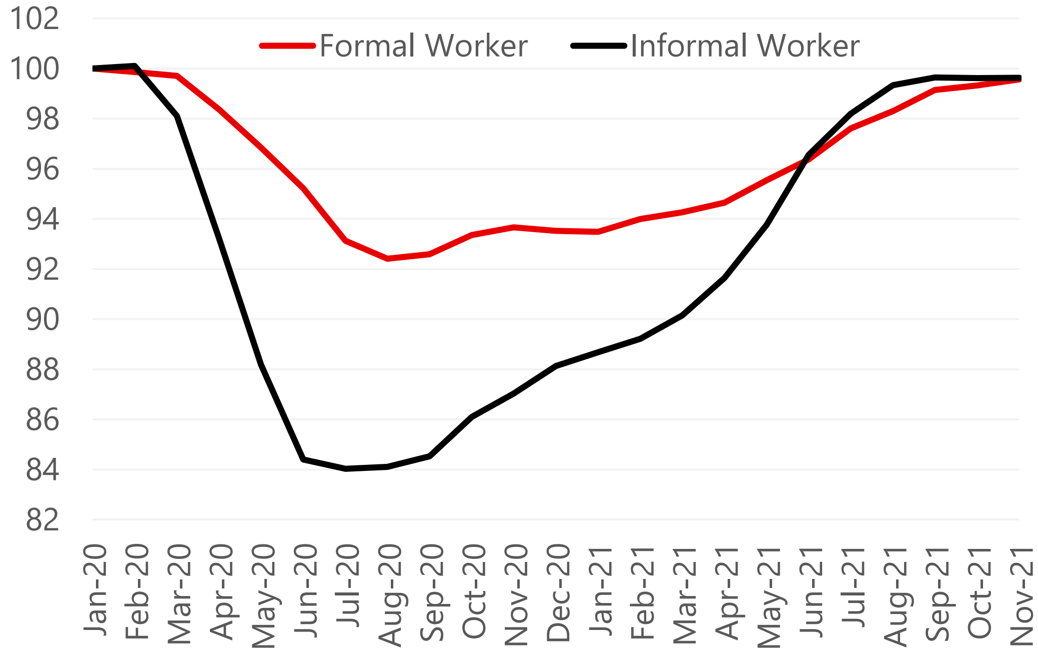
- Services is still the sector showing the greatest gap relative to the pre-pandemic level. In our view, the growth in formal employment still seems to be decelerating, as the effect of normalization seen in the PNAD survey and the impact of the economic reopening are fading. Informal employment, on the other hand, has consolidated the loss of momentum.

Post-Pandemic Accumulated Job Losses (sa)



Sources: IBGE, Santander.

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

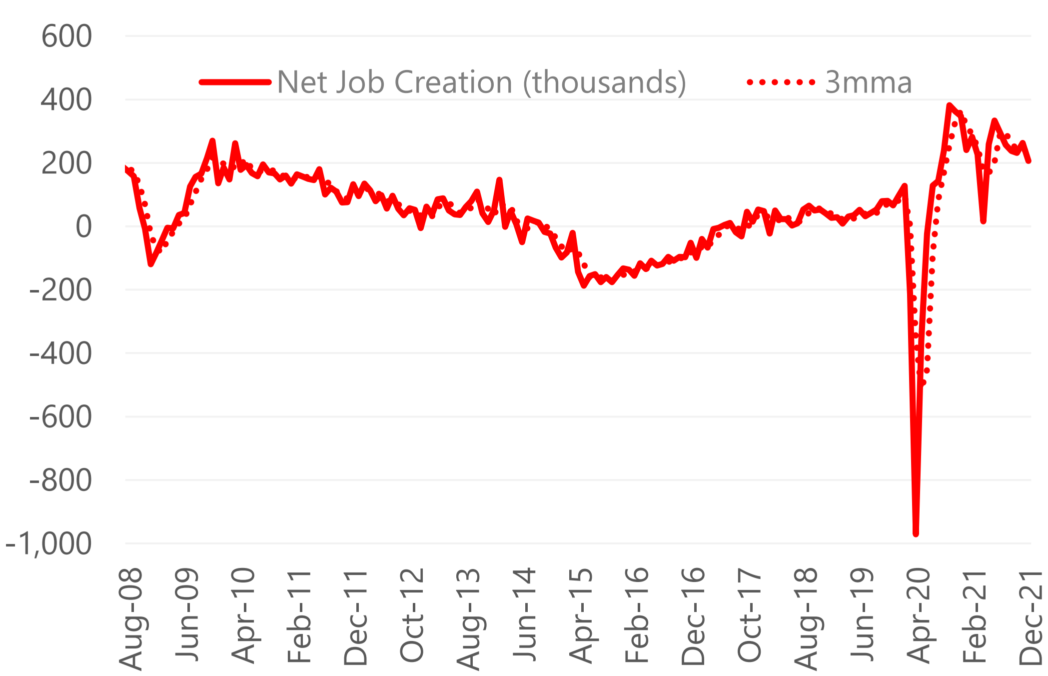


Sources: IBGE, Santander.

