Brazil Macro | July 2022

Economic Activity

Lucas Maynard
lucas.maynard.da.silva@santander.com.br
Gabriel Couto
gabriel.couto@santander.com.br

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SUMMARY

- **We are raising our GDP forecast for 2022 but maintaining our estimates for 2023 and 2024.** For 2022, considering stronger-than-expected data that improved 1H22's performance, we have raised our forecast for the full year to +1.9% (from +1.2%), mainly supported by the contribution from the services reopening, the labor market recovery, and increased disposable income (the latter will also be favored ahead by a new round of government stimulus). In terms of the quarterly path, we are upgrading our 2Q22 estimate to +0.7% (from +0.2%). For 2H22, domestic activity should turn sour once the effects of a tighter monetary policy start to kick in, but the additional fiscal stimuli may partially offset this impact for that period. We are raising our estimates for 2H22 to +0.2% QoQ-sa and -0.2% QoQ-sa in 3Q22 and 4Q22, respectively (from previously 0% QoQ-sa and -0.4% QoQ-sa). For 2023, in the absence of an additional catalysts for growth, we see a reduced impulse from commodities and the lagged effects of the monetary contraction prevailing, which should prompt a domestic recession: we estimate a 0.6% GDP contraction for 2023. For 2024, we see the economy still facing a slow pace of GDP growth: we estimate a tepid 0.5% gain, with the recovery impacted by our expectation of a U.S. recession starting in mid-2023.

- **It seems that the services reopening had a much stronger-than-expected influence on the job market, which could also have indirectly benefited from the overall activity impulse from commodity-led sectors.** We still expect the unemployment rate to rise in 2H22, as the restrictive monetary policy stance should lead to a cooling economy, thereby dominating the labor-market dynamics from 2H22 onward. However, in light of a better-than-expected starting point for the employed population, we revised the expected trajectory for the unemployment rate from 2022 to 2024. Our forecast for the average jobless rate in 2022 is now 10.0% (prior: 11.4%), and 10.8% in 2023 (prior: 12.3%). For 2024, our forecast is at 11.0% (prior: 12.4%). We continue to envision a tight labor market until 1Q23.

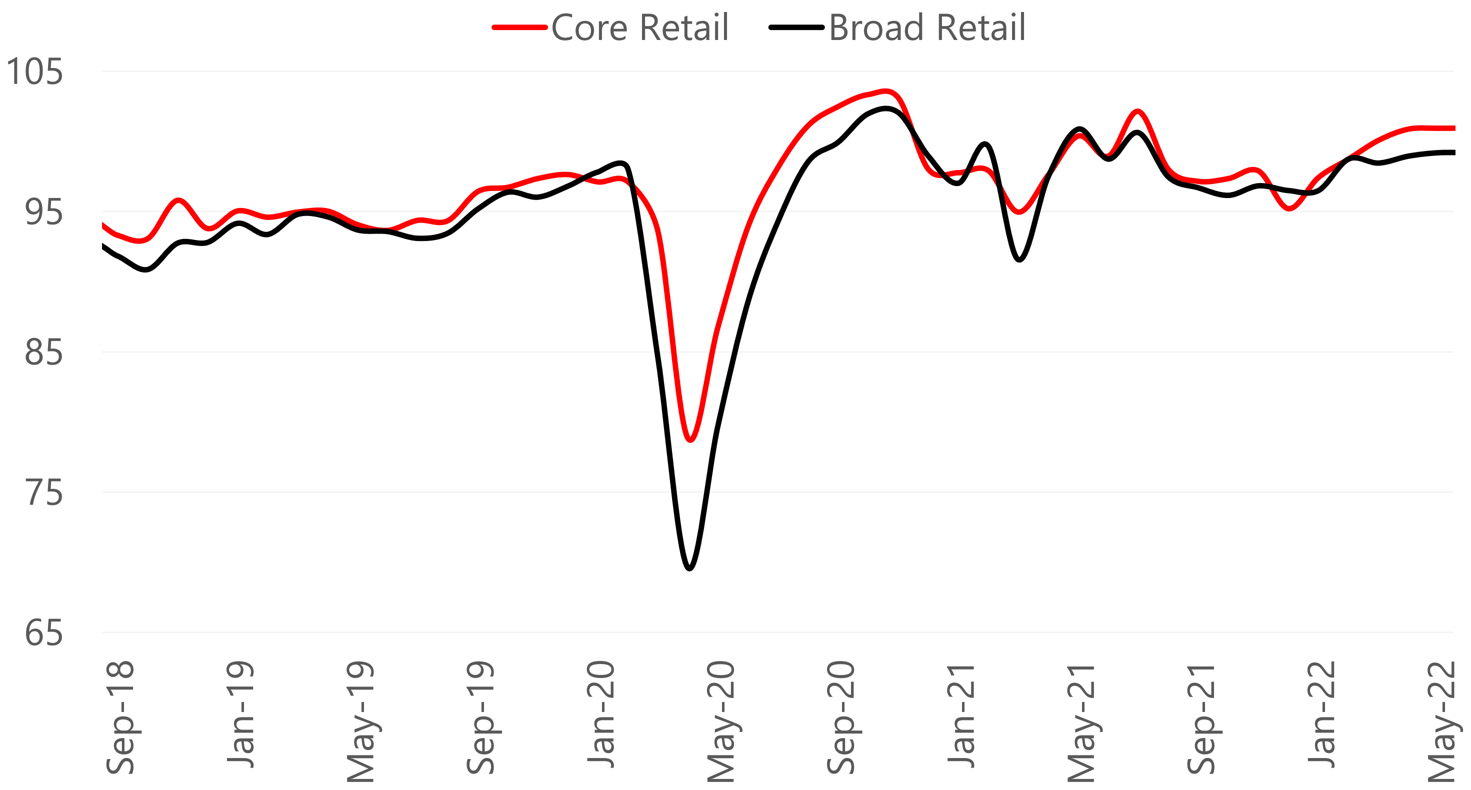
RETAIL SALES

01

Short-term Relief for Retail Sales Reflects Increase in Disposable Income

- The increase in disposable income amid government transfers, FGTS's withdrawal and pensioners benefits anticipation boosted goods consumption in 1Q22, following the continued weakening seen in 2H21. However, inflationary pressures and rising interest rates continue to bring challenges to retail activity ahead, with supply hurdles expected to last longer than previously thought. For 2H22, we see the additional fiscal stimuli partially supporting demand in the period.

Retail Sales (sa, 2014=100)

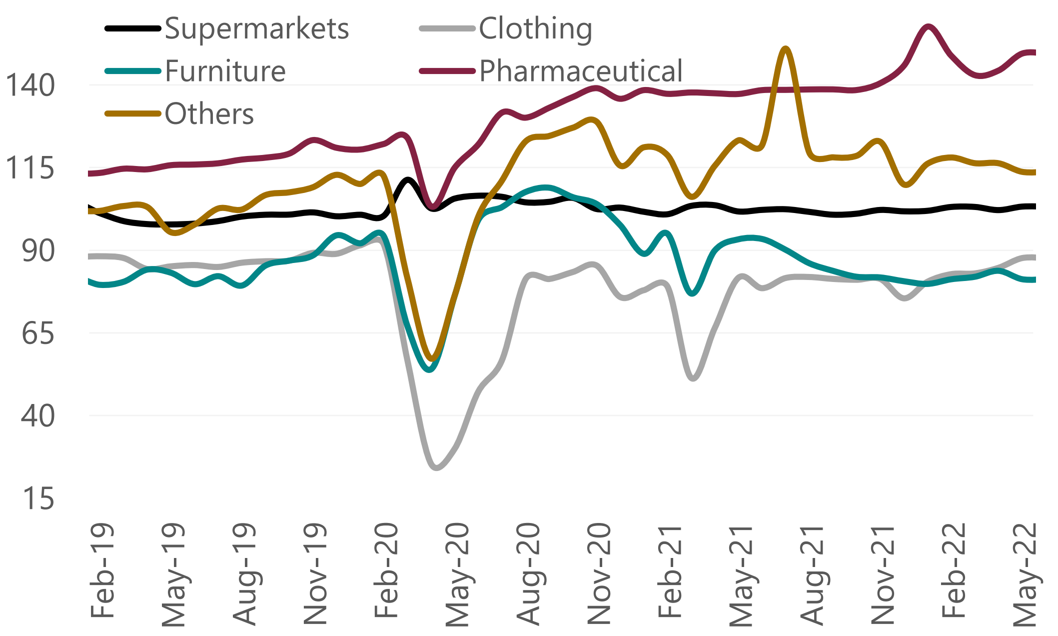


Sources: IBGE, Santander

Essential Goods Were Benefitted

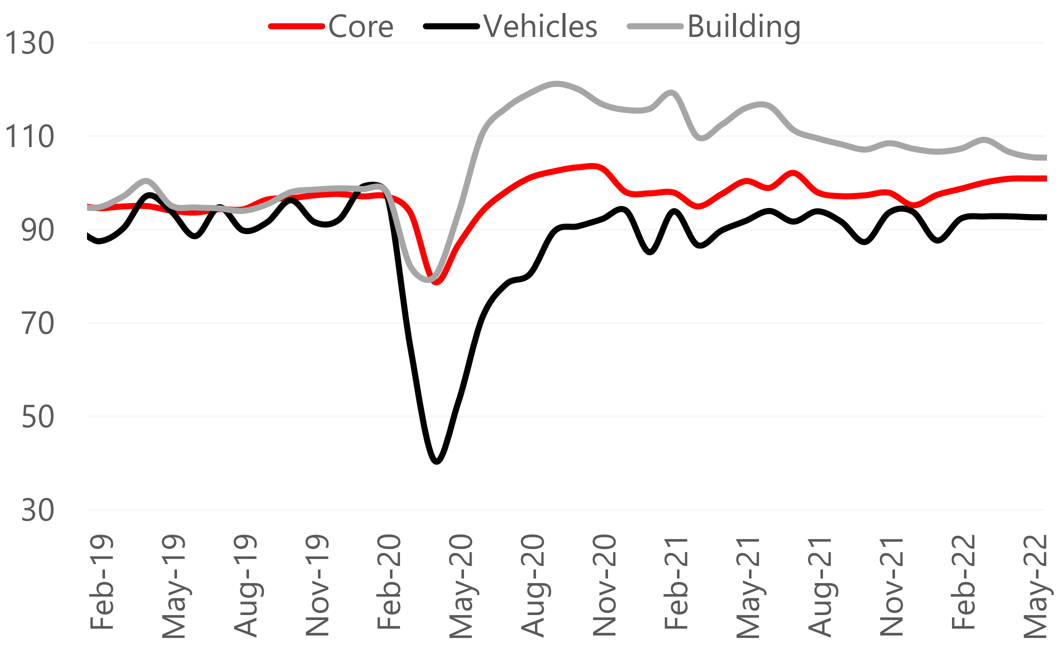
- As expected, essential goods like food and health related products benefitted the most by the increasing government transfers since those reach low-income households with higher consumption propensity. Looking ahead, we see the other categories (mainly the credit-led segments) facing a discouraging environment.

