Brazil Macro | June 2022

Economic Activity

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

INDEX

SUMMARY

- **We are raising our GDP growth forecast for 2022, but lowering our estimates for 2023 and 2024.** For 2022, in light of positive surprises that improved the 1H22 outlook, we raised our GDP growth forecast to +1.2% (from +0.7%), mainly supported by the mechanical contribution from the services reopening, the labor market recovery and the strengthening in less-cyclical commodity-related sectors. Indeed, we see the economy still benefiting from the lingering effects of the post-pandemic normalization process, particularly in the services sector and in the labor market. The performance of commodities-related sectors is to provide additional support, especially following another boost in raw material prices. From a demand standpoint, we project growth in household consumption, supported by an expected expansion in the real wage bill (a byproduct of the labor market recovery). Investments should be benefited by the positive commodities cycle and the resilience shown by the construction sector (with a longer cycle), while the normalization of the provision of public services (notably health and education) should boost government spending.

- **In time, however, the delayed effects of a tight monetary policy will act to stifle economic activity in 2H22, more prominently in 4Q22.** We see the lagged effects of monetary policy prevailing since then, prompting a recession in 2023: we estimate a 0.6% GDP contraction (lowered from -0.3%) next year and a growth of 0.5% (revised from 1.5%) for 2024.

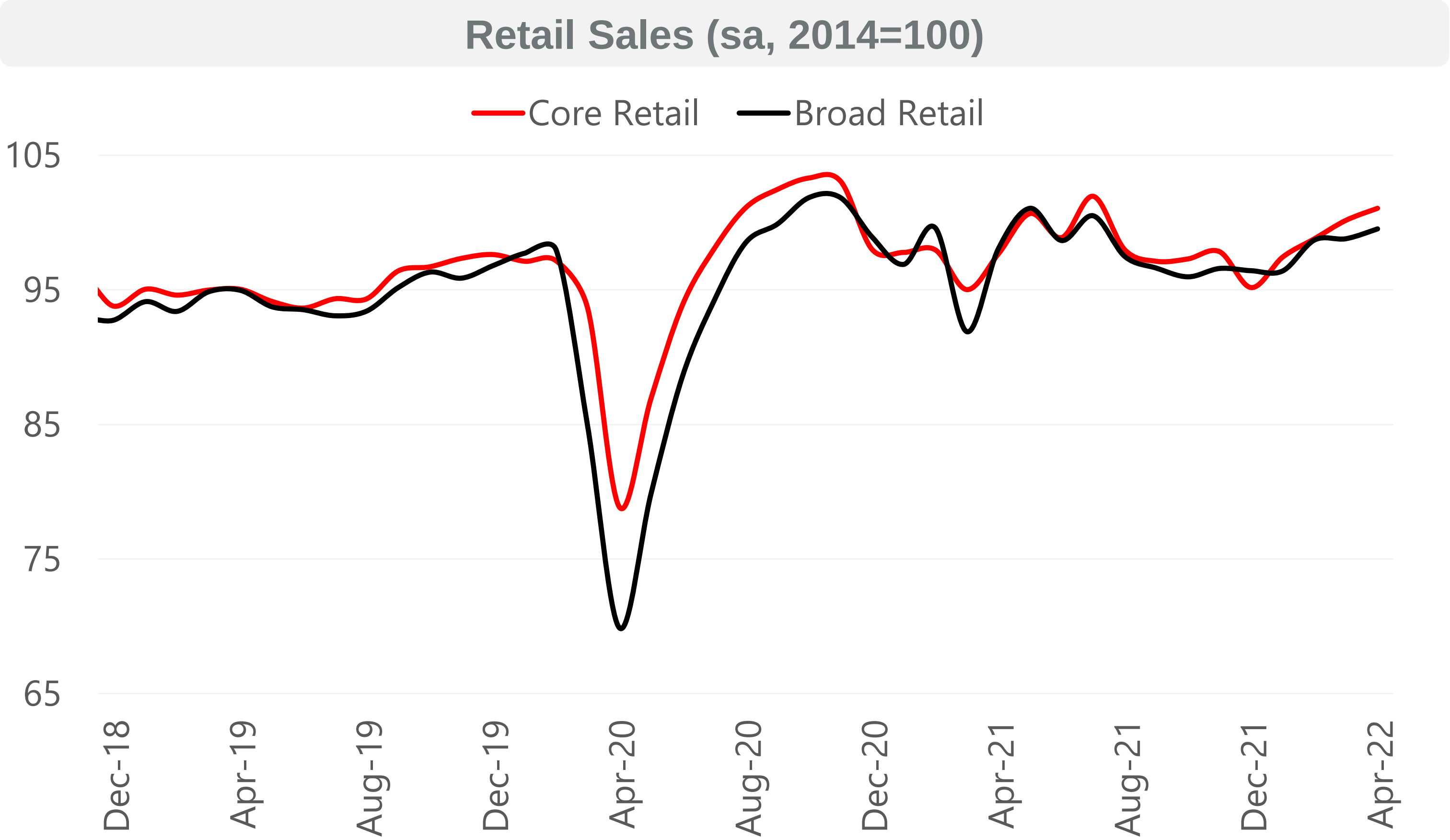
- **Better than expected figures for employment in 1Q22 and stronger activity this year have led us to raise the expected trajectory for the employed population and to lower our unemployment rate estimates.** However, we project worsening labor market conditions throughout 2023 and 2024, as the effects of monetary tightening intensify. We estimate an average unemployment rate of 11.4% in 2022 (previously 12.7%), 12.3% in 2023 (previously 14.0%), and 12.4% in 2024 (previously 13.2%). In our view, the jobless rate should remain below the NAIRU (12-13%) in 1H22, with the labor market back to a more slackened situation next year. However, the April PNAD survey strong results imply a downward bias for our unemployment rate estimates.

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. Furthermore, supply hurdles are expected to last longer than previously thought, compromising the supply of durable goods.

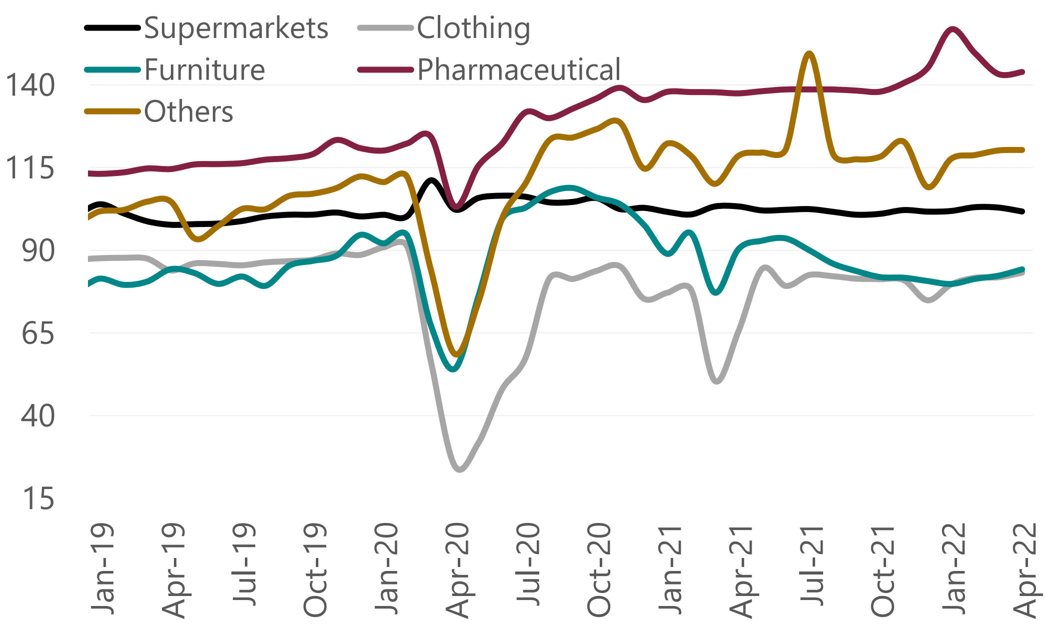


Sources: IBGE, Santander

Essential Goods Were Benefitted

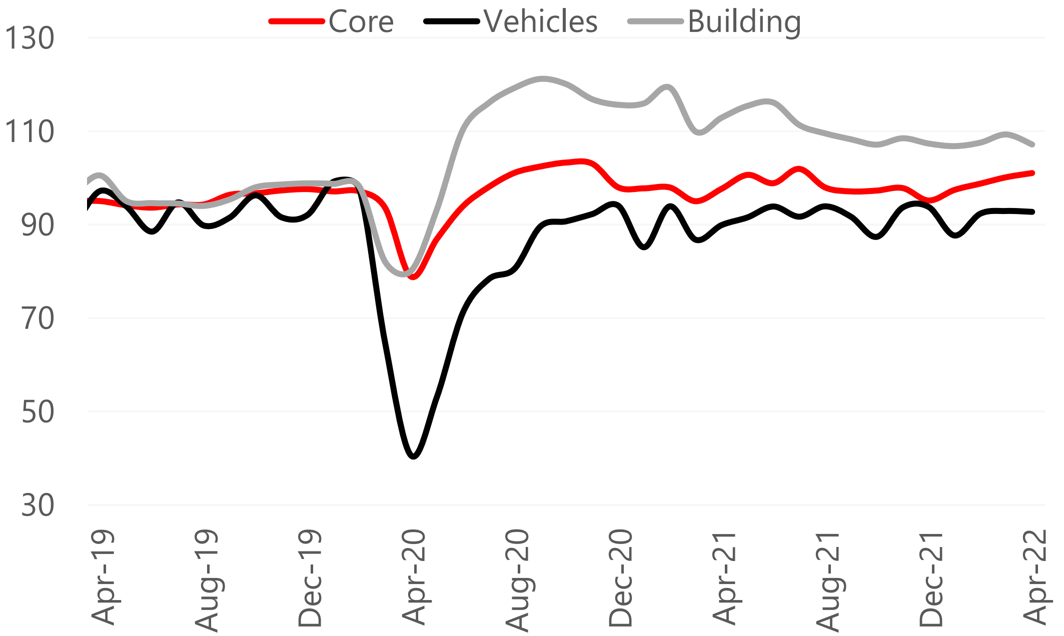
- As expected, essential goods like food and health related products benefitted the most by the increasing government transfers since those reach low-income households with higher consumption propensity. Looking ahead, we see the other categories (mainly the credit-led segments) facing a discouraging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

Core Retail Sales (sa, 2014=100)



Sources: IBGE, Santander

Broad Retail Sales (sa, 2014=100)