CAGED Remains in a Slow Deceleration Trend

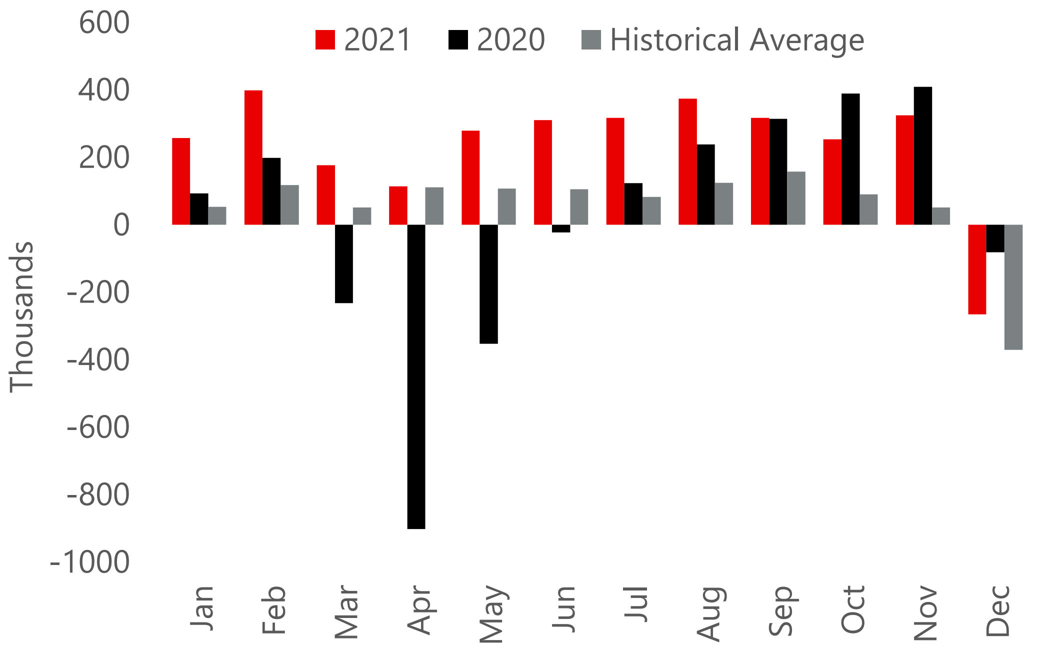
- According to the December CAGED survey, net formal job creation stood at -265.8k (vs. consensus at -175k and Santander's estimate of -181k). The result followed the seasonal pattern of net job destruction in December, but surprised on the downside. After our seasonal adjustment, we calculate that net formal job creation decelerated to 206k, from 263k in November.

CAGED Net Job Creation (sa)



Sources: Ministry of Labor, Santander.

Net Job Creation and Historical Average

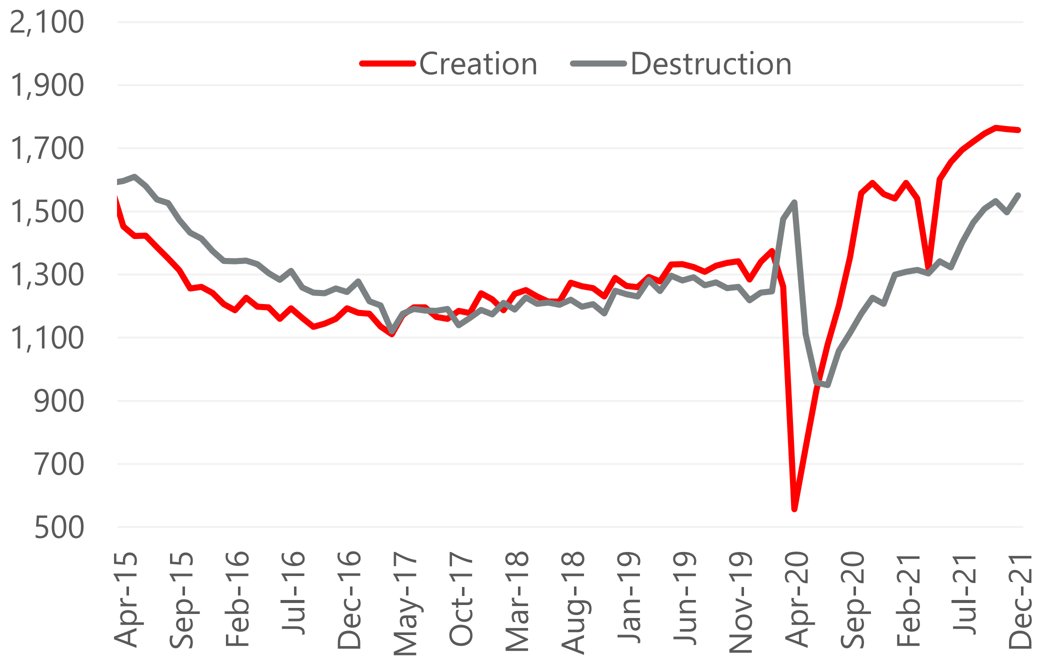


Sources: Ministry of Labor, Santander.