Core Retail Sales (sa, 2014=100)



Sources: IBGE, Santander

Broad Retail Sales (sa, 2014=100)



Sources: IBGE, Santander

Retail Sales Breakdown

Retail Sales Breakdown											
		% MoM			% YoY			% QoQ			%
Weights		Mar-22	Apr-22	May-22	Mar-22	Apr-22	May-22	Dec-21	Mar-22	May-22	Feb-20*
66.9%	Core Retail Sales	1.4	0.8	0.1	4.9	4.5	-0.2	-2.3	2.0	3.6	3.9
8.3%	Fuels	4.7	0.8	2.1	12.3	9.8	7.1	-2.8	5.5	10.3	0.5
30.6%	Hypermarkets, supermarkets	0.0	-0.9	1.0	-3.4	4.1	-0.5	0.1	1.0	0.5	2.8
6.2%	Fabrics, clothing and footwear	0.3	2.0	3.5	81.3	33.9	8.3	-2.9	3.5	7.0	-4.5
7.4%	Furniture and home appliances	0.9	2.2	-3.0	7.2	-8.7	-12.6	-6.0	-0.6	2.2	-13.9
5.1%	Pharmaceuticals	-3.9	1.0	3.6	3.6	3.5	9.2	2.2	5.8	-3.4	22.4
0.9%	Books, papers and magazine	4.2	-5.2	5.5	40.6	-0.9	25.8	0.2	-3.4	26.5	-32.5
0.6%	Office equipment and supplies	14.4	-5.7	2.0	16.5	-0.4	2.0	1.4	1.2	8.6	-9.3
7.8%	Other personal items	-1.5	0.0	-2.2	8.9	1.1	-7.1	-9.6	-0.2	0.7	1.2
100%	Broad Retail Sales	-0.3	0.5	0.2	5.3	1.6	-0.7	-1.8	1.5	1.7	1.2
8.9%	Building Materials	1.7	-2.3	-1.1	1.2	-9.9	-7.7	-1.9	0.1	0.0	7.5
24.2%	Vehicles	0.5	0.0	-0.2	8.5	-1.8	0.8	-0.9	-0.7	1.6	-5.2

Sources: IBGE, Santander

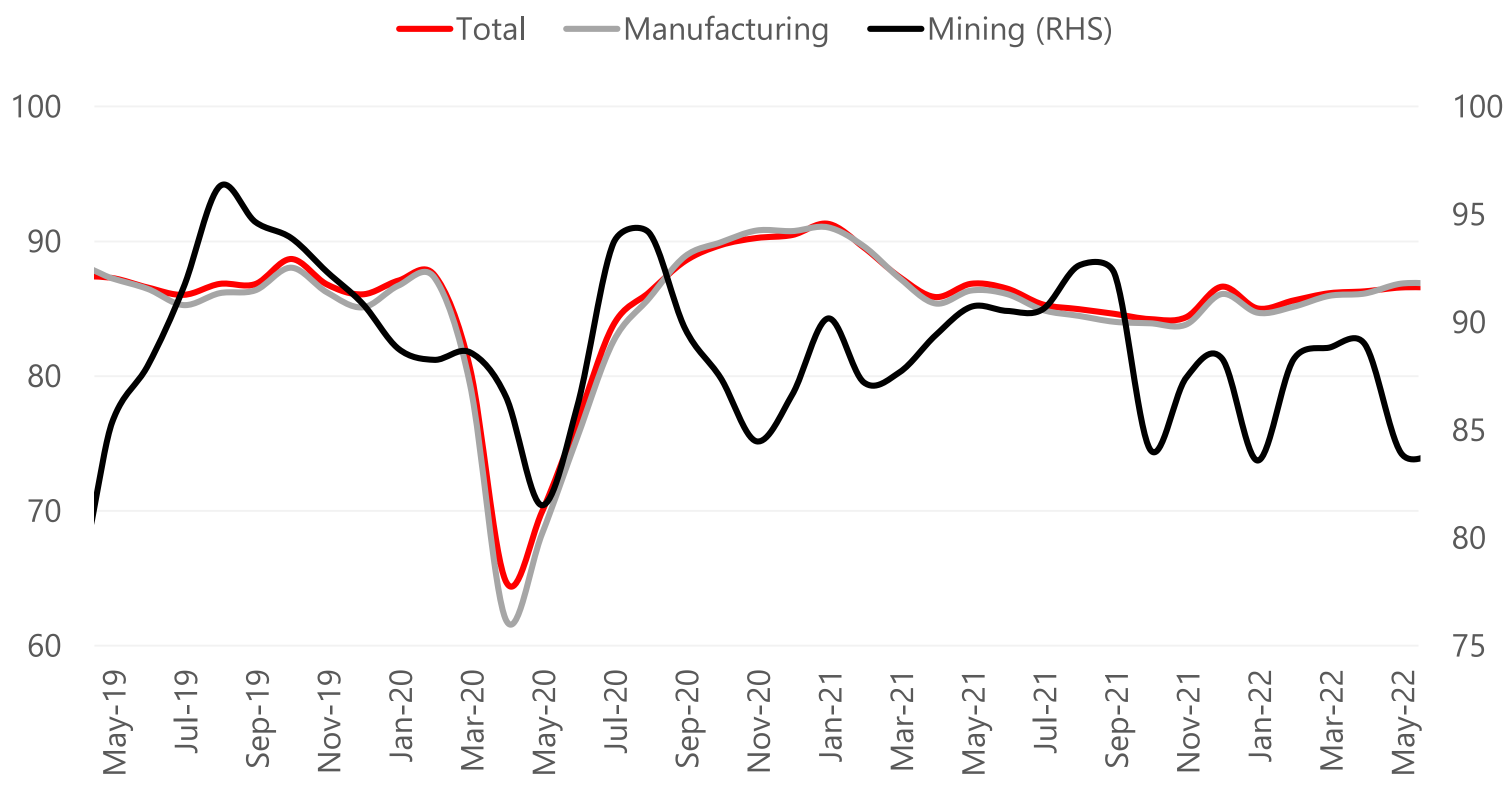
INDUSTRIAL PRODUCTION

02

Short-term Improvement of Goods Demand Brings Relief For Industry

- Following the continued weakening seen in 2H21, the first quarter's data pointed to a short-term relief in industry deterioration, mainly in manufacturing. For 2Q22, we see the increasing disposable income continuing to bring some hand to goods demand, which should benefit industry. However, the lingering supply chain hurdles worldwide (reinforced by the European conflict outbreak) should limit room for a continued recovery for industry.

Industrial Output (sa, 2012=100)

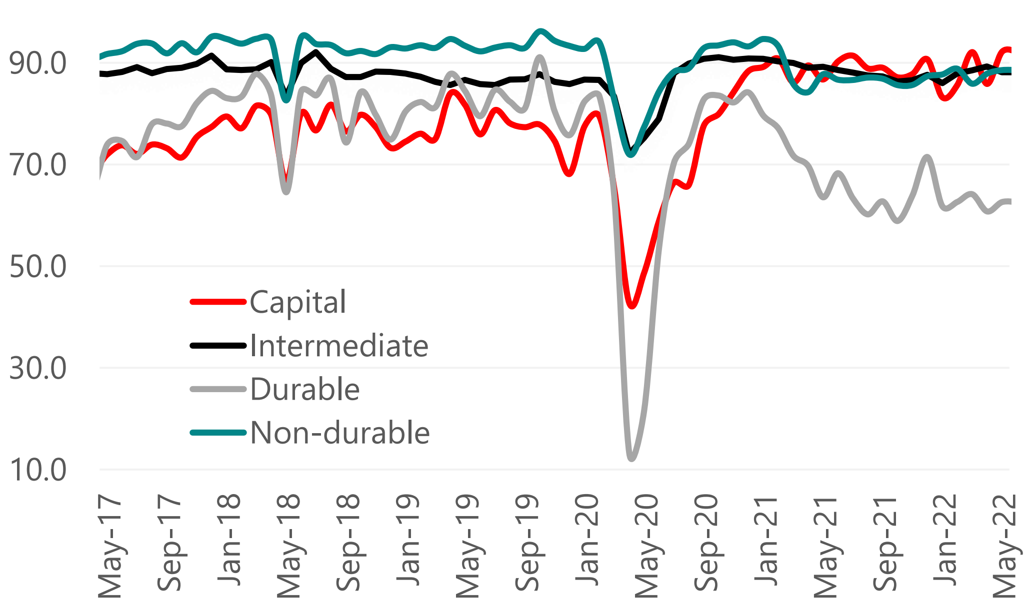


Sources: IBGE, Santander

Commodity-related Sectors and Construction Bring Resilience To Investments

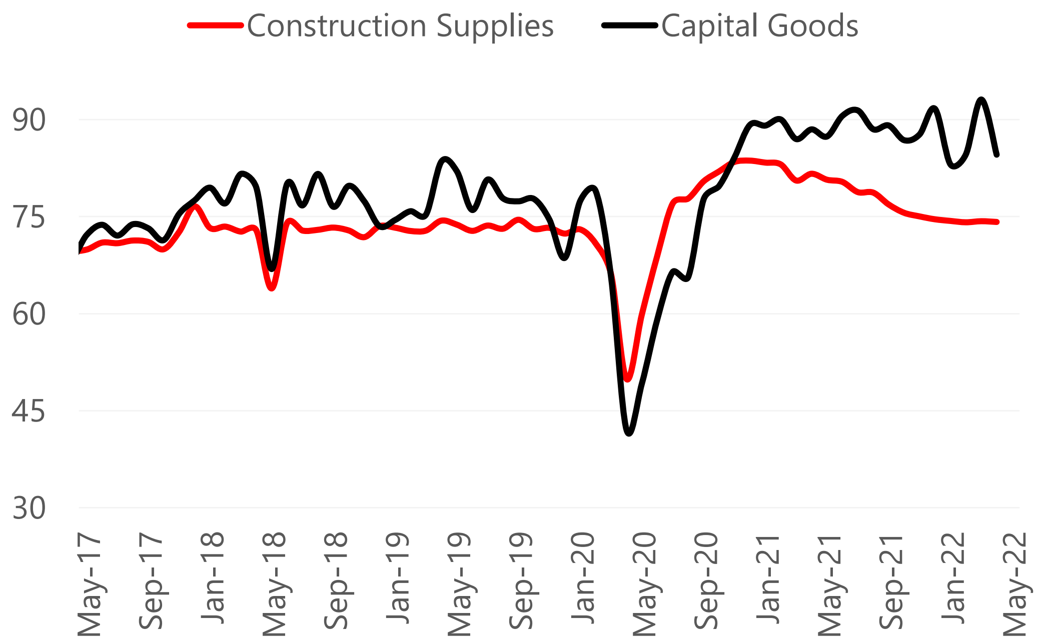
- We see commodity-related sectors strengthening as raw material prices remain high, and the construction sector (with longer cycle) entered into a positive path benefitted from the historically low interest rates set during the pandemic. These elements bring resilience to investments amid an environment with rising interest rates.