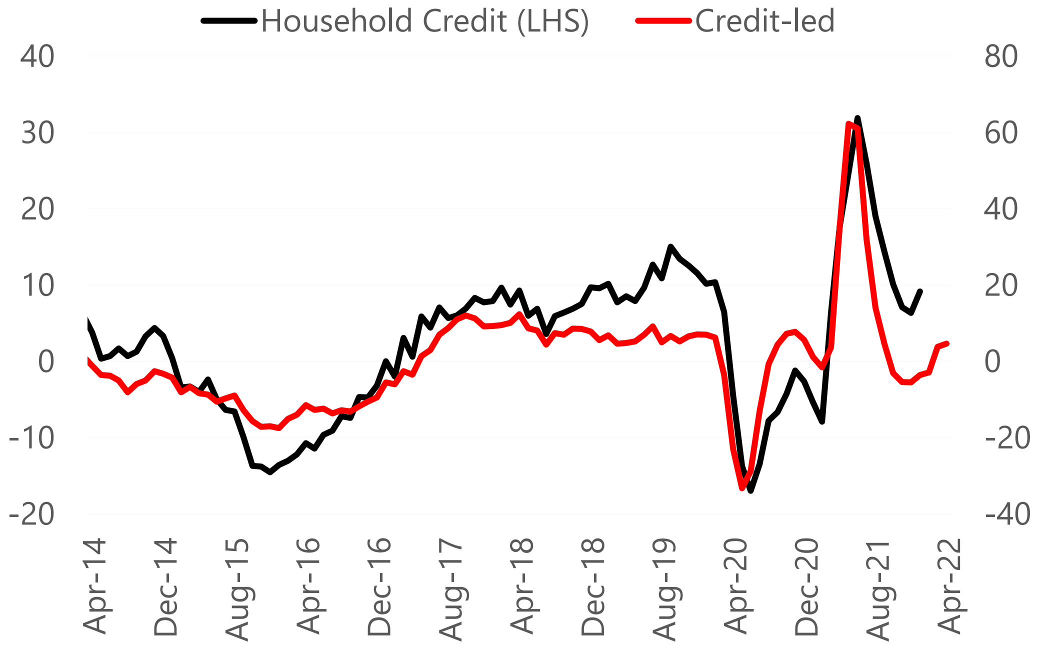


Sources: IBGE, Santander

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

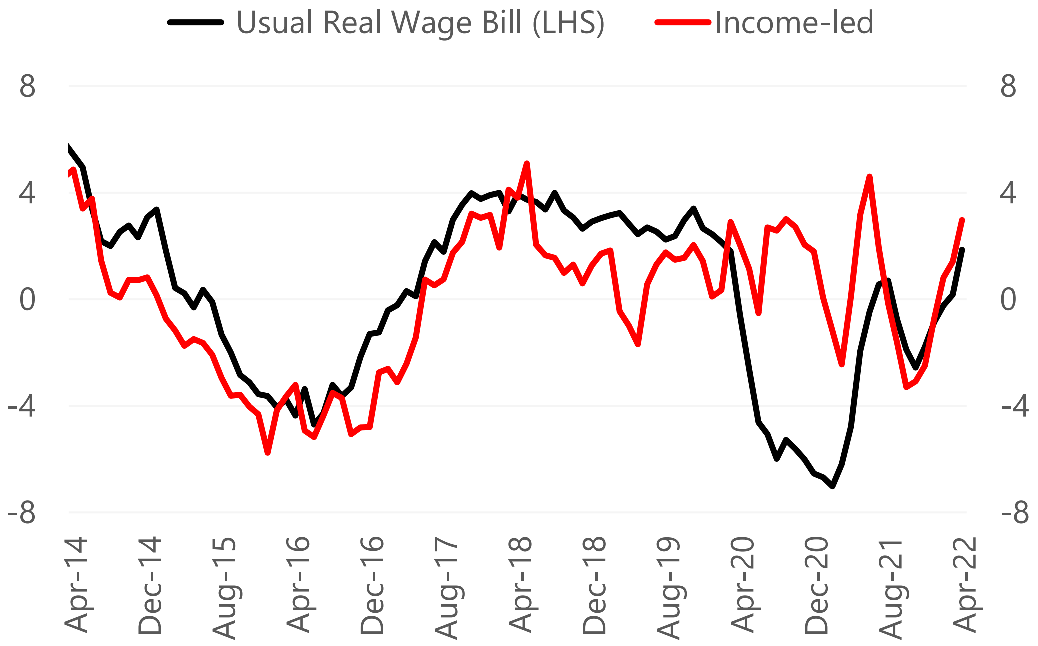
- For 2022, the expansion of household consumption should come mainly from the recovery of real wage bill. Amid rising interest rates, we don't expect credit granting to be a relevant driver of consumption (and activity) this year.

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		Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22	Sep-21	Dec-21	Apr-22	Feb-20*
66.9%	**Core Retail Sales**	**1.4**	**1.4**	**0.9**	**1.3**	**4.9**	**4.5**	**-0.1**	**-2.3**	**3.3**	**4.0**
8.3%	Fuels	6.2	5.5	-0.1	0.1	12.3	9.7	-1.7	-3.0	9.9	-1.9
30.6%	Hypermarkets, supermarkets	1.1	-0.1	-1.1	2.0	-3.4	4.0	-0.9	0.0	0.6	1.4
6.2%	Fabrics, clothing and footwear	2.5	0.2	1.7	8.2	81.3	33.9	7.5	-3.7	4.8	-8.6
7.4%	Furniture and home appliances	1.9	1.2	2.3	-13.3	7.2	-8.7	-6.2	-5.9	2.3	-10.7
5.1%	Pharmaceuticals	-4.6	-4.3	0.4	9.5	3.6	3.5	0.3	2.0	-1.3	17.7
0.9%	Books, papers and magazine	85.7	3.6	-5.6	18.8	40.6	-0.9	-4.5	-0.7	28.7	-37.3
0.6%	Office equipment and supplies	-1.1	14.6	-6.7	-8.0	16.5	-0.5	-5.0	1.3	3.7	-11.7
7.8%	Other personal items	1.0	1.2	0.1	1.1	8.9	1.5	7.7	-9.3	2.8	7.3
100%	**Broad Retail Sales**	**2.4**	**0.1**	**0.7**	**0.3**	**5.3**	**1.5**	**-1.1**	**-1.9**	**2.6**	**1.6**
8.9%	Building Materials	0.7	1.6	-2.0	-7.9	1.2	-10.1	-4.4	-1.9	0.4	9.1
24.2%	Vehicles	5.3	0.6	-0.2	1.2	8.5	-2.1	0.7	-0.9	1.0	-5.1

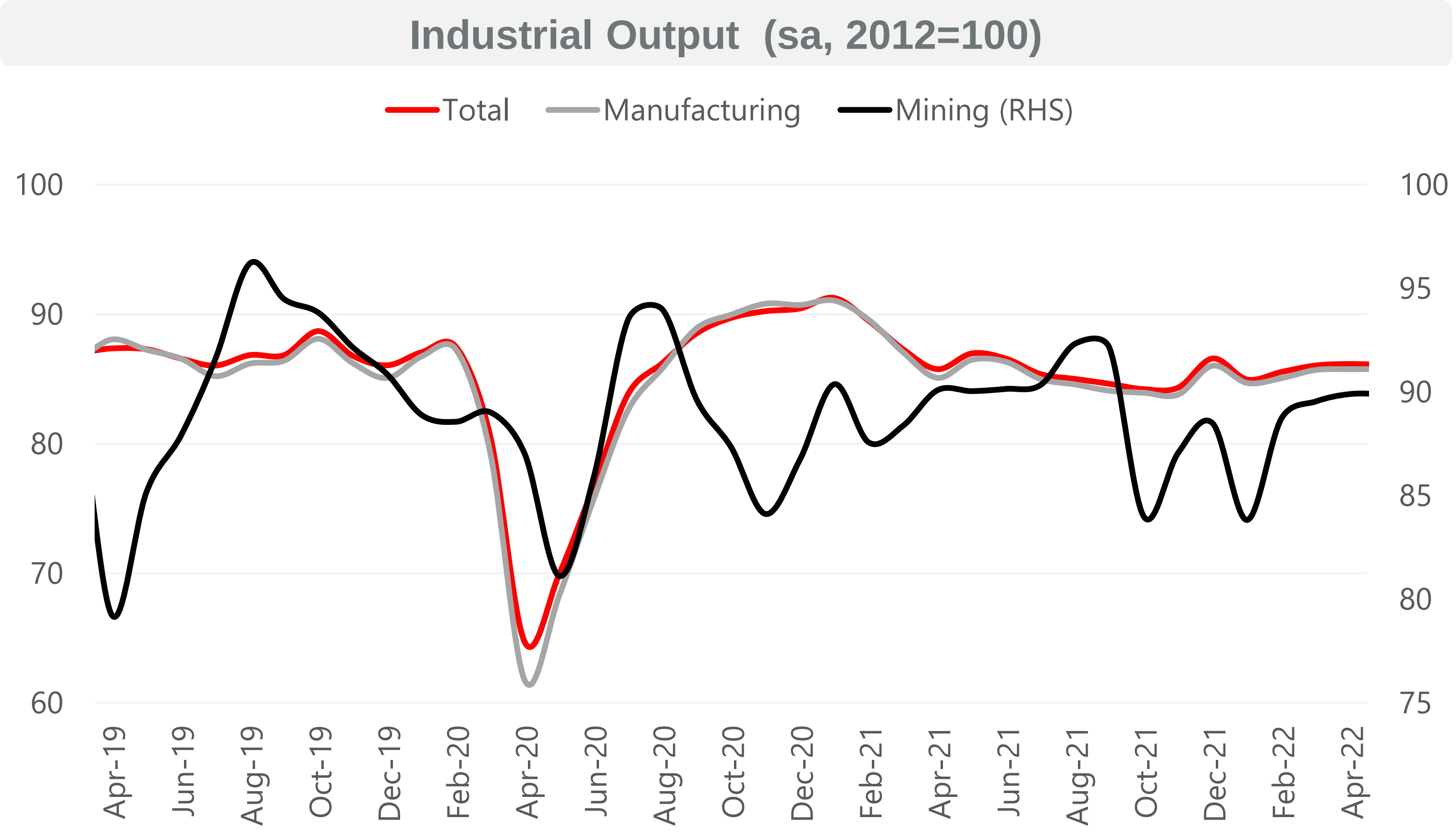
Sources: IBGE, Santander

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, reinforcing a tepid outlook for the sector this year.