CAGED: End of BEm Program Continues to Affect the Results

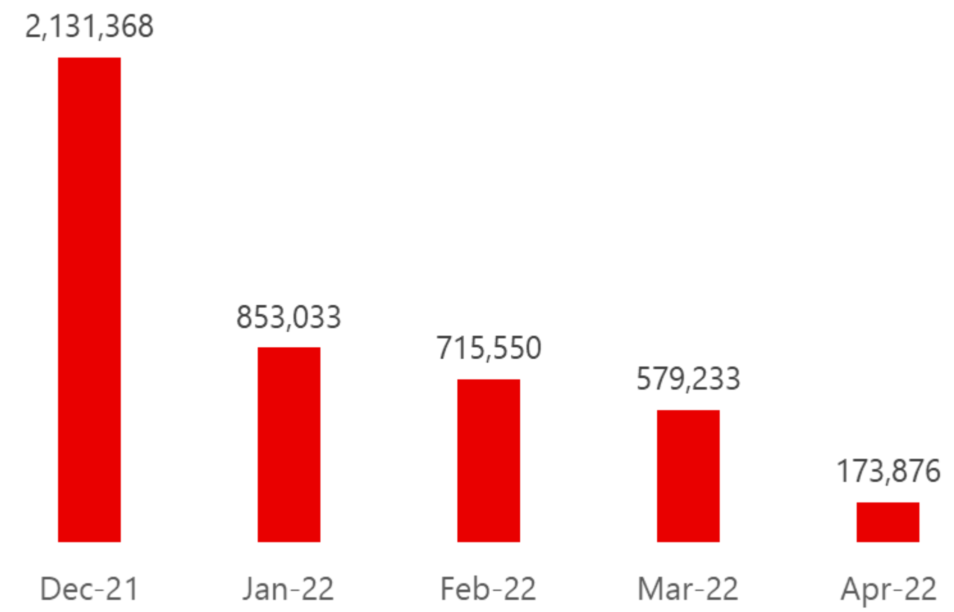
- We believe that the end of the formal employment program (BEm) continued to affect the data, as the layoffs series renewed its recent highs in seasonally adjusted terms. Each month, fewer workers are included in the program's temporary job guarantee as the waiver periods for layoffs of the program's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

CAGED: Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

Jobs Secured by BEm Program

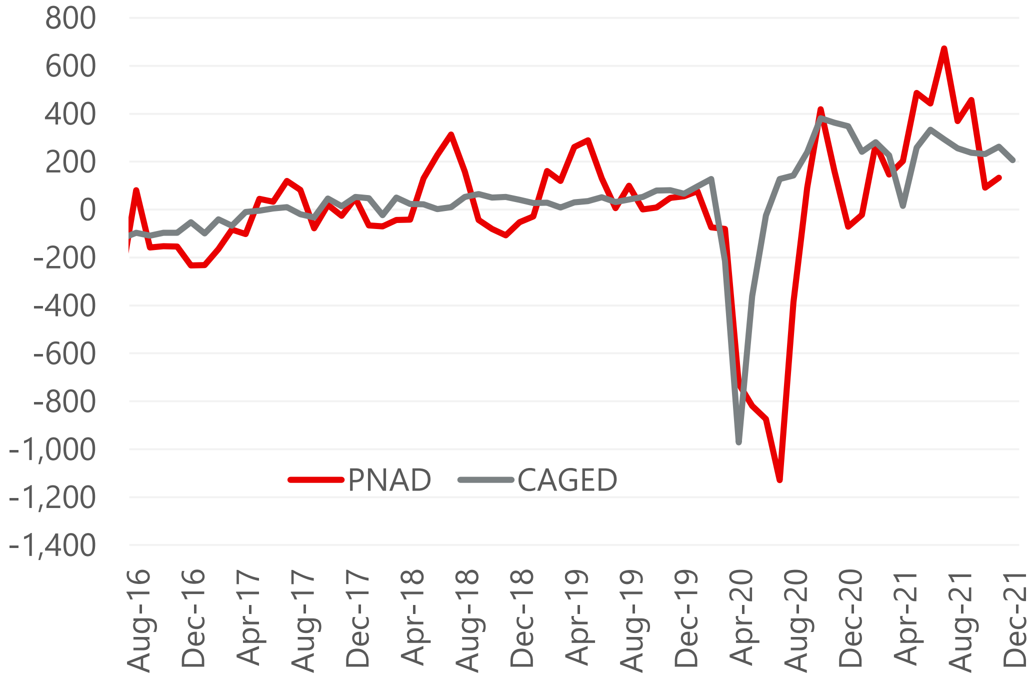


Sources: Ministry of Labor, Santander.