Economic Categories (sa, 2012=100)



Sources: IBGE, Santander

Related to Investments (sa, 2012=100)

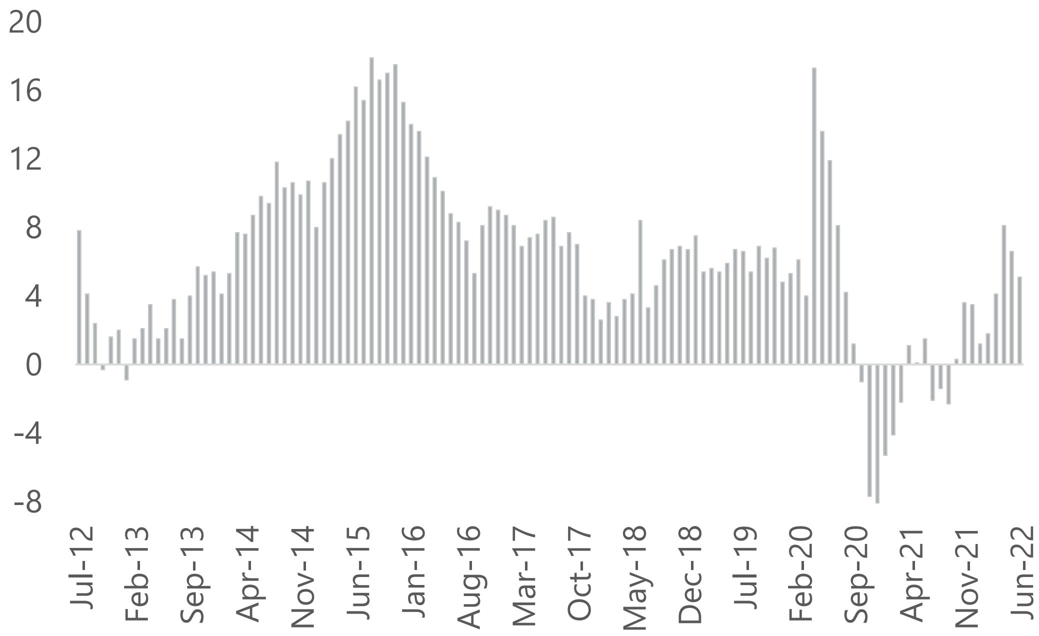


Sources: IBGE, Santander

The Recovery In Inventories Poses An Additional Upside Risk To Output

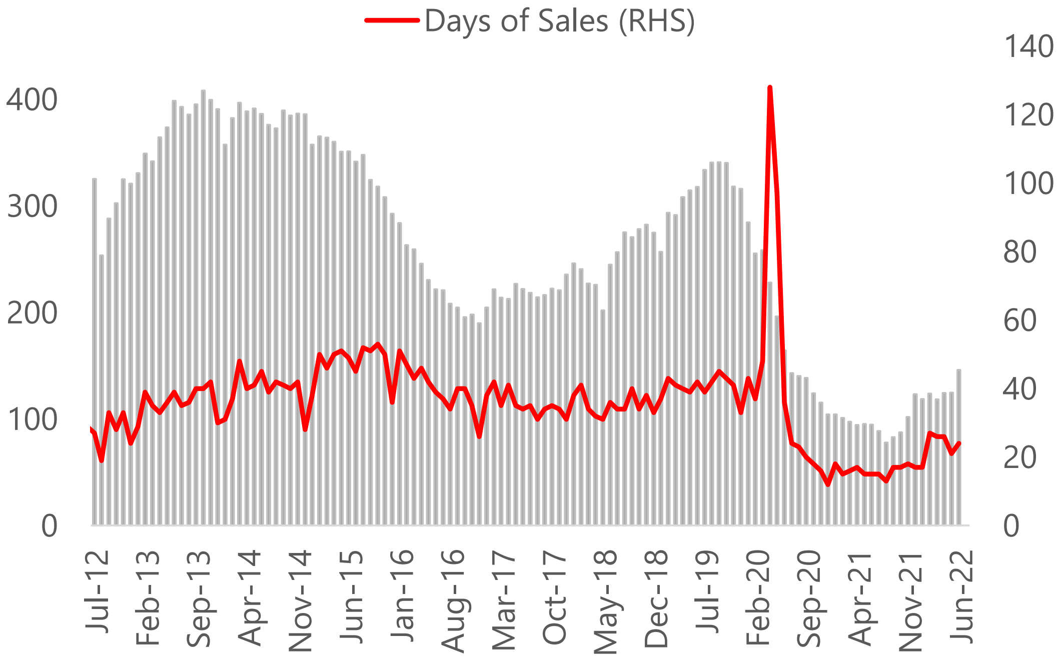
- The historically low inventories level recently reached means that local industry (not only auto factories) had a hard time overcoming high costs and widespread inputs shortage amid important supply hurdles seen widespread. However, the last results suggested better figures. Inventories replenishment 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	Mar-22	Apr-22	May-22	Mar-22	Apr-22	May-22	Dec-21	Mar-22	May-22	May-22
Total Industry	100%	0.6	0.2	0.3	-1.9	-0.5	0.5	0.1	0.6	0.7	-1.1
Mining	**11%**	**0.6**	**0.2**	**-5.6**	**1.0**	**0.0**	**-8.2**	**-5.7**	**0.3**	**0.6**	**-4.9**
Manufacturing	**89%**	**1.0**	**0.2**	**0.8**	**-2.2**	**-0.6**	**1.6**	**0.2**	**0.8**	**1.2**	**-0.5**
Capital Goods	8%	7.6	-6.8	7.4	4.9	-4.9	5.7	-1.4	-1.8	4.1	16.0
Intermediate Goods	60%	0.7	0.9	-1.3	-1.9	0.0	-0.9	-0.9	0.8	1.7	1.7
Consumer goods	32%	-3.1	2.6	0.2	-3.6	-0.5	1.3	0.6	0.5	-1.7	-10.5
Durable	7%	2.4	-5.3	3.0	-12.9	-13.2	-2.1	4.3	-2.9	-4.3	-25.0
Non-Durable	25%	-3.3	2.3	0.8	-0.9	3.1	2.2	-0.8	1.5	-0.6	-5.8
Construction Supplies	**-**	**-2.2**	**1.7**	**0.9**	**-8.4**	**-9.7**	**-4.5**	**-2.6**	**-0.5**	**-0.3**	**1.4**

Sources: IBGE, Santander

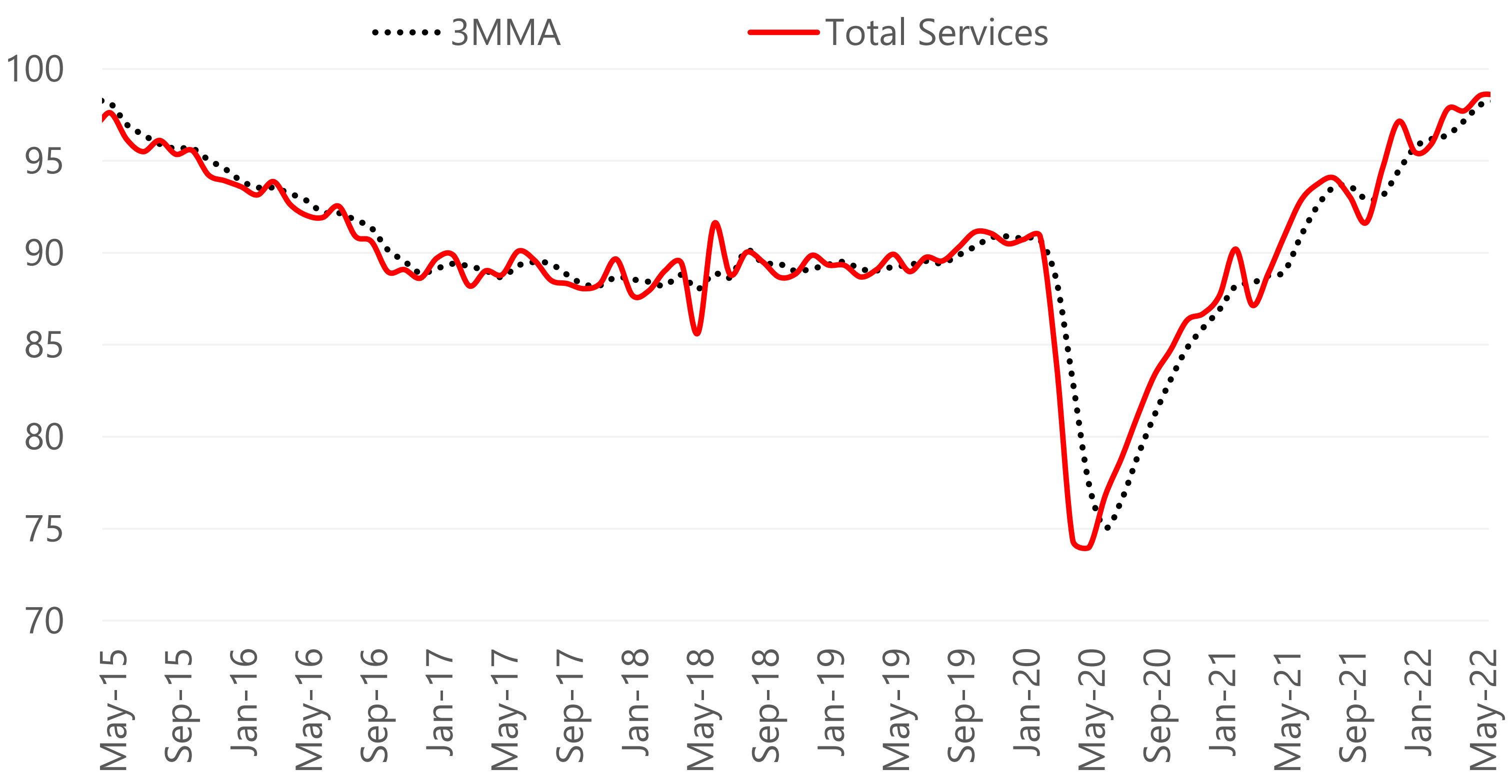
SERVICES

03

Services Continue to be Benefited from Reopening

- Advances in the reopening process (and the consequent increase in mobility) continued to strengthen the services 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)