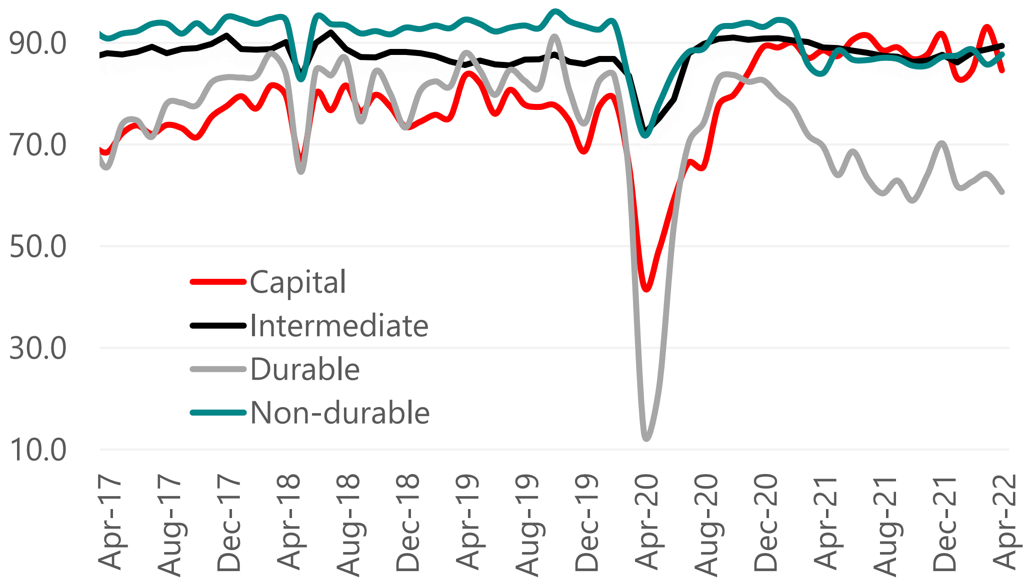


Sources: IBGE, Santander

Commodity-related Sectors and Construction Bring Resilience To Investments

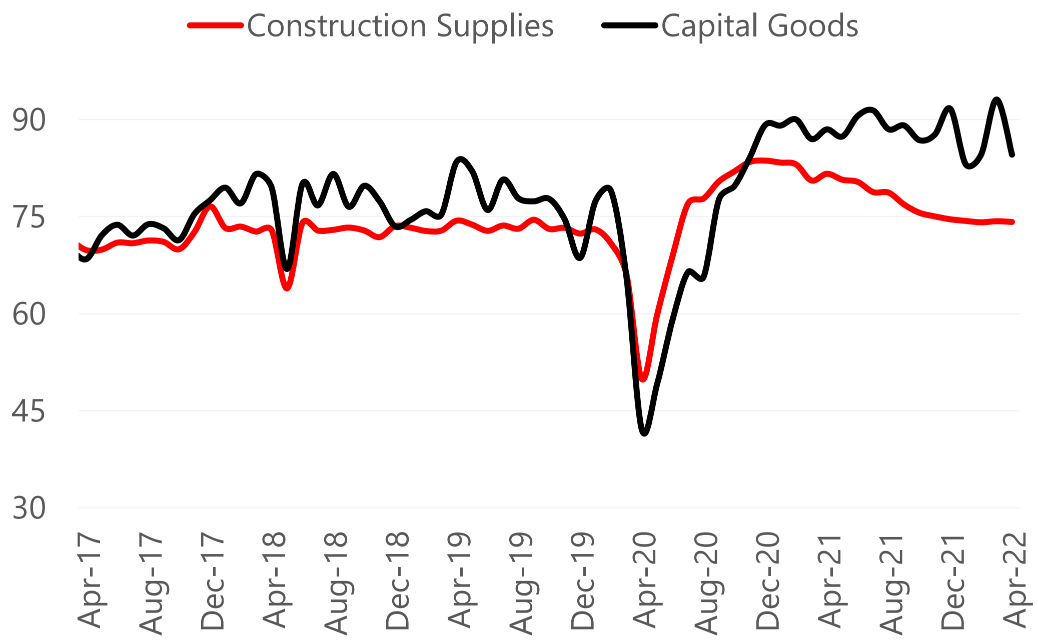
- We see commodity-related sectors strengthening as raw material prices remain high, and the construction sector (with longer cycle) entered into a positive path benefitted from the historically low interest rates set during the pandemic. These elements bring resilience to investments amid an environment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

Economic Categories (sa, 2012=100)



Sources: IBGE, Santander

Related to Investments (sa, 2012=100)

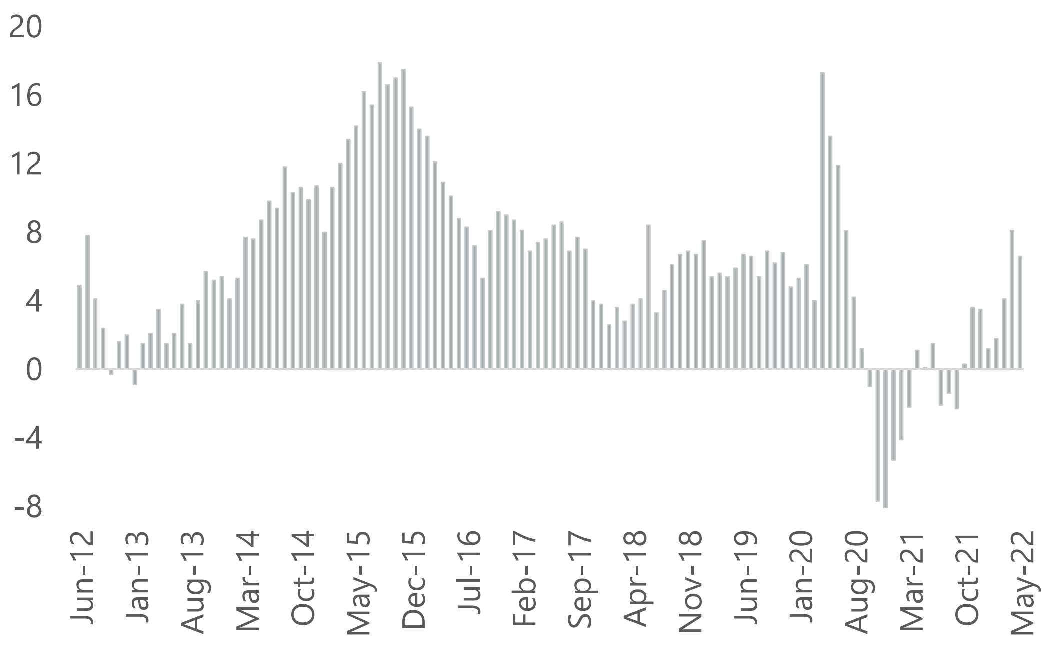


Sources: IBGE, Santander

The Recovery In Inventories Poses An Additional Upside Risk To Output

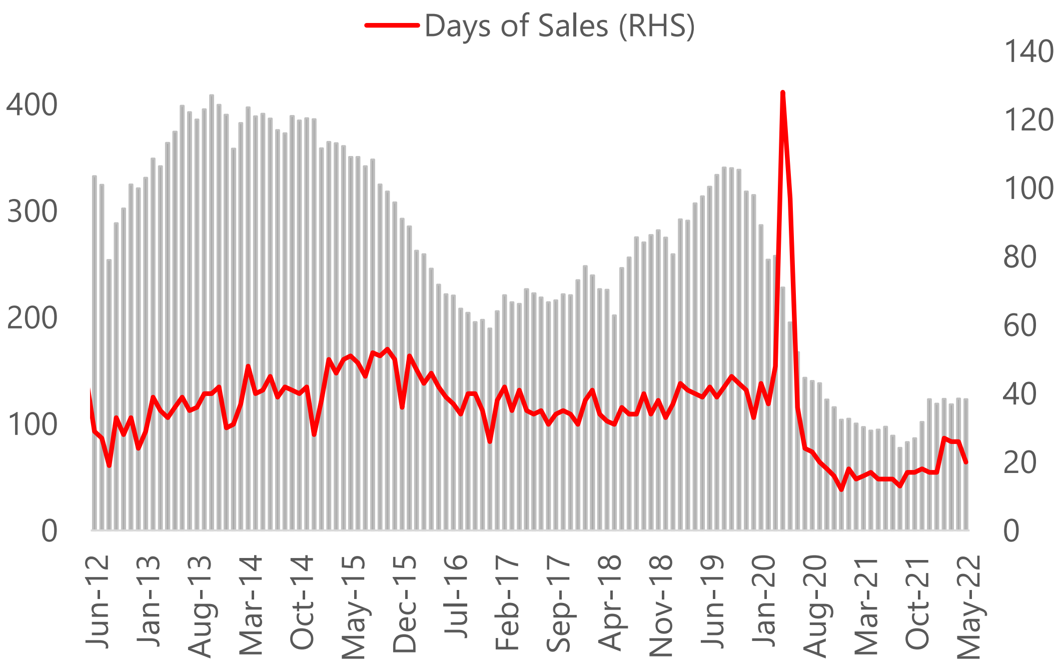
- The historically low inventories level recently reached means that local industry (not only auto factories) had a hard time overcoming high costs and widespread inputs shortage amid important supply hurdles seen widespread. However, the last results suggested better figures. Inventories replenishment 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	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22	Dec-21	Mar-22	Apr-22	Apr-22
Total Industry	100%	0.7	0.6	0.1	-4.1	-1.9	-0.5	0.1	0.6	0.7	-1.5
Mining	**11%**	**5.8**	**0.9**	**0.4**	**1.3**	**1.0**	**-0.1**	**-5.5**	**1.0**	**3.4**	**1.5**
Manufacturing	**89%**	**0.4**	**0.7**	**0.1**	**-4.7**	**-2.3**	**-0.5**	**0.0**	**0.7**	**0.8**	**-1.7**
Capital Goods	8%	1.8	10.0	-9.2	-4.6	5.0	-5.1	-1.0	-2.0	-0.1	7.1
Intermediate Goods	60%	2.3	0.7	0.8	-2.6	-1.9	0.0	-0.9	1.0	2.2	3.0
Consumer goods	32%	0.2	-3.1	2.4	-7.0	-3.6	-0.3	0.5	0.4	-0.9	-10.9
Durable	7%	1.4	2.4	-5.5	-16.8	-12.8	-13.2	3.5	-2.3	-4.4	-27.4
Non-Durable	25%	1.4	-3.4	2.3	-4.3	-0.8	3.2	-0.9	1.4	0.7	-6.6
Construction Supplies	**-**	**-0.3**	**0.2**	**-0.2**	**-10.4**	**-8.4**	**-9.7**	**-3.9**	**-1.1**	**-0.6**	**5.3**