PNAD and CAGED Data Gradually Converging

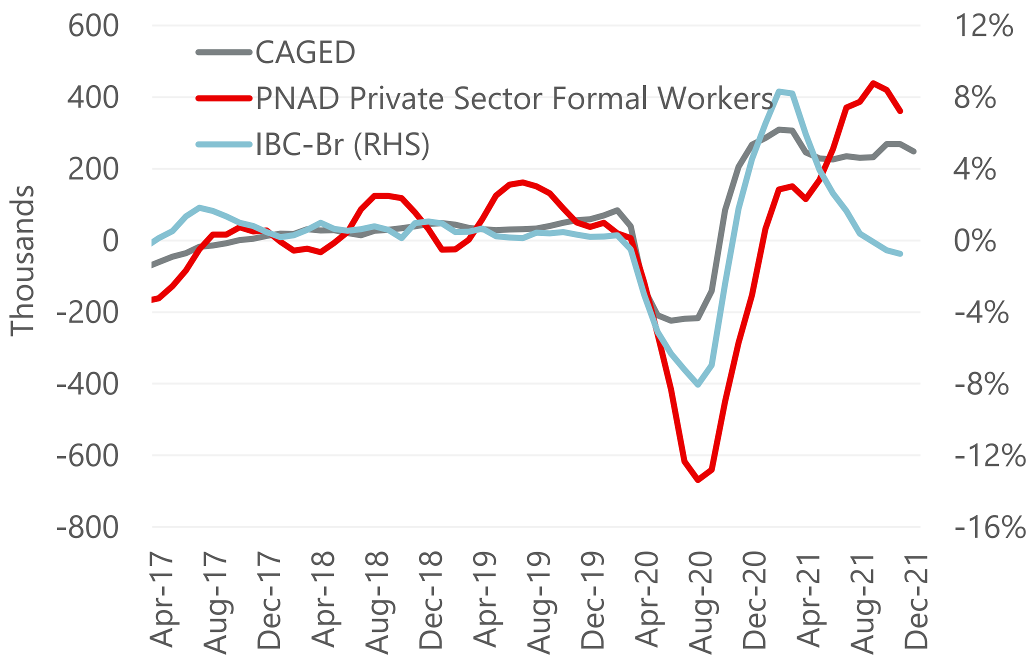
- In our view, after methodological problems in both surveys, CAGED and PNAD are converging again. We evaluate that the performance gap to the core economic activity indicators is due to a delayed effect of the economic reopening, especially in labor intensive sectors, and the lasting effects of the BEm program.

Net Formal Job Creation (thousands, sa)



Sources: Ministry of Labor, IBGE, Santander.

Net Job Creation and IBC-Br (sa, 6m)



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

November 2021 PNAD Results

PNAD Breakdown									
	s.a.			% YoY			% Feb-20*		
	Sep-21	Oct-21	Nov-21	Sep-21	Oct-21	Nov-21	Sep-21	Oct-21	Nov-21
Unemployment rate (%)	**12.5**	**12.3**	**12.1**	**-2.3**	**-2.5**	**-2.8**	**0.7**	**0.5**	**0.3**
Participation rate (%)	**62.1**	**62.0**	**61.9**	**4.3**	**3.5**	**3.0**	**-0.8**	**-1.0**	**-1.1**
Labor force (millions)	**106.9**	**106.7**	**106.6**	**8.6**	**7.0**	**6.2**	**0.4**	**0.2**	**0.1**
Employment	93.5	93.6	93.8	11.4	10.2	9.7	-0.5	-0.4	-0.2
Unemployment	13.4	13.1	12.9	-7.8	-11.3	-14.5	6.4	4.1	2.3
Formalization Rate (%)	**57.2**	**57.2**	**57.3**	**-2.3**	**-2.0**	**-1.8**	**-0.1**	**0.0**	**0.0**
Formal Workers (millions)	53.4	53.5	53.7	7.1	6.4	6.3	-0.7	-0.5	-0.3
Informal Workes (millions)	40.0	40.0	40.0	17.7	15.6	14.3	-0.5	-0.5	-0.5
Average usual earnings (BRL)**	**2,506**	**2,476**	**2,453**	**-11.1**	**-11.1**	**-11.4**	**-6.1**	**-7.2**	**-8.0**
Average effective earnings (BRL)**	**2,567**	**2,544**	**-**	**-7.3**	**-8.7**	**-**	**-6.9**	**-7.8**	**-**
Usual wage bill (BRL bn)**	**228.9**	**226.5**	**224.7**	**-0.8**	**-1.9**	**-2.6**	**-6.7**	**-7.6**	**-8.4**
Effective wage bill (BRL bn)**	**234.7**	**233.3**	**-**	**2.3**	**0.3**	**-**	**-6.9**	**-7.5**	**-**

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

** In real terms

Sources: IBGE, Santander.