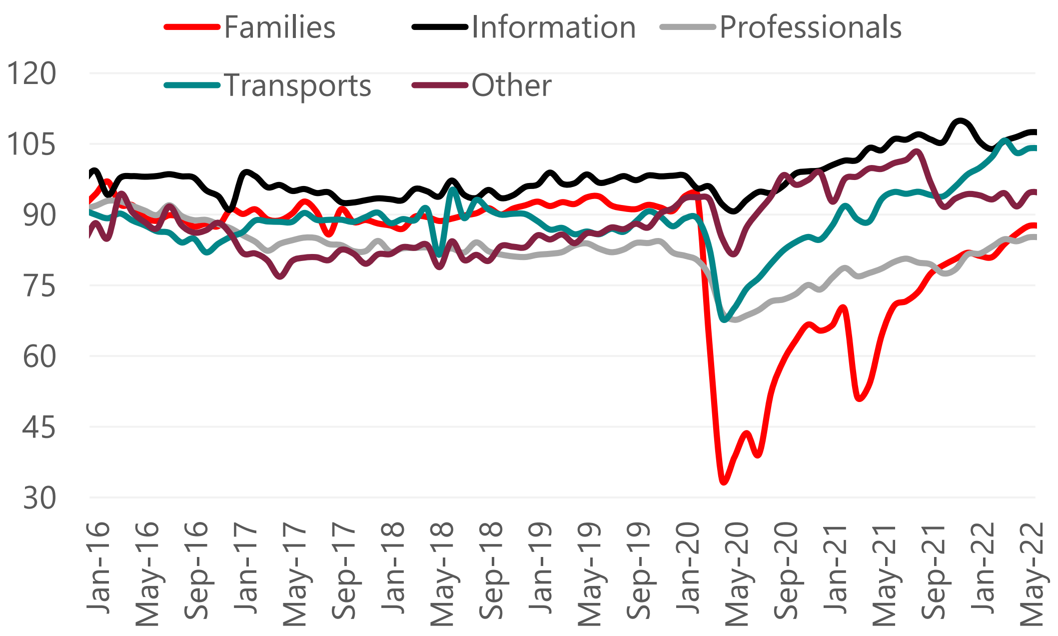


Sources: IBGE, Santander

Mobility-related Segments to be the Main Driver of Services

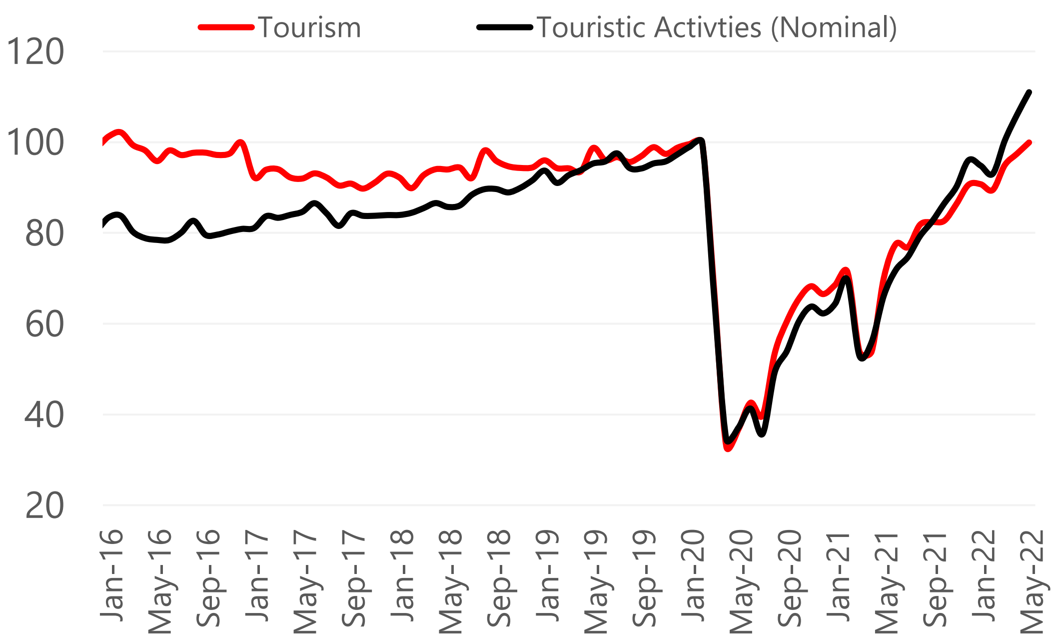
- Mobility-related segments like transports and services to families have gained traction recently. The latter still show wide idleness regarding the pre-crisis mark (roughly 7%), which leaves room for positive contributions to GDP growth from the services sector. It's worth noting that, despite the 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	Mar-22	Apr-22	May-22	Mar-22	Apr-22	May-22	Dec-21	Mar-22	May-22	May-22
Total Services	100%	2.0	-0.1	0.9	11.6	9.4	9.2	0.9	2.1	1.9	8.4
Families	**8%**	**3.4**	**2.6**	**1.9**	**62.8**	**62.0**	**39.0**	**8.5**	**1.8**	**5.4**	**-7.0**
Accommodation and Food	7%	1.7	4.3	1.1	66.9	67.8	42.0	8.6	1.7	5.1	-7.9
Other Services to Families	1%	9.6	-3.7	-0.9	43.8	34.7	23.6	5.7	6.3	7.7	-10.5
Information	**31%**	**1.7**	**0.8**	**0.9**	**3.9**	**1.6**	**4.0**	**1.7**	**-2.9**	**0.3**	**12.4**
Technology	26%	3.1	0.3	1.5	3.3	1.3	4.1	1.5	-3.0	0.8	12.7
Telecommunication	19%	-0.9	0.3	0.7	-8.2	-8.4	-7.4	-3.0	-3.6	-2.6	-8.8
Information Technology	7%	2.9	2.6	2.4	19.3	14.8	20.0	5.8	0.7	5.6	53.3
Audiovisual	5%	5.4	-3.3	1.5	9.1	4.0	3.5	1.3	-1.8	1.2	-4.9
Professional	**23%**	**1.9**	**-0.5**	**1.0**	**9.7**	**7.8**	**9.6**	**-1.0**	**5.2**	**3.2**	**6.1**
Professional	7%	5.4	-2.4	1.1	13.1	4.8	6.6	-3.9	4.3	3.2	19.5
Administrative	16%	-0.6	1.2	1.0	8.3	9.1	10.8	0.5	4.7	2.4	0.6
Transportation	**31%**	**3.4**	**-2.5**	**0.9**	**17.4**	**15.6**	**12.5**	**1.8**	**6.8**	**4.0**	**16.7**
Ground Transportation	18%	2.2	0.7	2.0	17.2	17.9	19.4	2.9	7.3	6.1	16.8
Water Transportation	2%	-6.4	5.0	4.8	4.9	3.1	12.8	2.6	0.1	-1.8	27.1
Air Transport	3%	17.8	0.1	-6.4	118.9	159.4	39.7	2.9	23.2	14.2	8.9
Storage and Mail	9%	2.9	-6.0	0.2	6.4	-0.5	-2.9	-0.5	2.5	0.2	12.3
Other Services	**7%**	**1.4**	**-3.0**	**3.1**	**-4.4**	**-9.2**	**-4.0**	**-7.3**	**0.9**	**-0.3**	**1.0**
Touristic Activities	-	6.1	2.6	2.6	75.9	86.1	45.6	7.7	6.0	7.9	0.0

Sources: IBGE, Santander

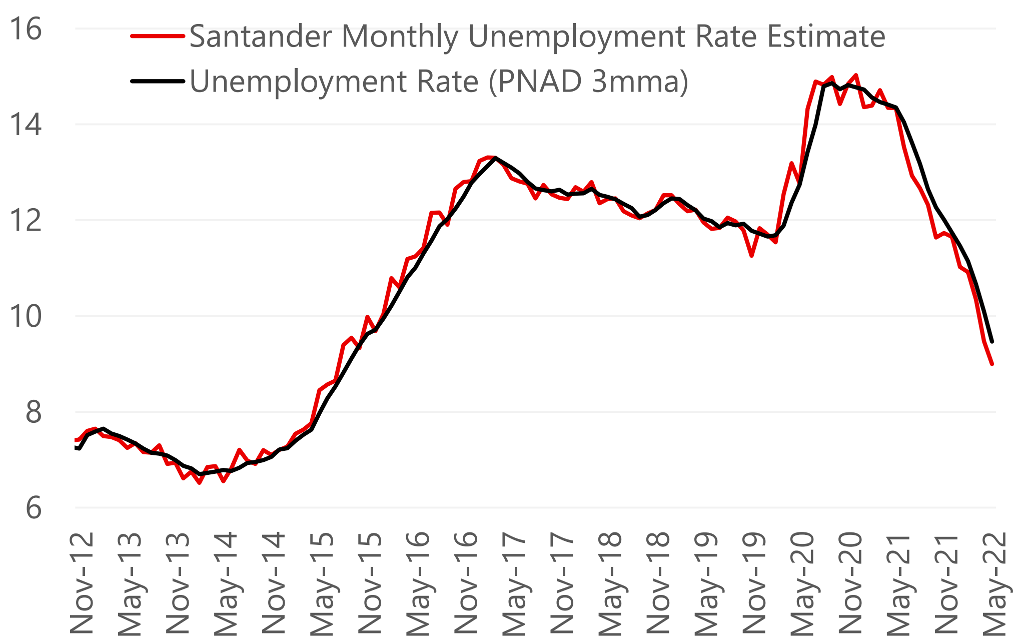
LABOR MARKET

04

Stronger Labor Market Results and Lower Unemployment Rate at the Margin

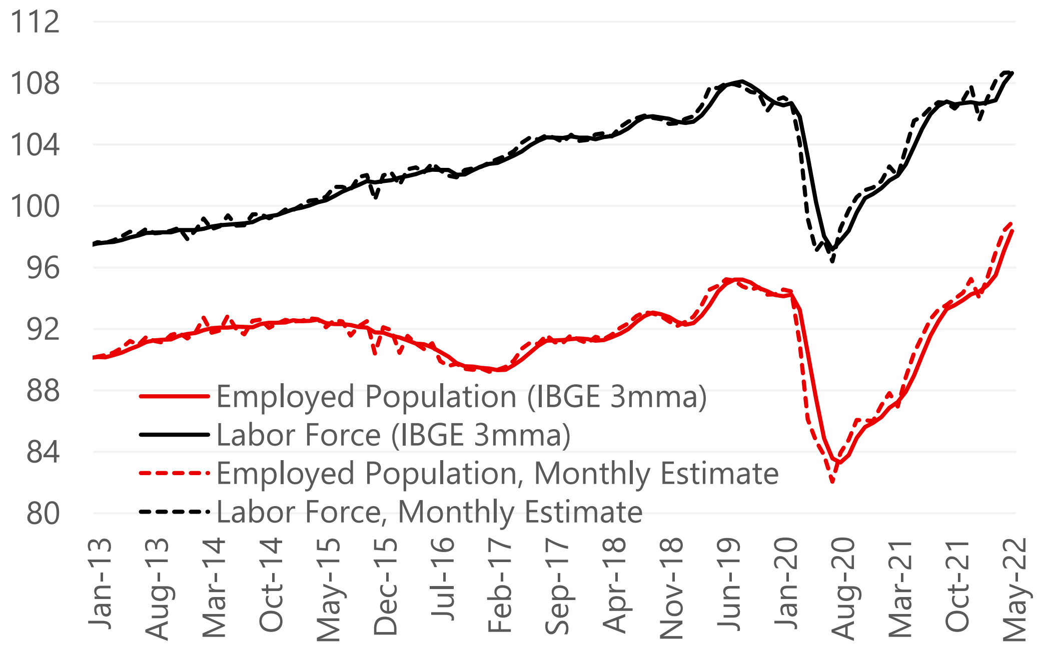
- The PNAD result shows that the labor market maintained good momentum in May, despite a deceleration from April's strong employment figures (considering our monthly estimates). The unemployment rate has fallen further, as the monthly estimate for the labor force remained stable in May. Once again, the PNAD survey printed the lowest unemployment rate results since 2015.

Unemployment Rate (sa)



Sources: IBGE, Santander.

Labor Force and Employed Population (sa)

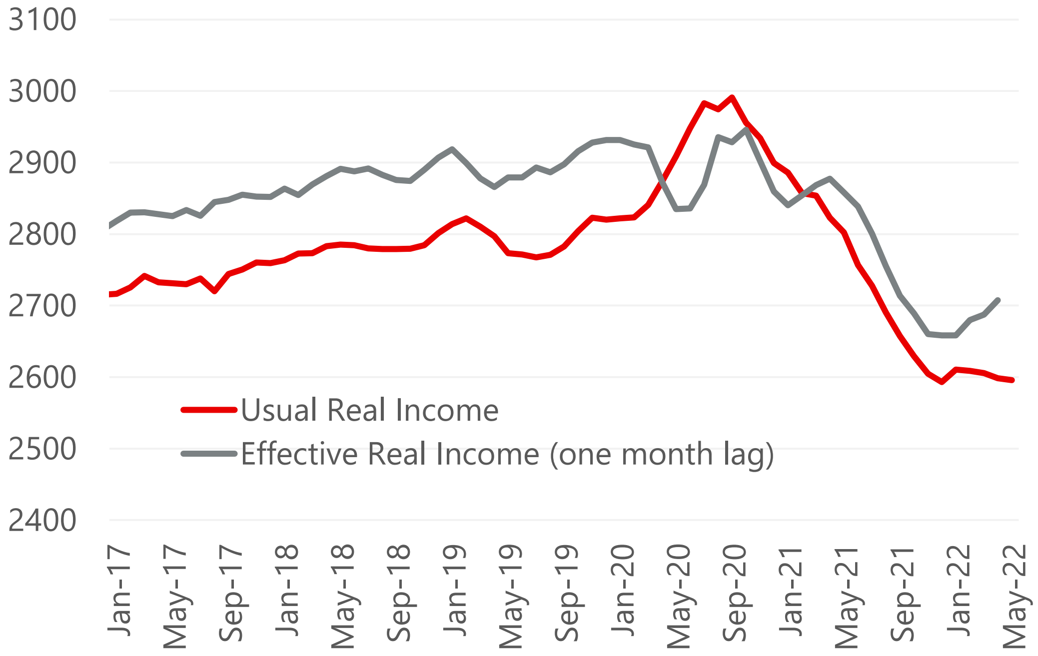


Sources: IBGE, Santander.