Sources: IBGE, Santander

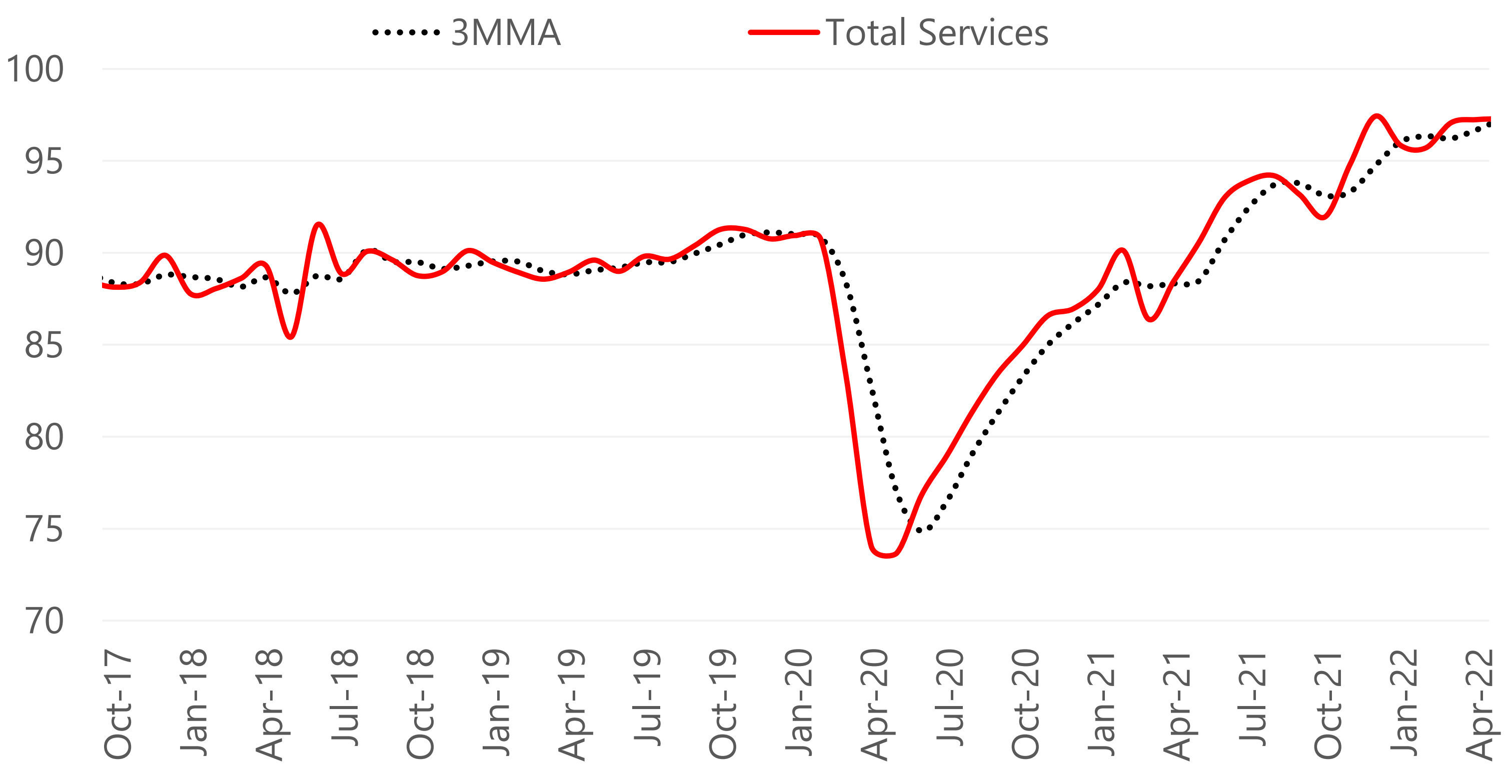
SERVICES

03

Services Continue to be Benefit from Reopening

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

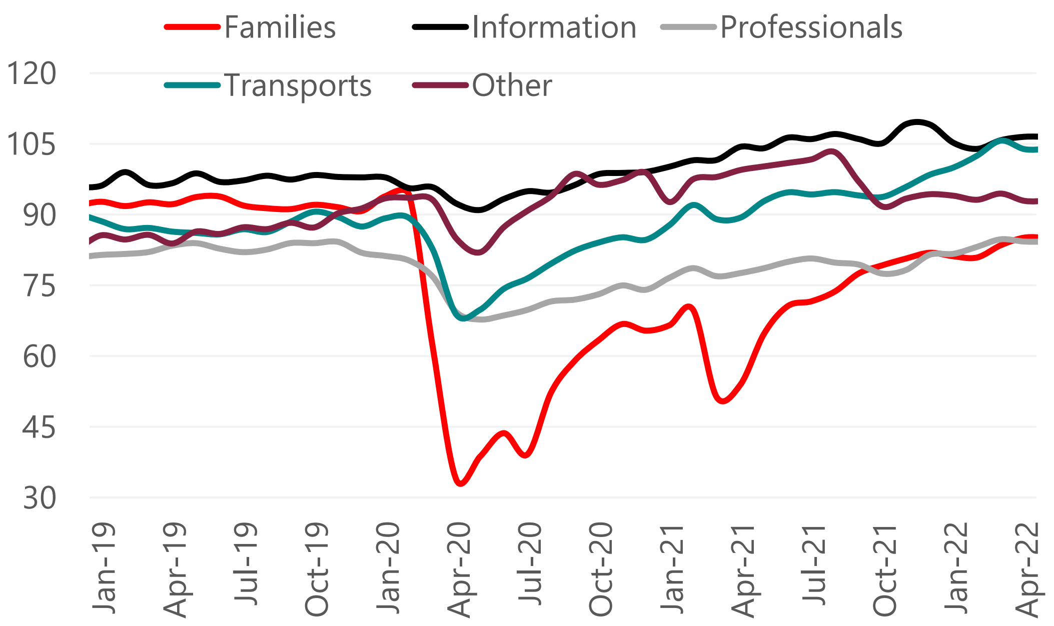


Sources: IBGE, Santander

Mobility-related Segments to be the Main Driver of Services

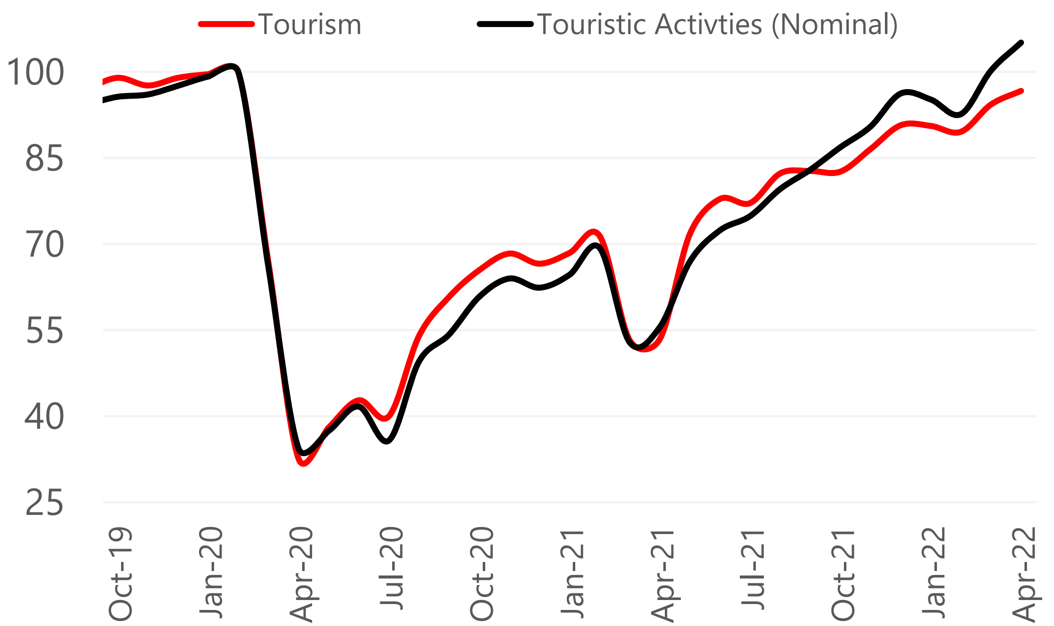
- Mobility-related segments like transports and services to families have gained traction recently. The latter still show wide idleness regarding the pre-crisis mark (roughly 9%), which leaves room for positive contributions to GDP growth from the services sector. It's worth noting that, despite the 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	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22	Sep-21	Dec-21	Apr-22	Apr-22
Total Services	100%	-0.1	1.4	0.2	7.4	11.6	9.4	3.4	1.0	0.7	7.2
Families	**8%**	**-0.3**	**3.2**	**1.9**	**17.3**	**62.8**	**60.8**	**17.8**	**8.5**	**2.4**	**-9.6**
Accommodation and Food	7%	0.6	1.6	3.9	17.9	66.9	67.1	20.4	8.7	2.6	-9.5
Other Services to Families	1%	1.7	9.7	-5.0	14.1	43.8	31.2	7.5	5.6	7.0	-10.8
Information	**31%**	**-1.2**	**1.8**	**0.7**	**2.4**	**3.9**	**1.6**	**1.4**	**1.3**	**-2.3**	**11.4**
Technology	26%	-2.3	3.0	0.2	1.9	3.3	1.2	1.6	1.4	-3.1	10.9
Telecommunication	19%	-2.5	-0.7	0.0	-7.4	-8.2	-8.4	-0.3	-3.1	-4.2	-9.6
Information Technology	7%	0.1	2.8	2.4	16.2	19.3	14.7	3.4	5.7	1.3	48.9
Audiovisual	5%	-1.2	5.4	-3.1	6.2	9.1	4.4	1.0	1.2	-1.1	-6.1
Professional	**23%**	**1.8**	**1.9**	**-0.6**	**7.2**	**9.7**	**7.8**	**1.6**	**-1.1**	**4.5**	**5.0**
Professional	7%	-2.2	5.3	-2.3	4.6	13.1	4.9	3.9	-4.0	2.6	18.2
Administrative	16%	2.7	-0.6	1.1	8.2	8.3	8.9	1.5	0.4	3.9	-0.5
Transportation	**31%**	**2.5**	**3.1**	**-1.7**	**14.0**	**17.4**	**15.5**	**2.2**	**1.8**	**6.0**	**16.3**
Ground Transportation	18%	2.8	2.1	0.5	15.2	17.2	17.7	1.8	2.7	6.8	14.1
Water Transportation	2%	0.0	-6.1	3.7	17.9	4.9	2.4	2.9	2.6	-2.2	20.0
Air Transport	3%	-4.9	22.8	-2.4	45.6	118.9	159.4	14.7	3.4	18.3	18.4
Storage and Mail	9%	1.5	2.8	-5.9	5.8	6.4	-0.4	0.4	-0.4	1.7	12.0
Other Services	**7%**	**-0.9**	**1.4**	**-1.6**	**-3.9**	**-4.4**	**-7.7**	**0.4**	**-7.5**	**-0.4**	**-0.7**
Touristic Activities	-	-1.1	5.3	2.5	28.7	75.9	85.7	19.3	7.3	4.8	-3.3