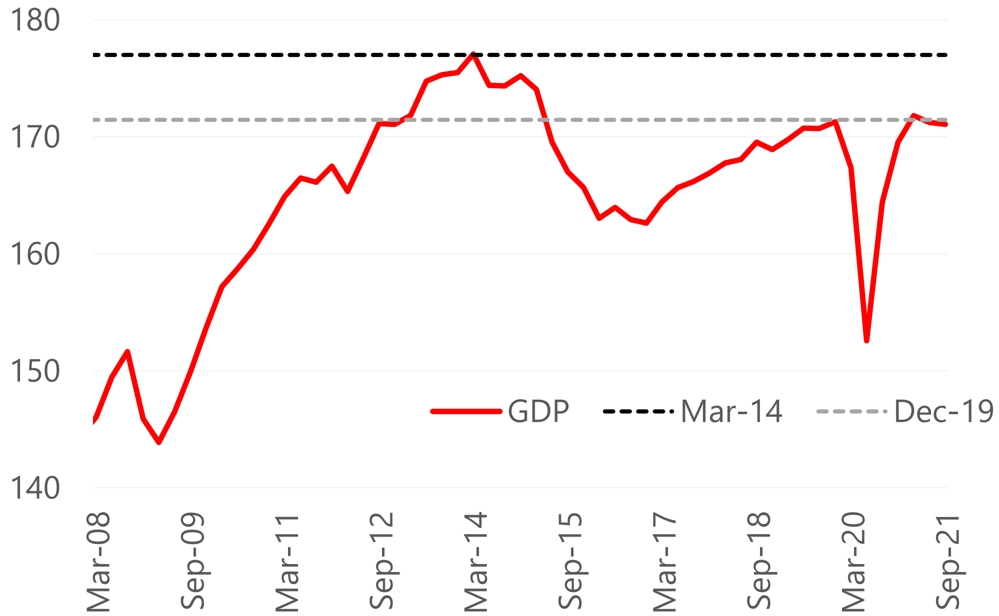
GDP

05

Less-cyclical Farm Output Sector Dragged Down GDP in 2Q And 3Q

- The weak GDP figures seen in 2Q and 3Q 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 but partially mitigated by mining and construction. However, the cumulated contraction in two quarters stems mainly from farm output, which more than offset its positive contribution seen in 1Q21. See details*.

GDP (sa, 1995=100)**



	2Q21		3Q21		4Q19*
	% YoY	% QoQ	% YoY	% QoQ	%
GDP	12.3	-0.3	4.0	-0.1	-0.1
Supply					
Taxes	16.6	-0.6	6.2	0.3	-100.0
Agriculture	**0.1**	**-2.8**	**-9.0**	**-8.0**	**-2.4**
Industry	**16.6**	**-0.6**	**1.3**	**0.0**	**0.6**
Mining	6.9	6.9	3.5	-0.4	1.0
Manufacturing	25.3	-2.5	-0.7	-1.0	0.5
Construction	13.5	2.7	10.9	3.9	7.6
Utilities	1.5	1.2	-4.6	-1.1	-0.7
Services	**11.0**	**0.6**	**5.8**	**1.1**	**1.1**
Retail	20.8	-0.5	2.8	-0.4	3.0
Transports	25.3	1.1	13.1	1.2	1.8
Information	15.4	4.8	14.8	2.4	13.0
Financial	-0.1	-0.1	-1.3	-0.5	3.4
Other Services	16.6	2.5	13.5	4.4	-2.0
Rents	3.1	0.1	1.8	0.0	4.6
Public Services	5.5	-0.1	2.9	0.8	-2.3
Demand					
Consumption	**10.6**	**-0.2**	**4.2**	**0.9**	**-2.1**
Government	**5.8**	**0.9**	**3.5**	**0.8**	**-3.2**
Investments	**33.1**	**-3.0**	**18.8**	**-0.1**	**18.0**
Exports	**14.2**	**13.7**	**4.0**	**-9.8**	**1.4**
Imports	**20.3**	**-1.2**	**20.6**	**-8.3**	**-2.7**

Sources: IBGE, Santander.

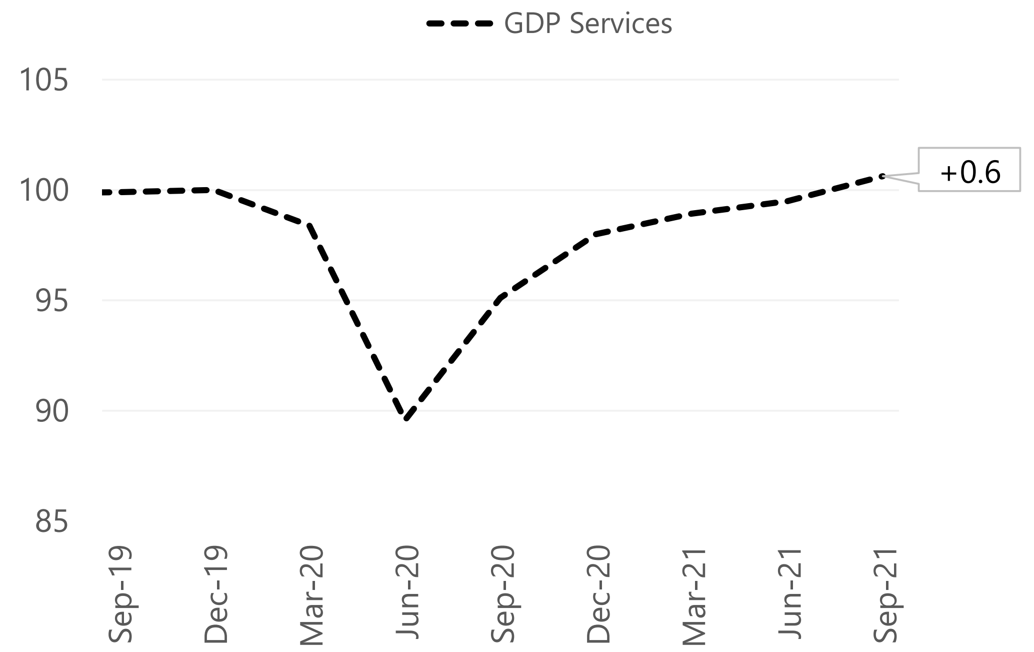
* *The second GDP Retreat in a Row"* – December 02, 2021 - Available on: https://bit.ly/Std-GDP-120221