Real Income in Depressed Levels, Real Wage Bill Benefiting from Higher Employment

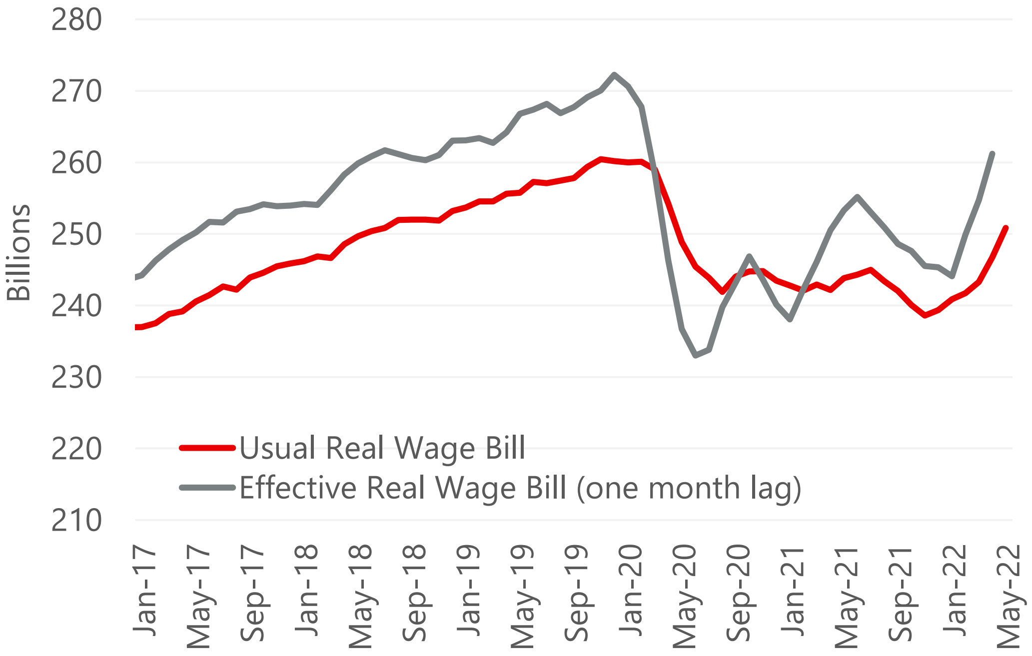
- The picture for the average real income indicators is still of stagnation at the margin, especially due to the high inflation. The real wage bill, on the other hand, is benefiting from employment growth. The usual real wage bill increased 1.7% MoM-sa in May, and is 3.6% below the pre-crisis marks. We expect real income to gradually recover as inflation slowly decelerates.

Average Real Income (BRL, sa)



Sources: IBGE, Santander.

Real Wage Bill (BRL, sa)

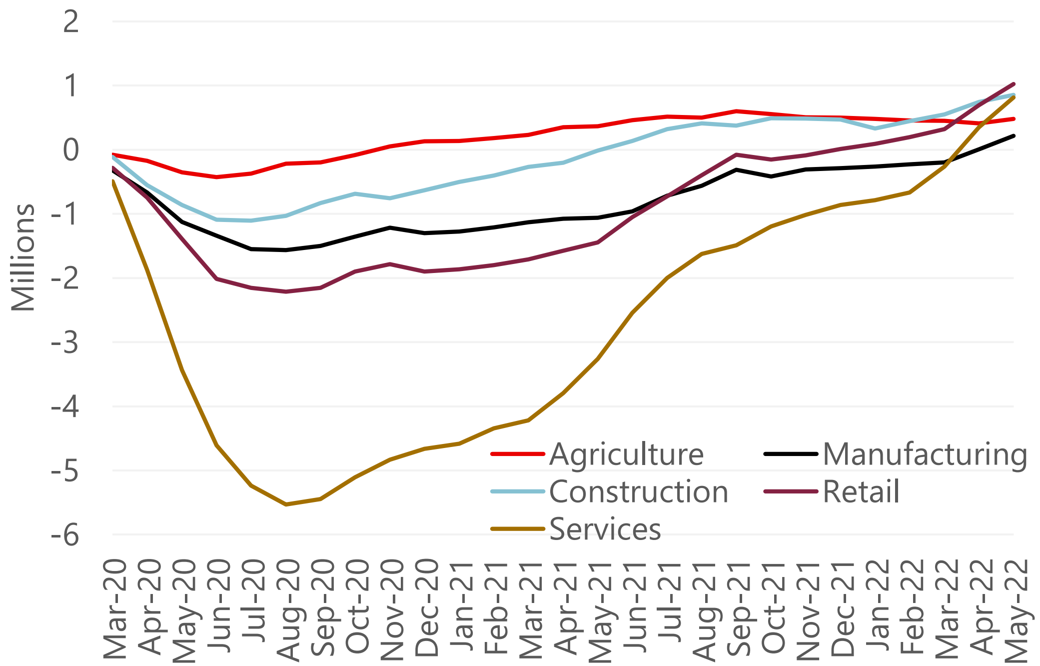


Sources: IBGE, Santander.

All Main Sectors Above the Pre-Crisis Mark

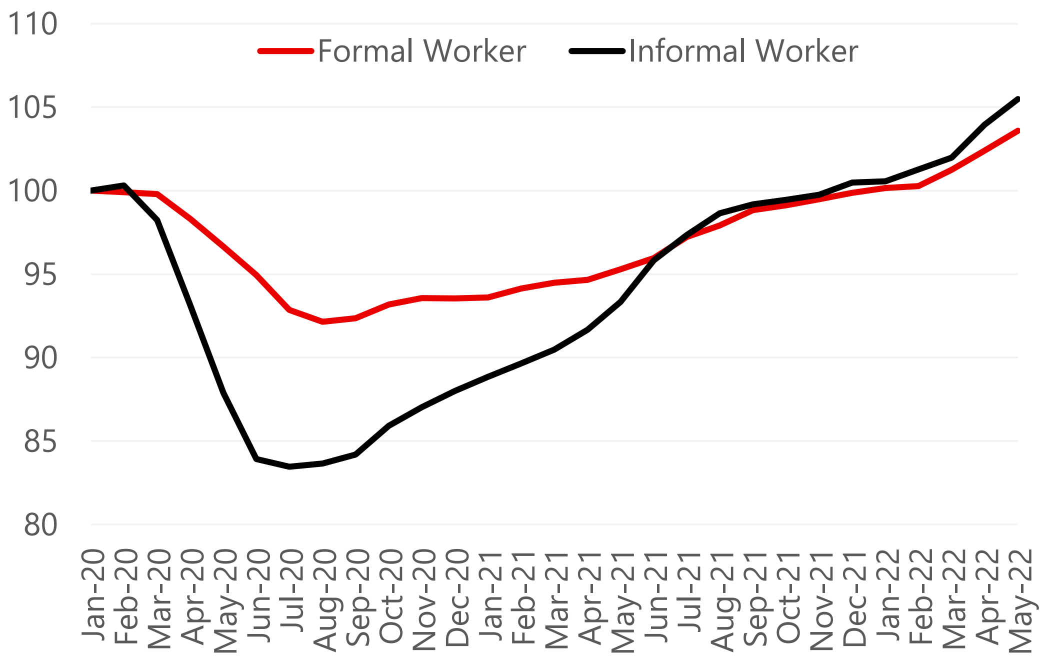
- The services sector has been the highlight of employment growth among the main segments. Still, most sectors reported increases in employment in May. Formal employment posted a +1.2% MoM-sa variation, while informal employment increased 1.5% MoM-sa, a consequence of both the decrease in COVID-19 infections and the good performance of core economic activity indicators.

Post-Pandemic Accumulated Job Losses (sa)



Sources: IBGE, Santander.

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

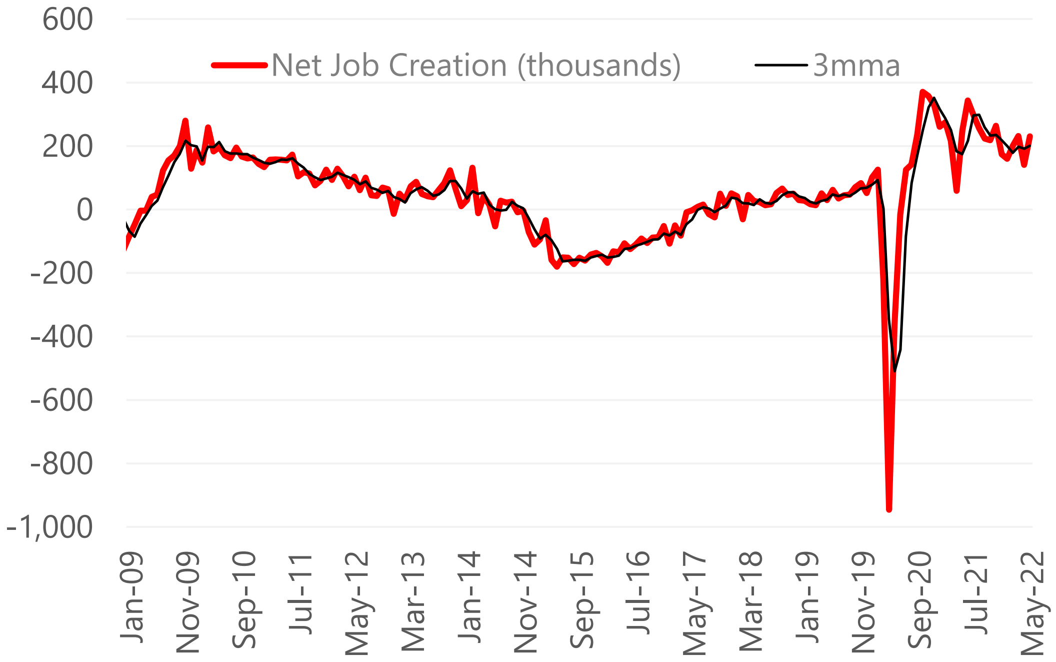


Sources: IBGE, Santander.

Monthly Payroll Expansion Stabilized at a Strong Pace

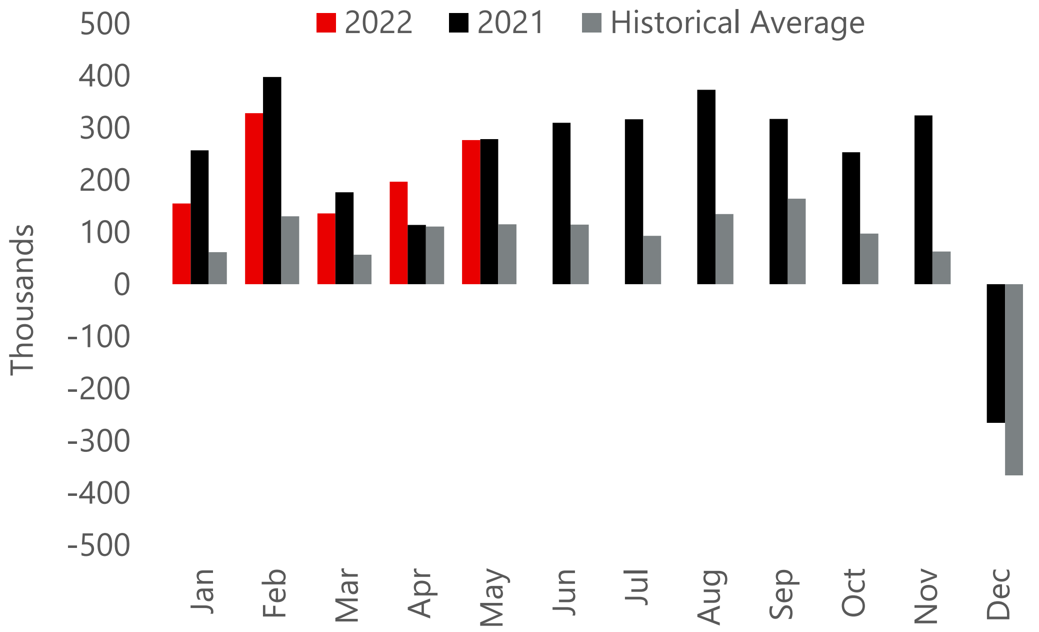
- Based on the May CAGED survey, after our own seasonal adjustment, net formal job creation accelerated to 231k, from 140k in April. The three-month average now points to a payroll expansion of 201k jobs, from 190k in April. After decelerating since mid-2021, the net job creation figure consolidated a stabilization around 200k, a strong pace, equivalent to almost 2.4 million annualized.