Sources: IBGE, Santander

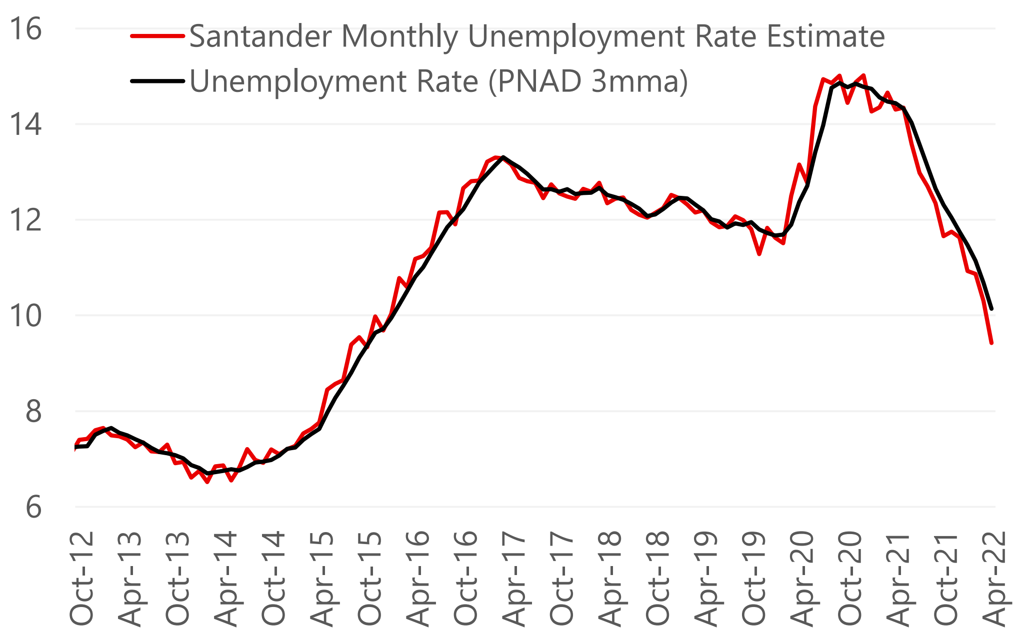
LABOR MARKET

04

Stronger Labor Market Results and Lower Unemployment Rate at the Margin

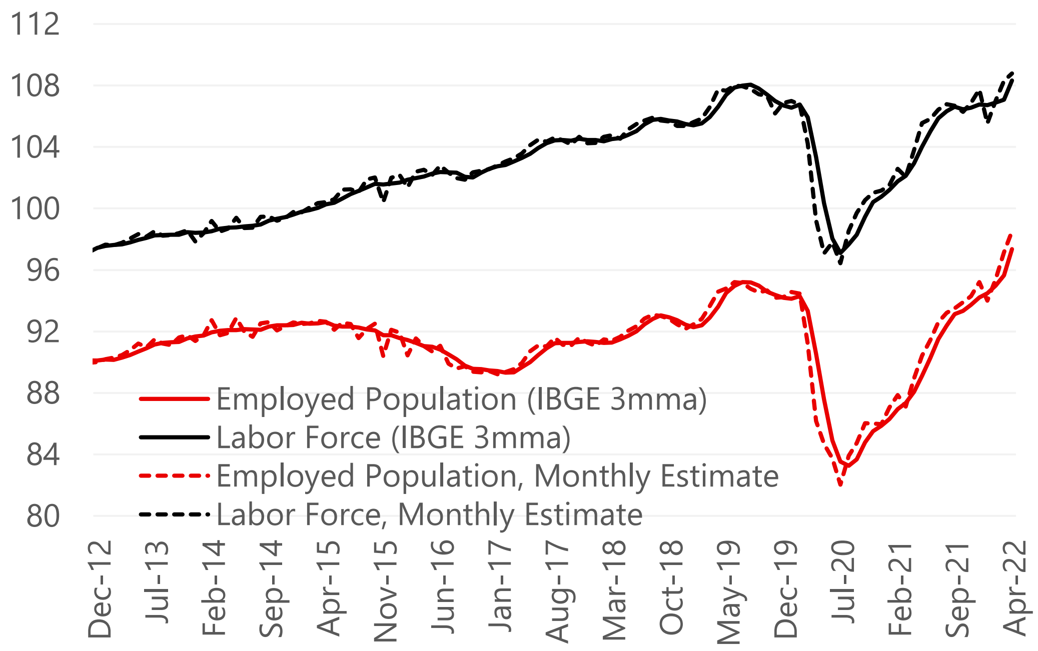
- The strong PNAD survey results in April show that the labor market continues to improve at a strong pace, even after returning to pre-pandemic levels. As all PNAD data is based on 3-month moving averages, our estimates for monthly labor market data indicate that the unemployment rate reached single-digit levels for the first time since 2H15.

Unemployment Rate (sa)



Sources: IBGE, Santander.

Labor Force and Employed Population (sa)

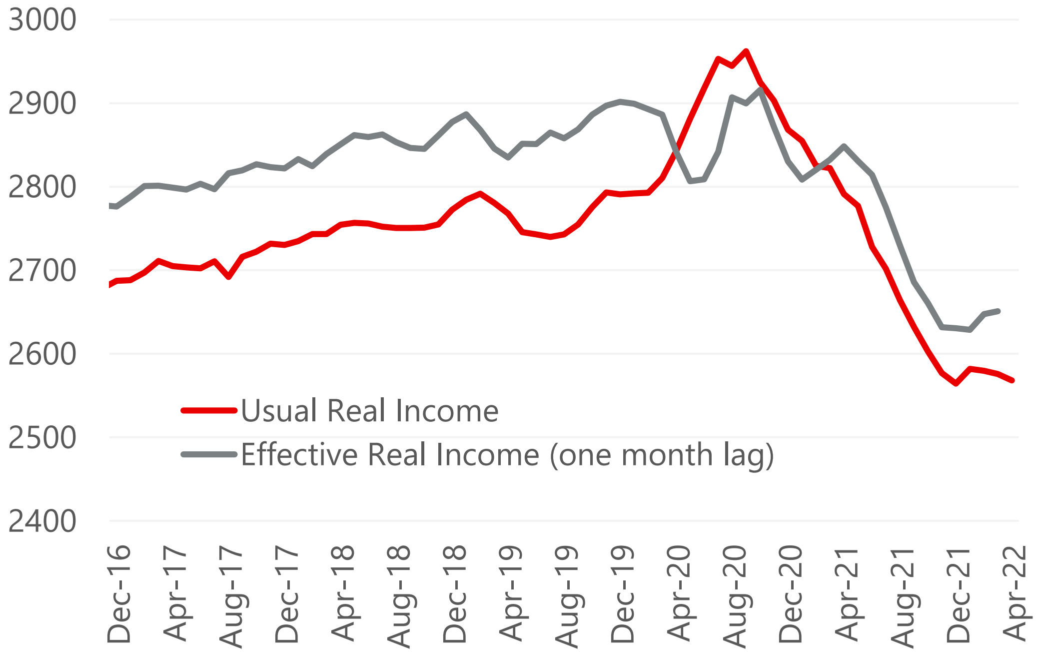


Sources: IBGE, Santander.

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

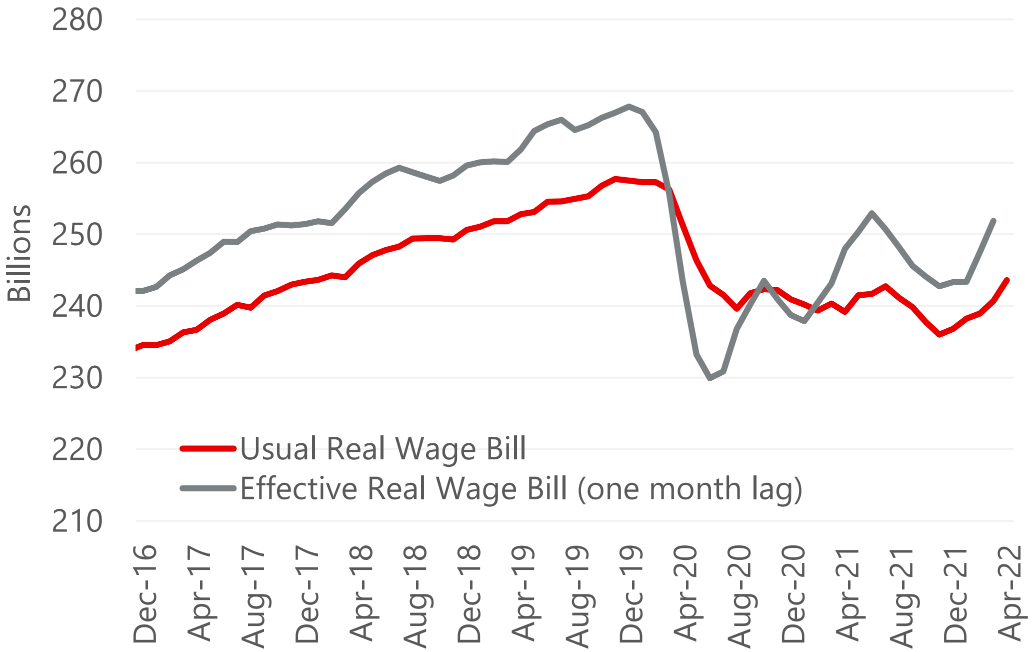
- The picture for the average real income indicators is still of stagnation at the margin, especially due to the high inflation. The real wage bill, on the other hand, is benefitting from employment growth. The usual real wage bill increased 1.2% MoM-sa in April, and is 5.3% below its pre-crisis mark. We expect real income to gradually recover as inflation slowly decelerates.