** *GDP* is 0.1% and 3.4% below the highlighted marks.

Services Sector Surpassed The Pre-Covid Mark But We Expect Rebound To Continue

- Other Services and Public Services account for almost 30% of GDP and are still running at a well-depressed basis (3.8% and 3.1% below 4Q19 level, respectively). We expect these segments to partially fill their pre-pandemic gaps, contributing to the economic recovery from 4Q21 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.

GDP Services (sa, 4Q19=100)*

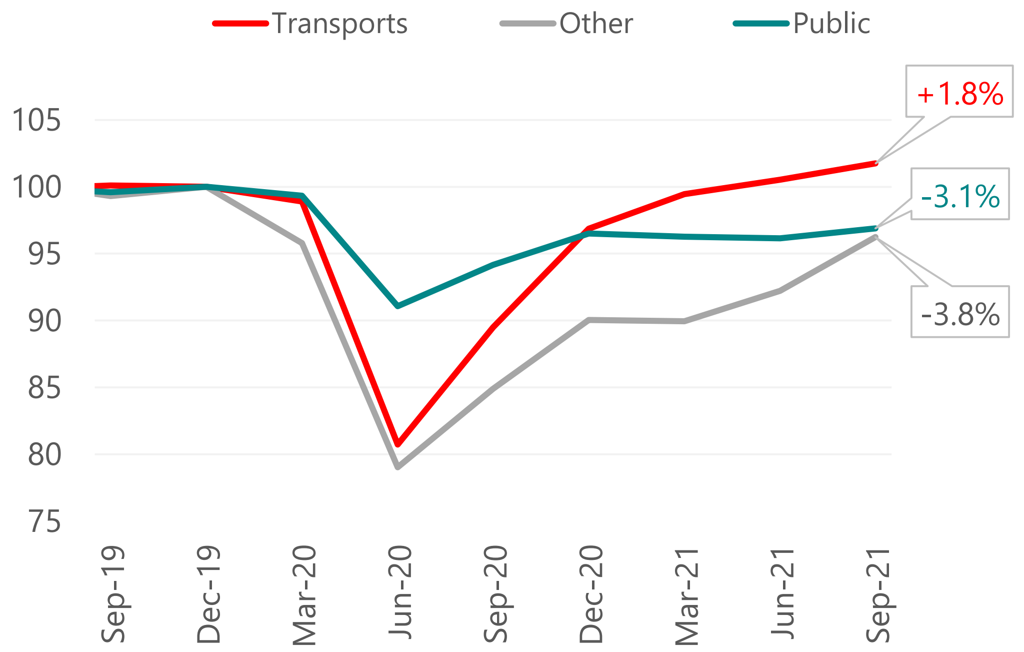


Sources: IBGE, Santander.

- The services sector reached levels 0.6% above the pre-crisis mark (4Q19).

** *Services Retreated at the end of 3Q21"* – November 12, 2021 - Available on: https://bit.ly/Std-Econact-111221.

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 maintenance ahead of the perennial mobility recovery, with no setbacks in the economic reopening process. Moreover, we assume limited episodes of corporate bankruptcy, meaning no major and persistent impact on the country's productive capacity.

- We are updating our GDP growth forecast for 2021 and maintaining our estimate for 2022. Following the releases of 3Q21 GDP data and 4Q21 timely activity indexes, we are updating our 4Q21 GDP growth estimate to +0.2% QoQ-sa (from +0.4% QoQ-sa) and slightly lowering our full-2021 projection to +4.6% (from +4.7%). For 2022, we are maintaining the full-year variation at +0.7% but raising our 1Q22 GDP growth estimate to +0.7% QoQ-sa (from +0.4% QoQ-sa) both on the heels of the improvement in the main crop yields expected for 2022 and the greater than expected mobility (both as compared to our previous estimates in December).

- **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. A stronger than expected farm output.

- **Downside risks:** we monitor the effects of the drought in the South and the omicron wave of contagion, which impart downside risks to our numbers.