CAGED Net Job Creation (sa)



Sources: Ministry of Labor, Santander.

Net Job Creation and Historical Average

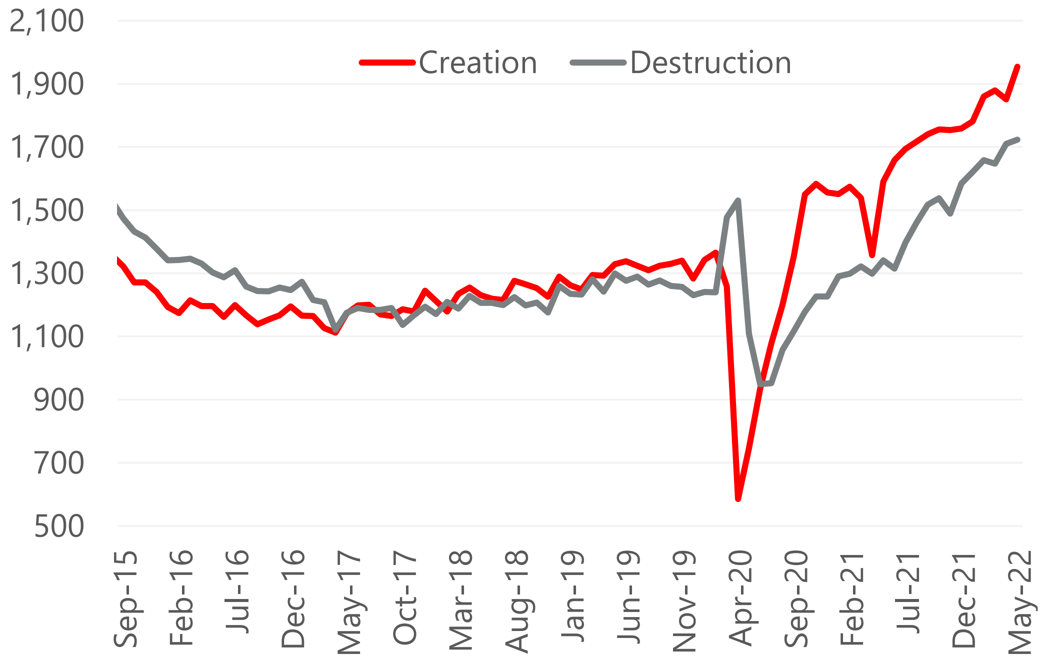


Sources: Ministry of Labor, Santander.

CAGED: End of BEm Program no Longer Affects the Results

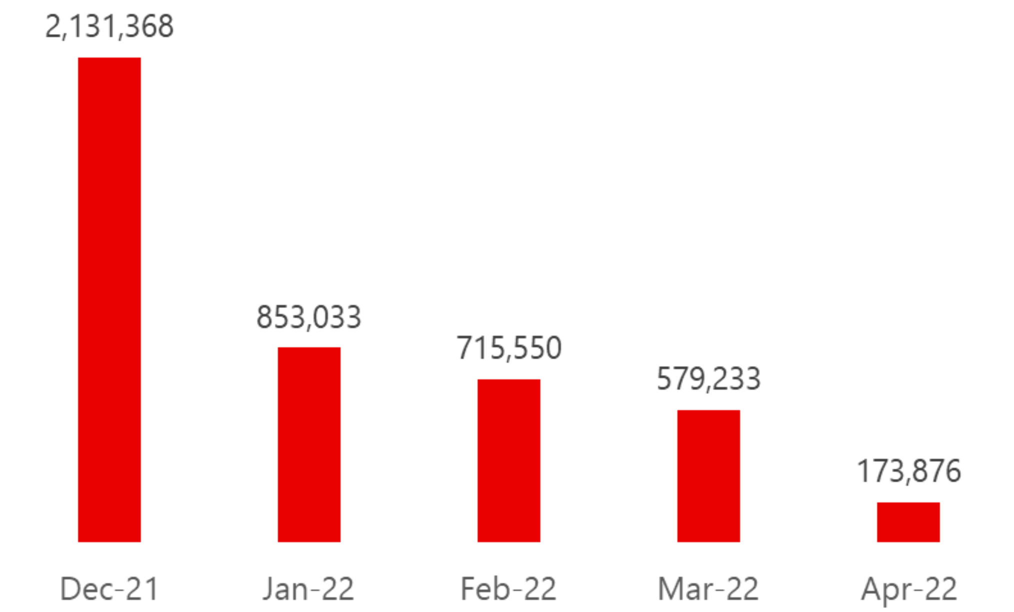
- May was the first month with no workers under the temporary job guarantee from the formal employment preservation program ("Emergency Benefit for Income and Employment Preservation", or BEm). Until April, each month fewer workers were included in the program's temporary job guarantee as the waiver periods for layoffs of the program's beneficiaries gradually expired.

CAGED: Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

Jobs Secured by BEm Program

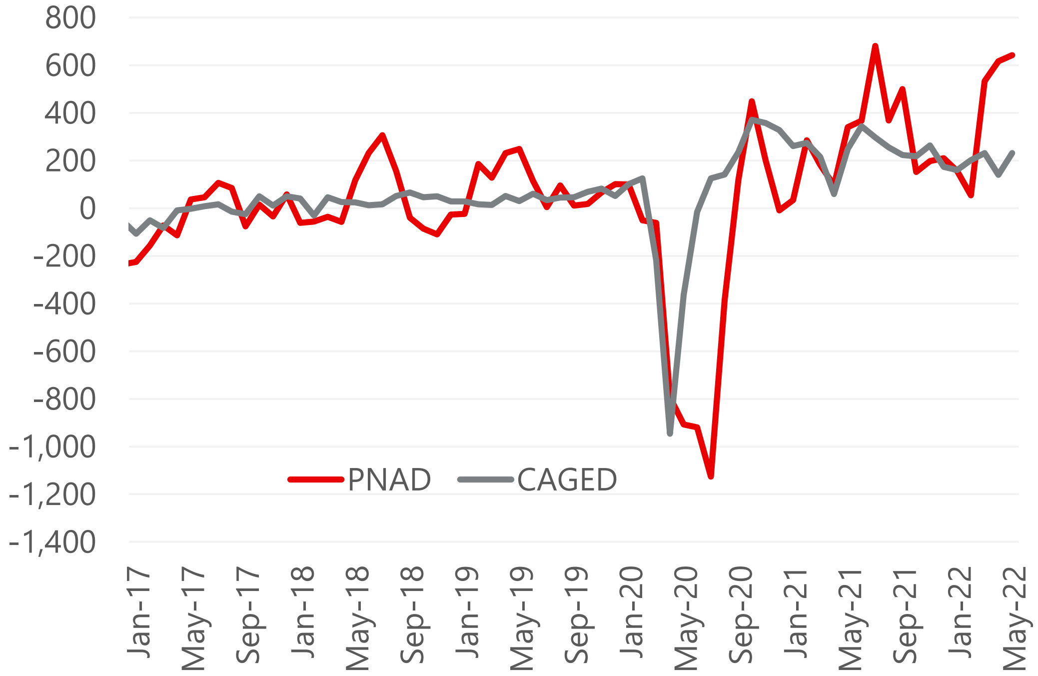


Sources: Ministry of Labor, Santander.

PNAD Now Paints a Better Picture Than CAGED

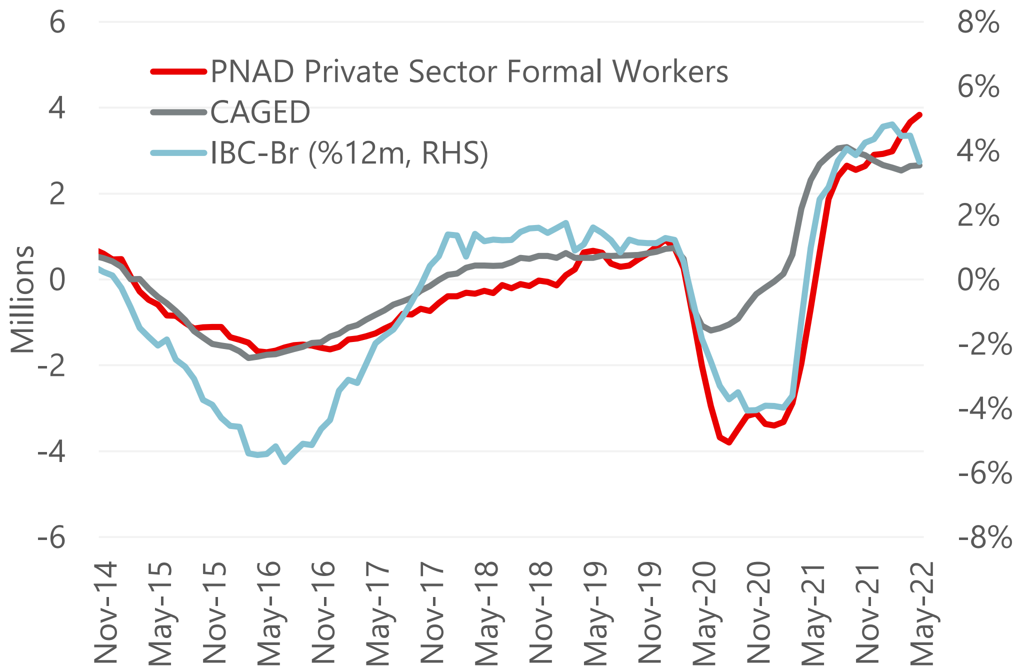
- As formal employment in PNAD printed strong results from March to May, CAGED data showed grater volatility, but remains at a strong pace of payroll expansion. After diverging during 2020 and 2021, both the PNAD and CAGED surveys are now more aligned with core economic activity indicators, despite some short term differences.

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.

May 2022 PNAD Results

PNAD Breakdown	s.a.			% YoY			% Feb-20*		
	Mar-22	Apr-22	May-22	Mar-22	Apr-22	May-22	Mar-22	Apr-22	May-22
Unemployment rate (%)	10.7	10.1	9.5	-3.8	-4.3	-4.9	-1.0	-1.6	-2.2
Participation rate (%)	**61.9**	**62.5**	**62.8**	**2.3**	**2.4**	**2.2**	**-1.1**	**-0.6**	**-0.2**
Labor force (millions)	**106.9**	**108.0**	**108.7**	**4.8**	**5.1**	**4.6**	**0.2**	**1.3**	**2.0**
Employment	95.5	97.1	98.4	9.4	10.3	10.6	1.3	3.0	4.4
Unemployment	11.4	10.9	10.3	-21.7	-25.3	-30.2	-8.6	-12.6	-17.5
Formalization Rate (%)	**57.1**	**56.9**	**56.9**	**-1.3**	**-1.2**	**-1.0**	**-0.1**	**-0.3**	**-0.3**
Formal Workers (millions)	54.6	55.2	55.9	7.1	8.1	8.8	1.3	2.5	3.7
Informal Workers (millions)	41.0	41.8	42.4	12.7	13.5	13.2	1.7	3.6	5.2
Average usual earnings (BRL) **	**2,605**	**2,598**	**2,596**	**-8.7**	**-7.9**	**-7.2**	**-7.7**	**-8.0**	**-8.1**
Average effective earnings (BRL) **	**2,687**	**2,708**	-	**-6.3**	**-5.7**	-	**-8.1**	**-7.4**	-
Usual wage bill (BRL bn) **	**243.3**	**246.7**	**250.9**	**0.2**	**1.9**	**3.0**	**-6.5**	**-5.1**	**-3.6**
Effective wage bill (BRL bn) **	**254.7**	**261.2**	-	**3.7**	**4.6**	-	**-4.9**	**-2.4**	-

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

** In real terms

Sources: IBGE, Santander.