Average Real Income (BRL, sa)



Sources: IBGE, Santander.

Real Wage Bill (BRL, sa)

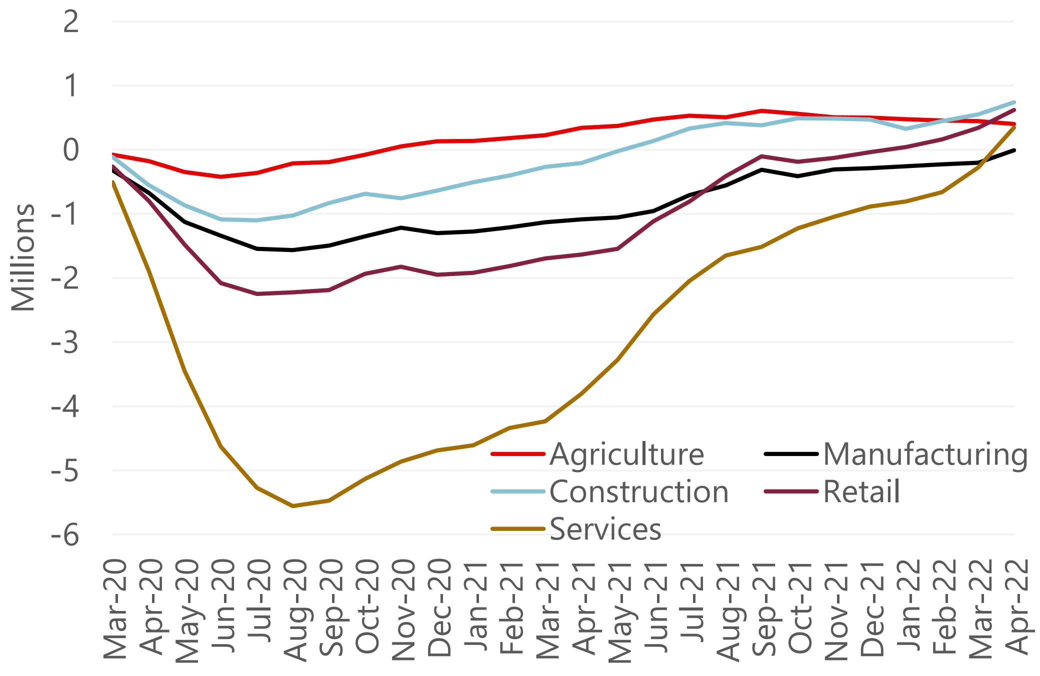


Sources: IBGE, Santander.

All Main Sectors Above the Pre-Crisis Mark

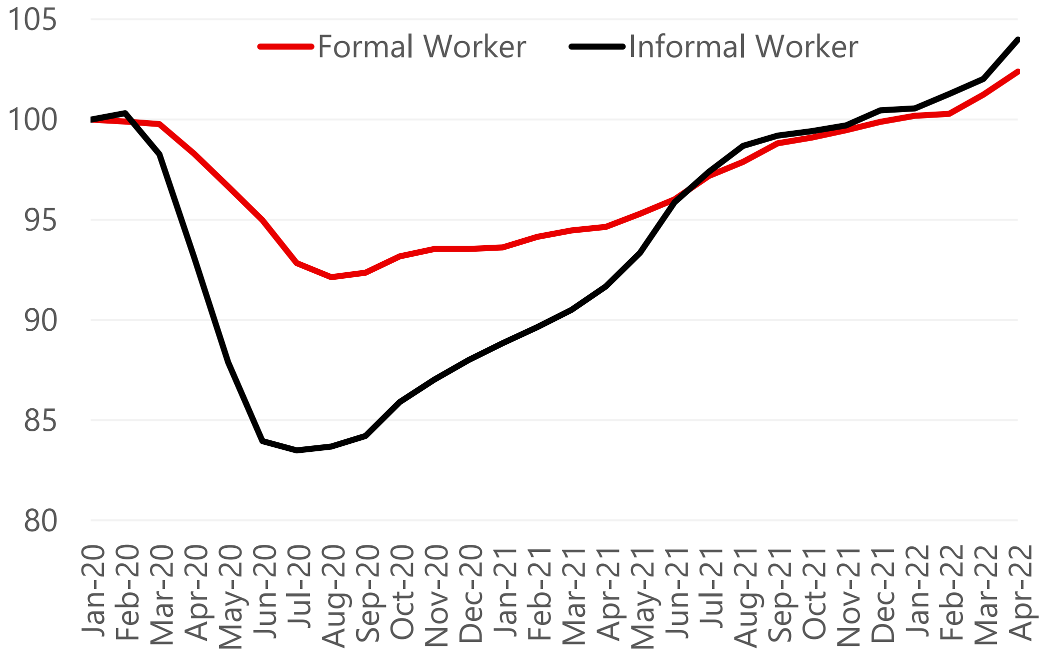
- The services sector has been the highlight of employment growth in April, consolidating the full recovery of its job losses during the pandemic. Employment in retail also continued to expand. Informal employment growth was higher than the one in formal employment, but both series indicate a strong pace of expansion since February. All in all, the economic reopening seems to be positively impacting the labor market.

Post-Pandemic Accumulated Job Losses (sa)



Sources: IBGE, Santander.

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

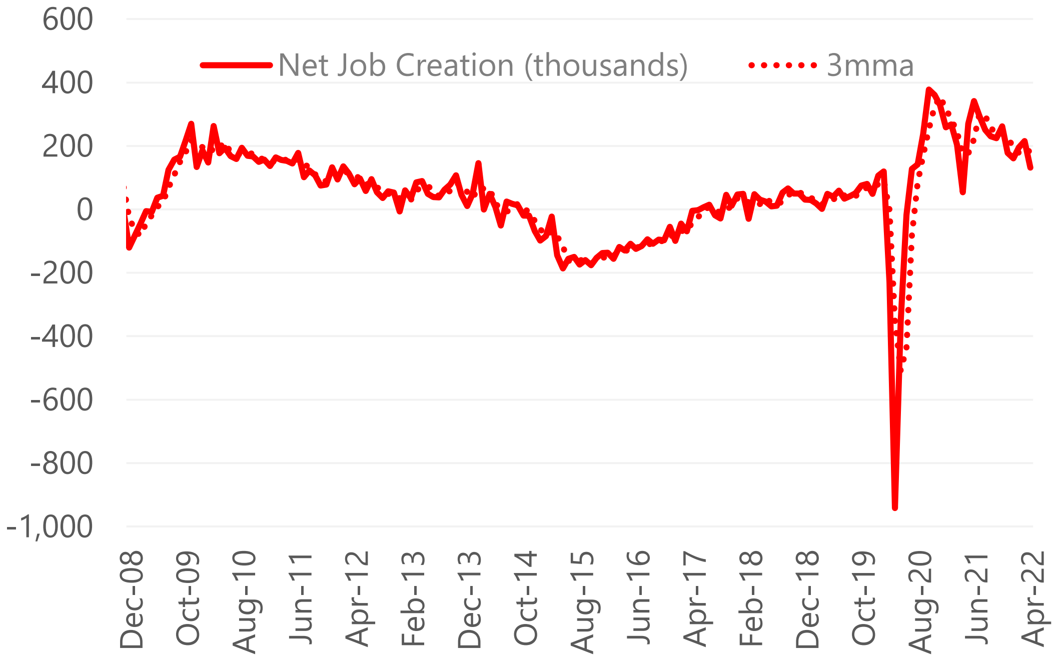


Sources: IBGE, Santander.

CAGED Returned to its Slow Deceleration Trend

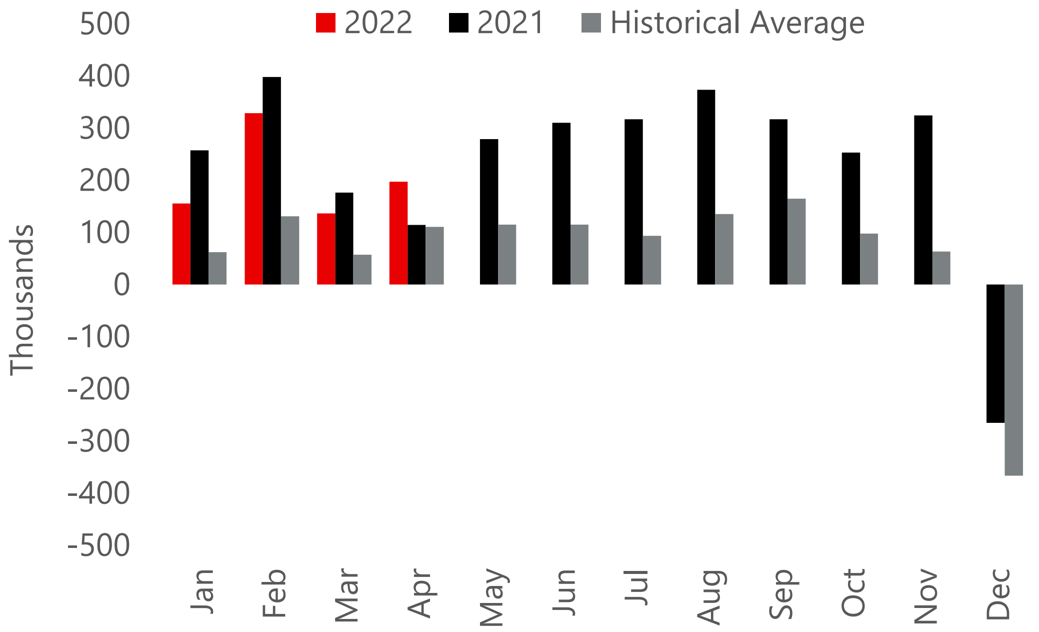
- According to the April 2022 CAGED survey, net formal job creation stood at 197.0k, (versus consensus 174k, Santander estimate 276k), above the historical average (110.6k) and the observed in April 2021 (113.9k). The result was above the market consensus, but indicates some deceleration in formal labor market, as our seasonal adjustment indicates that net formal job creation decelerated to 132k, from 216k in March.

CAGED Net Job Creation (sa)



Sources: Ministry of Labor, Santander.