GDP Path And Breakdown

GDP Baseline Scenario			
	YoY	QoQ	Full Year
4Q20	-0.9%	3.1%	-3.9%
1Q21	1.3%	1.3%	
2Q21	12.3%	-0.3%	
3Q21	4.0%	-0.1%	
4Q21	1.4%	0.2%	4.6%
1Q22	1.0%	0.7%	
2Q22	0.8%	0.0%	
3Q22	1.0%	-0.4%	
4Q22	-0.2%	-0.3%	0.7%
1Q23	-0.9%	0.0%	
2Q23	-0.5%	0.3%	
3Q23	0.0%	0.3%	
4Q23	0.5%	0.3%	-0.2%

Sources: IBGE, Santander

GDP Projections						
	2018	2019	2020	2021e	2022e	2023e
Total GDP	1.8	1.2	-3.9	4.6	0.7	-0.2
Farm Output	1.3	0.4	3.8	-1.0	5.0	0.4
Industry	0.7	-0.7	-3.4	4.9	-1.4	-0.3
Services	2.1	1.5	-4.3	4.8	1.3	-0.1
Household Consumption	2.4	2.6	-5.4	3.2	1.0	0.0
Government Consumption	0.8	-0.5	-4.5	2.3	2.5	0.1
Investments	5.2	4.0	-0.5	14.9	-0.6	-0.2
Exports	4.1	-2.6	-1.8	7.3	7.2	1.9
Imports	7.7	1.3	-9.8	10.8	2.1	3.7

Sources: IBGE, Santander

Labor Market: Persistently High Unemployment

- We project the average annual unemployment rate at 13.5% in 2021 (down from 13.8%) and at 13.7% in 2022 (down from 14.0%). We maintain our forecast for average unemployment at 14.0% for 2023.

- In our view, labor market data indicate deceleration at the margin. The resumption of growth in the labor force has limited the drop in the unemployment rate, as the employed population grows at a slower pace. We expect this behavior to persist in the coming months, as the participation rate returns to pre-crisis levels and the effects of the economic reopening on employment tend to fade. Therefore, the seasonally adjusted unemployment rate is likely to start increasing again soon, in our view.

- **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. A resurgence in the pandemic leading to a resumption of restrictive measures, impacting employment and the labor force.

	2019	2020	2021e	2022e	2023e
Unemployment Rate *					
Average	12.1	13.5	13.5	13.7	14.0
End of Period (s.a.)	11.8	15.0	12.2	14.0	14.0
Unemployed Population **					
Average	12.9	13.6	14.1	15.0	15.4
End of Period	12.6	15.2	13.0	15.7	15.4

* in %

** in Millions

Sources: IBGE, Santander.

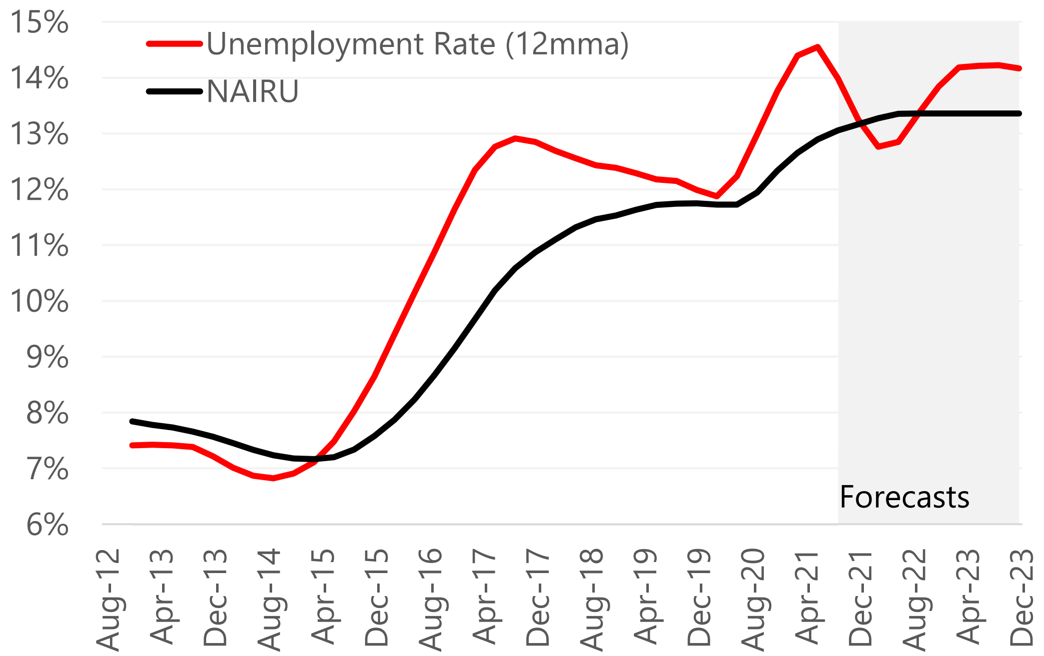
Unemployment Rate to Rise in the Following Months

- After likely ending 2021 just above 12%, we now expect the unemployment rate to rise towards 14% in coming months, reflecting a payback in working population, a catch up for the participation rate (towards the historical average) and the stalling of job creation. In our view, the tighter monetary policy should dominate the labor market dynamics from 2H22 onward.

		Dec-21	Jan-22
Unemployment Rate (avg)	2021	13.8	13.5
	2022	14.0	13.7
	2023	14.0	14.0
Unemployment Rate (YE, sa)	2021	13.5	12.2
	2022	14.0	14.0
	2023	13.9	14.0
Unemployed (YE, Millions sa)	2021	14.5	13.0
	2022	15.3	15.7
	2023	15.4	15.4

Sources: IBGE, Santander.