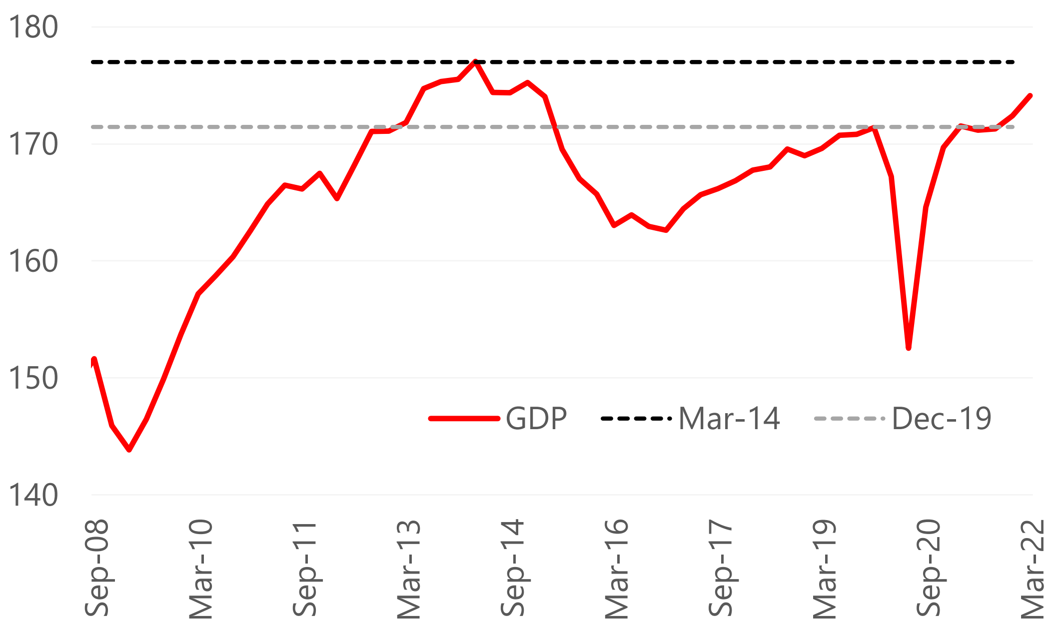
GDP

05

Solid GDP Growth in 1Q22

- The positive print in the first-quarter owned to an expected strengthening of services, as the economy's reopening consolidates, but was also benefited by positive surprises in goods-sectors, reflecting the income increase in the period. The consolidation of the reopening process and the expansion in real wage bill in 1H22 bring a positive mood in the short-term, but we warn that the fundamentals for a drag ahead have not vanished.

GDP (sa, 1995=100)**



Sources: IBGE, Santander.

* *"All in All, Strong 1Q GDP Data (Again)"* – June 02, 2022 - Available on: https://bit.ly/Std-GDP-1Q22

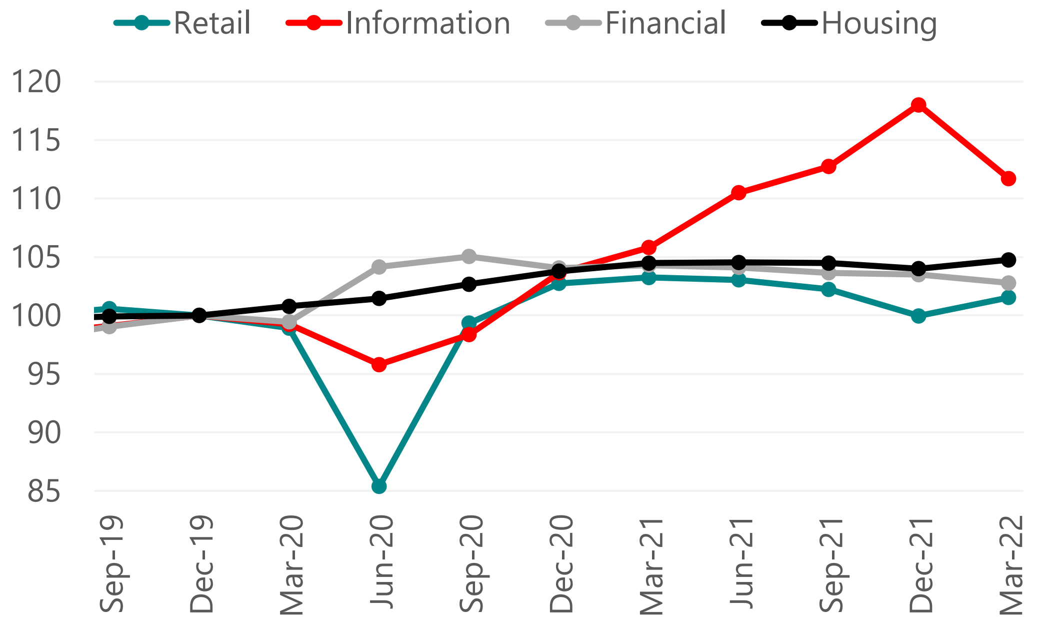
** GDP is 1.6% above the pre-pandemic mark (Dec-19) but 1.7% below the all-time high (Mar-14).

	4Q21		1Q22		4Q19*	Carry **
	% YoY	% QoQ	% YoY	% QoQ	%	%
GDP	1.6	0.7	1.7	1.0	1.6	1.5
Supply						
Taxes	2.2	0.3	0.5	0.1	2.1	0.3
Farm Output	**-0.8**	**6.0**	**-8.0**	**-0.9**	**-0.2**	**-2.1**
Industry	**-1.3**	**-1.2**	**-1.5**	**0.1**	**-0.2**	**-1.0**
Mining	4.5	-2.1	-2.4	-3.4	-5.2	-4.6
Manufacturing	-6.9	-2.2	-4.7	1.4	-1.2	-1.6
Construction	12.2	1.3	9.0	0.8	9.1	4.4
Utilities	0.7	0.7	7.6	6.6	5.5	6.7
Services	**3.3**	**0.6**	**3.7**	**1.0**	**2.2**	**2.3**
Retail	-2.9	-2.2	-1.5	1.6	1.5	-0.6
Transports	9.3	3.0	9.4	2.1	8.1	5.8
Information	13.8	4.7	5.5	-5.3	11.7	0.0
Financial	-0.4	-0.1	-1.6	-0.7	2.8	-1.1
Other Services	9.7	2.5	12.6	2.2	0.8	7.1
Rents	0.2	-0.5	0.3	0.7	4.7	0.4
Public Services	2.0	1.1	2.9	0.6	-1.2	1.9
Demand						
Consumption	**2.1**	**0.7**	**2.2**	**0.7**	**-0.7**	**1.6**
Government	**2.8**	**0.9**	**3.3**	**0.1**	**-0.6**	**1.6**
Investments	**3.4**	**0.8**	**-7.2**	**-3.5**	**12.7**	**-4.5**
Exports	**3.3**	**-0.2**	**8.1**	**5.0**	**5.6**	**3.3**
Imports	**3.7**	**0.1**	**-11.0**	**-4.6**	**-4.9**	**-7.7**

We Still See Room For Growth As The Economy's Reopening Consolidates

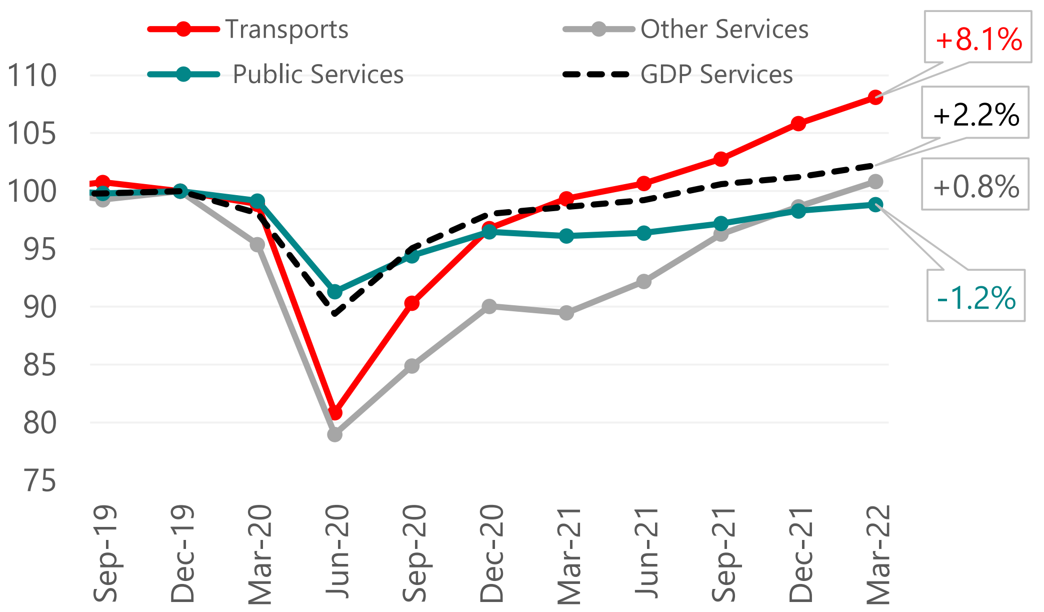
- Mobility-related services activities like other services and public services account for almost 30% of GDP and had been benefited by the economy's reopening. The latter remains 1.2% below 4Q19 levels, and should fill this gap in 2Q22, contributing to GDP growth in the period. Other services finally surpassed the pre-crisis mark, but the monthly data for services provided to families remains roughly 12% idled, which leaves room for further positive contributions from services.

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



Sources: IBGE, Santander.

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 that the effects of a tight monetary policy stance will start to show from 2H22 onwards. We also believe the absence of further weather-related problems limits the room for further downward revisions in farm output estimates for 2022.

- We are raising our GDP forecast for 2022 but maintaining our estimates for 2023 and 2024. For 2022, considering stronger-than-expected data that improved 1H22's performance, we have raised our forecast for the full year to +1.9% (from +1.2%), mainly supported by the contribution from the services reopening, the labor market recovery, and increased disposable income (the latter will also be favored ahead by a new round of government stimulus). In terms of the quarterly path, we are upgrading our 2Q22 estimate to +0.7% (from +0.2%). For 2H22, domestic activity should turn sour once the effects of a tighter monetary policy start to kick in, but the additional fiscal stimuli may partially offset this impact for that period. We are raising our estimates for 2H22 to +0.2% QoQ-sa and -0.2% QoQ-sa in 3Q22 and 4Q22, respectively (from previously 0% QoQ-sa and -0.4% QoQ-sa). For 2023, in the absence of an additional catalysts for growth, we see a reduced impulse from commodities and the lagged effects of the monetary contraction prevailing, which should prompt a domestic recession: we estimate a 0.6% GDP contraction for 2023. For 2024, we see the economy still facing a slow pace of GDP growth: we estimate a tepid 0.5% gain, with the recovery impacted by our expectation of a U.S. recession starting in mid-2023.

- **Upside risks:** further positive surprises on services reliant on social interaction, as the economy's reopening process consolidates. Faster than expected solutions to supply-chain disruptions in manufacturing.