Net Job Creation and Historical Average

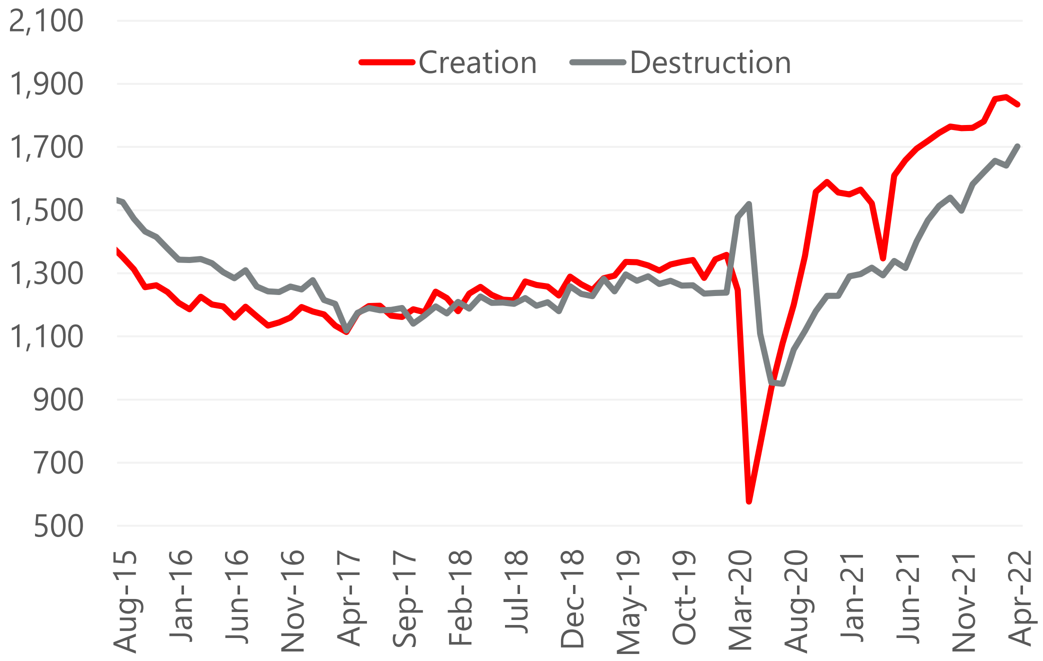


Sources: Ministry of Labor, Santander.

CAGED: End of BEm Program Continues to Affect the Results

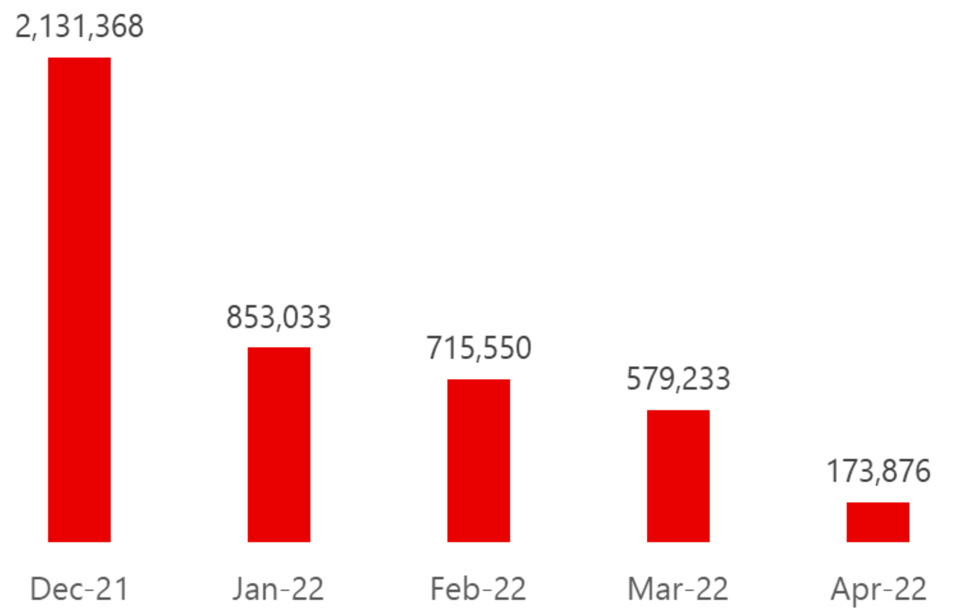
- We believe that the end of the formal employment program (BEm) continued to affect the data, as the layoffs series renewed its recent highs in seasonally adjusted terms. Each month, fewer workers are included in the program's temporary job guarantee as the waiver periods for layoffs of the program's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

CAGED: Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

Jobs Secured by BEm Program

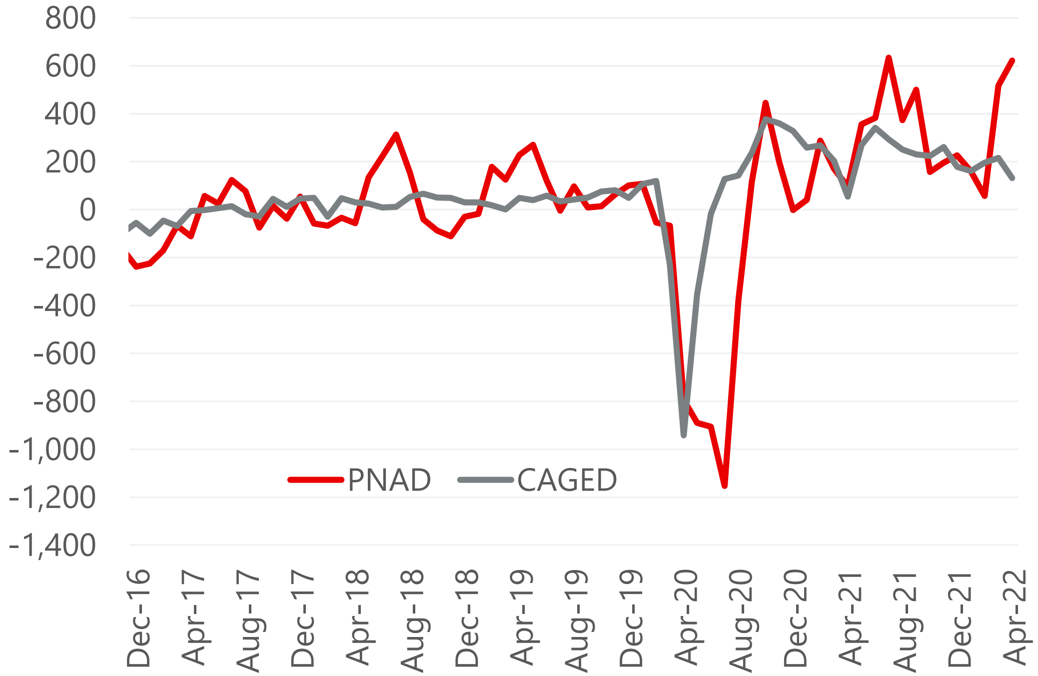


Sources: Ministry of Labor, Santander.

PNAD Now Paints a Better Picture Than CAGED

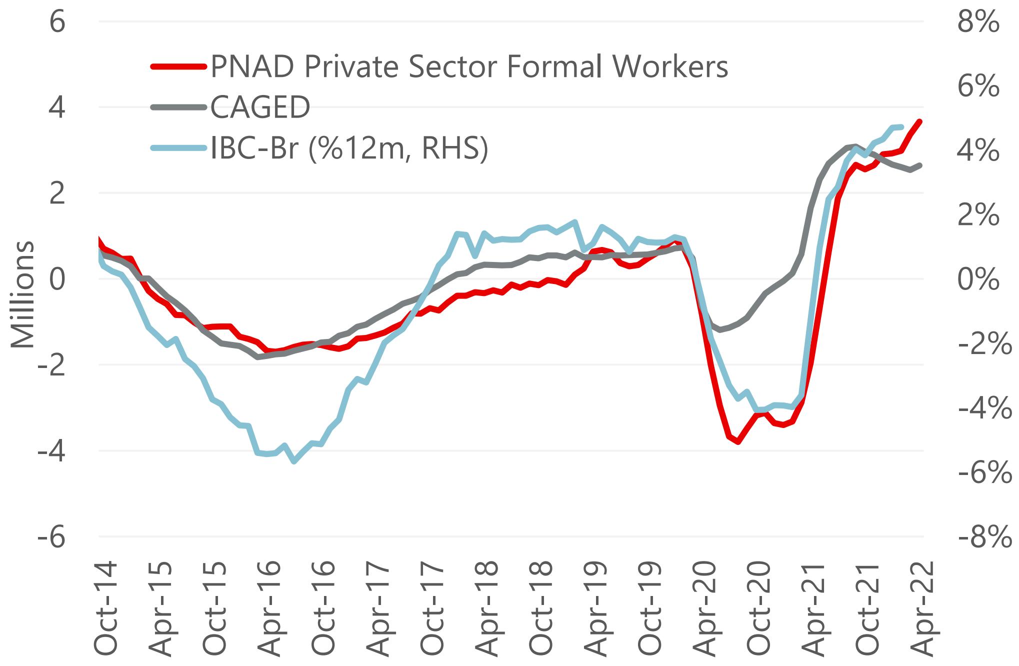
- As formal employment in PNAD printed strong results in March and April, CAGED data continues to point to a deceleration in net job creation. The PNAD survey now seems more aligned with core economic activity indicators.

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.

April 2021 PNAD Results

PNAD Breakdown									
	s.a.			% YoY			% Feb-20*		
	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22
Unemployment rate (%)	11.1	10.7	10.1	-3.4	-3.8	-4.3	-0.5	-1.0	-1.5
Participation rate (%)	62.0	62.0	62.6	2.4	2.3	2.4	-1.1	-1.1	-0.5
Labor force (millions)	106.9	107.1	108.3	4.9	4.8	5.1	0.1	0.3	1.6
Employment	95.0	95.6	97.3	9.1	9.4	10.3	0.7	1.4	3.2
Unemployment	11.9	11.4	11.0	-19.5	-21.7	-25.3	-4.6	-8.4	-12.0
Formalization Rate (%)	57.1	57.1	56.9	-1.4	-1.3	-1.2	-0.1	-0.1	-0.3
Formal Workers (millions)	54.1	54.6	55.3	6.4	7.1	8.1	0.4	1.3	2.5
Informal Workers (millions)	40.7	41.0	41.8	12.9	12.7	13.5	1.0	1.7	3.7
Average usual earnings (BRL)**	2,580	2,576	2,568	-8.7	-8.7	-7.9	-7.6	-7.8	-8.0
Average effective earnings (BRL)**	2,647	2,651	-	-6.2	-6.3	-	-8.5	-8.4	-
Usual wage bill (BRL bn)**	239.0	240.7	243.6	-0.2	0.2	1.9	-7.1	-6.5	-5.3
Effective wage bill (BRL bn)**	247.5	251.9	-	2.9	3.7	-	-6.3	-4.7	-

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

** In real terms

Sources: IBGE, Santander.