New Unemployment Rate Trajectory (sa)

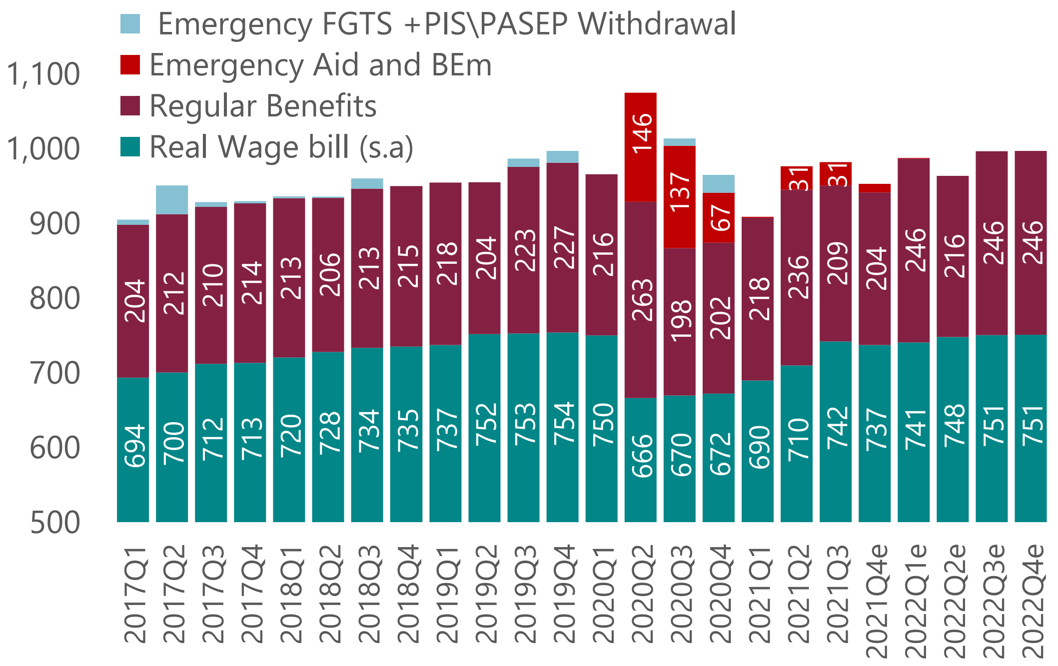


Sources: IBGE, Santander.

“Expanded” Real Wage Bill Probably Dropped in 2021, With Partial Recovery in 2022

- Considering PEC of *Precatórios*, with the government transfers increase, the overall effect on the real wage bill is neutral. The effect of the new value of the welfare program and the revised value of regular transfers (impact of +1.3p.p.) barely offsets the negative impact of labor income due to inflation and monetary policy (-1.2p.p.). We expect the “expanded” real wage bill to post 3.2% growth in 2022. Considering the revised levels of inflation and the Selic rate for the alternative simulations, we estimate the growth of the “expanded” real wage bill as between 2.9% and 3.6%. We still consider these scenarios as compatible with an expansion of household consumption of around 1.0% in 2022.

“Expanded” Real Wage Bill (BRL billion)



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

	2020	2021(E)	2022(E) - Selic Rate Simulation: 10.50%	12.25%	13.50%
Real Wage Bill (No Fiscal Stimulus)	-8.0%	+4.6%	+4.2%	+3.8%	+3.3%
Real Wage Bill (Fiscal Stimulus + Auxilio Brasil BRL35bn)	+3.1%	-4.8%	+2.5%	+2.1%	+1.8%
Real Wage Bill (Fiscal Stimulus + Auxilio Brasil BRL82bn)			+3.6%	+3.2%	+2.9%

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

Macro scenario: projections

- For our Scenario Update 'INFLATION STILL A CONCERN' (sent on January 20, 2022), **click on the link:** https://bit.ly/Std-scenupdate-jan22*

Macroeconomic variables		Previous		Current
GDP (%)	2021E	4.7	↓	4.6
	2022E	0.7	→	0.7
	2023E	-0.2	→	-0.2
IPCA (%)	2022E	5.8	↑	6.0
	2023E	3.5	→	3.5
Selic Rate (% end of period)	2022E	12.25	→	12.25
	2023E	9.00	→	9.00
FX Rate - USDBRL (end of period)	2022E	5.70	→	5.70
	2023E	5.20	→	5.20
Current Account Balance (% of GDP)	2021E	-1.3	↓	-1.8
	2022E	-0.7	↓	-1.2
	2023E	-2.0	→	-2.0
Primary Fiscal Balance (% of GDP)	2021E	-0.1	↑	0.4
	2022E	-1.7	↑	-1.0
	2023E	-1.3	↑	-1.1
Gross Public Debt (% of GDP)	2021E	81.8	↓	81.4
	2022E	87.1	↓	85.1
	2023E	94.1	↓	88.9

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

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