- **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 farm output.

GDP Path and Breakdown

GDP Baseline Scenario			
	YoY	QoQ	Full Year
2Q21	12.3%	-0.2%	
3Q21	4.0%	0.1%	
4Q21	1.6%	0.7%	4.6%
1Q22	1.7%	1.0%	
2Q22	2.6%	0.7%	
3Q22	1.9%	0.2%	
4Q22	1.4%	-0.2%	1.9%
1Q23	-0.6%	-0.3%	
2Q23	-1.0%	-0.2%	
3Q23	-0.7%	-0.2%	
4Q23	-0.2%	-0.2%	-0.6%

Sources: IBGE, Santander

GDP Projections						
	2018	2019	2020	2021	2022e	2023e
GDP	1.8	1.2	-3.9	4.6	1.9	-0.6
Farm Output	1.3	0.4	3.8	-0.2	1.0	0.5
Industry	0.7	-0.7	-3.4	4.5	-0.6	-0.5
Services	2.1	1.5	-4.3	4.7	2.4	-0.6
Household	2.4	2.6	-5.4	3.6	2.0	0.0
Government	0.8	-0.5	-4.5	2.0	2.3	0.5
Investments	5.2	4.0	-0.5	17.2	-2.8	-1.2
Exports	4.1	-2.6	-1.8	5.8	3.9	0.4
Imports	7.7	1.3	-9.8	12.4	0.2	-0.5

Sources: IBGE, Santander

Better Results Have Led Us to Reduce our Unemployment Rate Estimates

- According to our monthly estimates, the seasonally adjusted jobless rate reached 9.0% in May, the lowest level since mid-2015. The participation rate, which was running at historically low levels until 4Q21, has practically normalized and is now only 0.2 p.p. below the pre-pandemic level (February 2020).

- The surprisingly favorable employment conditions led us to further reduce our unemployment rate forecasts. We still expect the unemployment rate to rise in 2H22, as the restrictive monetary policy stance should lead to a cooling economy, thereby dominating the labor-market dynamics from 2H22 onward. However, in light of a better-than-expected starting point for the employed population, we revised the expected trajectory for the unemployment rate from 2022 to 2024.

- Our forecast for the average jobless rate in 2022 is now 10.0% (prior: 11.4%), and 10.8% in 2023 (prior: 12.3%). For 2024, we are reducing our forecast to 11.0% (prior: 12.4%).

- **Upside risks:** Faster than expected growth in employment, on the heels of further positive surprises on labor intensive services and construction activities.

- **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	10.0	10.8
End of Period (s.a.)	11.7	14.8	11.7	10.4	10.9
Unemployed Population **					
Average	12.8	13.8	13.9	10.9	11.9
End of Period	12.5	15.0	12.5	11.3	12.0

Sources: IBGE, Santander.

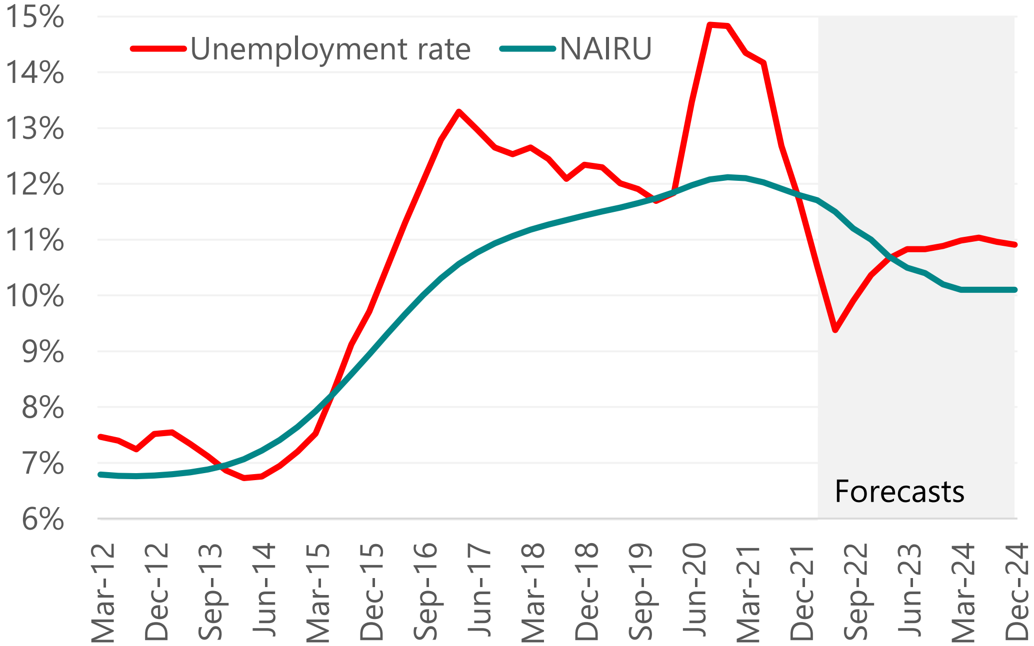
Job Market to Remain Tight Until 1Q23

- While we have also reduced our estimates for the structural joblessness (NAIRU, now seen somewhere around 10-11%), we continue to envision a tight labor market until 1Q23 – which adds to the difficult conditions for the disinflation process expected ahead.

		Jun-22	Jul-22
Unemployment Rate (avg)	2022	11.4	10.0
	2023	12.3	10.8
	2024	12.4	11.0
Unemployment Rate (YE, sa)	2022	12.0	10.4
	2023	12.5	10.9
	2024	12.3	10.9
Unemployed (YE, Millions sa)	2022	13.1	11.3
	2023	13.8	12.0
	2024	13.7	12.2

Sources: IBGE, Santander.

New Unemployment Rate Trajectory (sa)

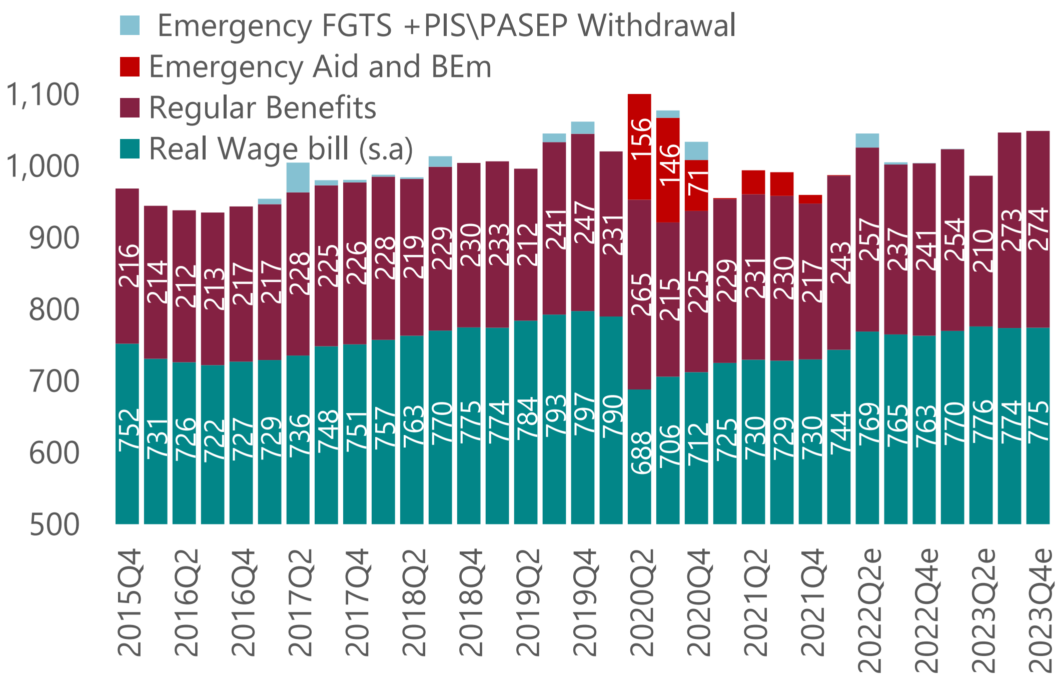


Sources: IBGE, Santander.

“Expanded” Real Wage Bill: Impacted by Inflation, Benefited by Stronger Employment

- As for the real wage bill, the effects of a higher employment level were partially offset by lower-than-expected real average wages. The newly increased government transfers helped boost our forecasts for total real income in 2022: we project that the “expanded” real wage bill will grow 3.7%, 1.0%, and 1.1% in 2022, 2023, and 2024, respectively (we previously estimated gains of 3.1%, 0.8%, and 1.2%). This implies a probably slower deceleration in consumer spending ahead.

“Expanded” Real Wage Bill (BRL billion)



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

	2021	2022(E)	2023(E)	2024(E)
Real Wage Bill	+0.6%	+4.4%	+1.8%	+1.6%
Real Wage Bill (With Government Transfers)	-8.0%	+3.7%	+1.0%	+1.1%

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

Macro Scenario: Projections

- For our Scenario Update 'BETTER ACTIVITY EXPECTED IN THE SHORT TERM, WITH HIGHER INTEREST RATES (EVEN) LONGER' (sent on July 14, 2022), click on the link: https://bit.ly/Std-scenupdate-jul22

Macroeconomic Variables		Previous		Current
GDP (%)	2022E	1.2	↑	1.9
	2023E	-0.6	→	-0.6
	2024E	0.5	→	0.5
IPCA (%)	2022E	9.5	↓	7.9
	2023E	5.3	↑	5.7
	2024E	3.0	→	3.0
Selic Rate (% end of period)	2022E	13.50	↑	14.25
	2023E	10.50	↑	12.00
	2024E	8.00	↑	9.00
FX Rate - USDBRL (end of period)	2022E	5.15	↑	5.30
	2023E	5.00	↑	5.15
	2024E	5.10	↑	5.20
Current Account Balance (% of GDP)	2022E	-1.4	→	-1.4
	2023E	-1.2	→	-1.2
	2024E	-2.0	→	-2.0
Primary Fiscal Balance (% of GDP)	2022E	0.4	↓	-0.2
	2023E	-0.6	↓	-1.2
	2024E	-0.7	↓	-1.0
Gross Public Debt (% of GDP)	2022E	79.0	↑	79.9
	2023E	83.1	↑	84.6
	2024E	87.2	↑	88.7

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

Thank you.

Our purpose is to help people and businesses prosper.

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

Simple Personal Fair

Santander

Brazil Macroeconomic Research Team

Ana Paula Vescovi
Chief Economist
anavescovi@santander.com.br
+55 (11) 3553-8567

Mauricio Oreng
Head of Research & Strategy
mauricio.oreng@santander.com.br
+55 (11) 3553-5404

Jankiel Santos
Economist – External Sector
jankiel.santos@santander.com.br
+55 (11) 3012-5726

Ítalo Franca
Economist – Fiscal Policy
italo.franca@santander.com.br
+55 (11) 3553-5235

Tomas Urani
Economist – Global Economics
tomas.urani@santander.com.br
+55 (11) 3553-9520

Daniel Karp Vasquez
Economist – Inflation
daniel.karp@santander.com.br
+55 (11) 3553-9828

Lucas Maynard
Economist – Economic Activity
lucas.maynard.da.silva@santander.com.br
+55 (11) 3553-7495

Felipe Kotinda
Economist – Commodities
felipe.kotinda@santander.com.br
+55 (11) 3553-8071

Fabiana Moreira
Economist – Credit
fabiana.de.oliveira@santander.com.br
+55 (11) 3553-8071

Gilmar Lima
Economist – Modeling
gilmar.lima@santander.com.br
+55 (11) 3553-6327

Gabriel Couto
Economist – Special Projects
gabriel.couto@santander.com.br
+55 (11) 3553-8487

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