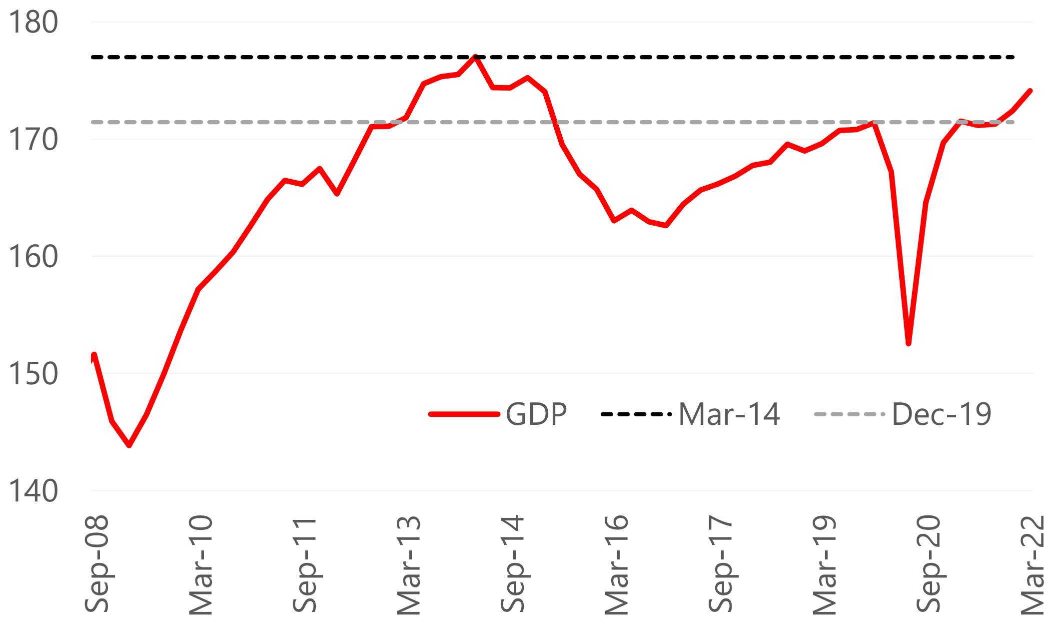
05

GDP

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).

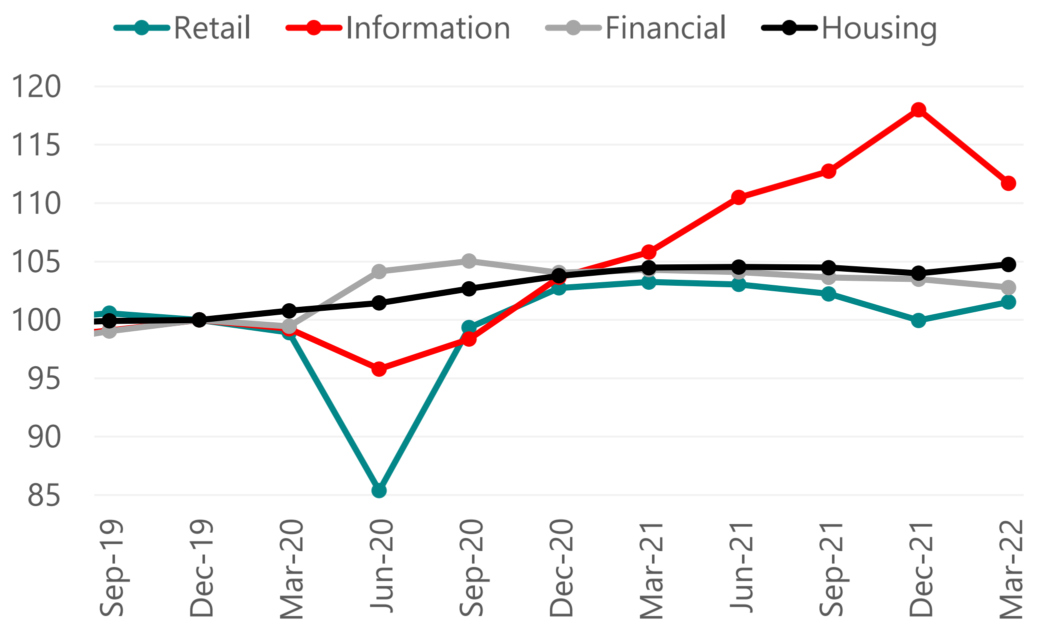
	4Q21		1Q22		4Q19*	Carry **
	% YoY	% QoQ	% YoY	% QoQ	%	%
GDP	1.6	0.7	1.7	1.0	1.6	1.5
Supply						
Taxes	2.2	0.3	0.5	0.1	2.1	0.3
Farm Output	-0.8	6.0	-8.0	-0.9	-0.2	-2.1
Industry	-1.3	-1.2	-1.5	0.1	-0.2	-1.0
Mining	4.5	-2.1	-2.4	-3.4	-5.2	-4.6
Manufacturing	-6.9	-2.2	-4.7	1.4	-1.2	-1.6
Construction	12.2	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

Santander

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 being 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.

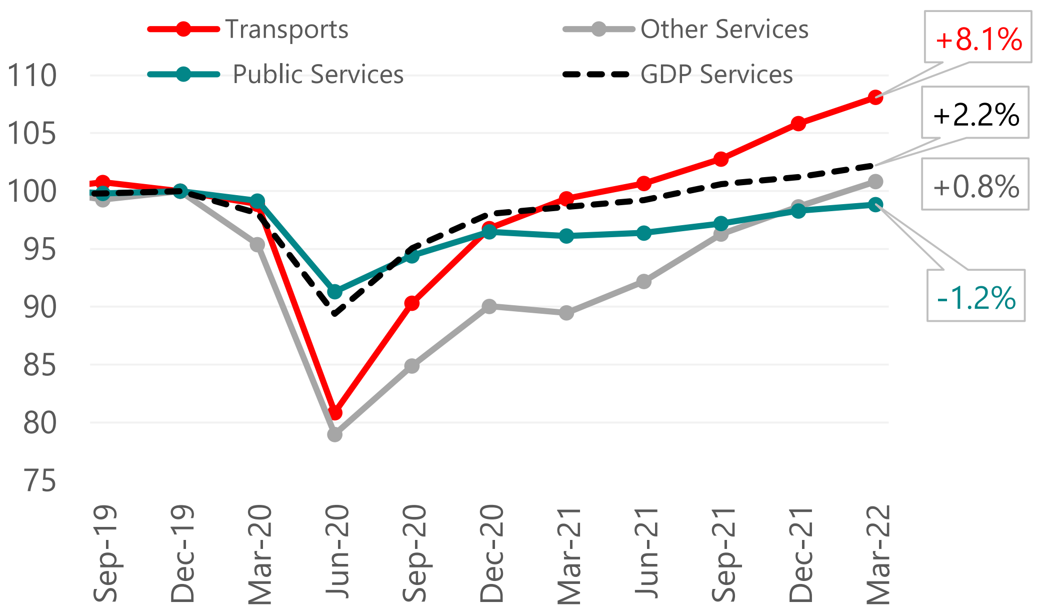
Selected Segments of Services (sa, 4Q19=100)



Sources: IBGE, Santander.

**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).

Santander

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 growth forecast for 2022, but lowering our estimates for 2023 and 2024. For 2022, in light of positive surprises that improved the 1H22 outlook, we raised our GDP growth forecast to +1.2% (from +0.7%), mainly supported by the mechanical contribution from the services reopening, the labor market recovery and the strengthening in less-cyclical commodity-related sectors. Indeed, we see the economy still benefiting from the lingering effects of the post-pandemic normalization process, particularly in the services sector and in the labor market. The performance of commodities-related sectors is to provide additional support, especially following another boost in raw material prices. However, the delayed effects of a tight monetary policy will act to stifle economic activity in 2H22, more prominently in 4Q22. We see the lagged effects of monetary policy prevailing since then, prompting a recession in 2023: we estimate a 0.6% GDP contraction (lowered from -0.3%) next year and a growth of 0.5% (revised from 1.5%) for 2024.

- Our expected GDP path is as follows: we foresee GDP expanding +0.2% QoQ-sa in 2Q22, owing to the economy's reopening process consolidation and to the real wage bill expansion. Conversely, we expect the materialization of the delayed effects of a tight monetary policy and deteriorated financial conditions, with stability in 3Q22 (0% QoQ-sa) and retreat in 4Q22 (-0.4% QoQ-sa).

- **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. Better than expected recovery (or resiliency) in agricultural 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 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	1.8%	0.2%	
3Q22	1.5%	0.0%	
4Q22	0.0%	-0.4%	1.2%
1Q23	-0.6%	-0.3%	
2Q23	-1.0%	-0.2%	
3Q23	-0.7%	0.0%	
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	1.2	-0.6
Farm Output	1.3	0.4	3.8	-0.2	0.7	0.5
Industry	0.7	-0.7	-3.4	4.5	-0.7	-0.5
Services	2.1	1.5	-4.3	4.7	1.8	-0.6
Household	2.4	2.6	-5.4	3.6	1.5	0.3
Government	0.8	-0.5	-4.5	2.0	2.3	0.5
Investments	5.2	4.0	-0.5	17.2	-0.9	-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	3.3

Sources: IBGE, Santander

Better Results Have Led Us to Reduce our Unemployment Rate Estimates

- We estimate an average unemployment rate of 11.4% in 2022 (previously 12.7%), 12.3% in 2023 (previously 14.0%), and 12.4% in 2024 (previously 13.2%). In our view, the jobless rate should remain below the NAIRU (12-13%) in 1H22, with the labor market back to a more slackened situation next year, as we still expect the restrictive monetary policy stance to dominate labor market dynamics from 2H22 onward. However, the April PNAD results imply a downward bias for our unemployment rate estimates.

- We estimate that the monthly unemployment rate figure stood at 9.4% (sa) in April, compared to 10.3% in March, and has returned to single-digit territory for the first time since December 2015. Even after fully recovering the impact from the Omicron variant outbreak, the labor market continues to show strong figures at the margin.

- **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	11.4	12.3
End of Period (s.a.)	11.7	14.7	11.6	12.0	12.5
Unemployed Population **					
Average	12.8	13.8	13.9	12.4	13.6
End of Period	12.4	14.8	12.5	13.1	13.8

Sources: IBGE, Santander.

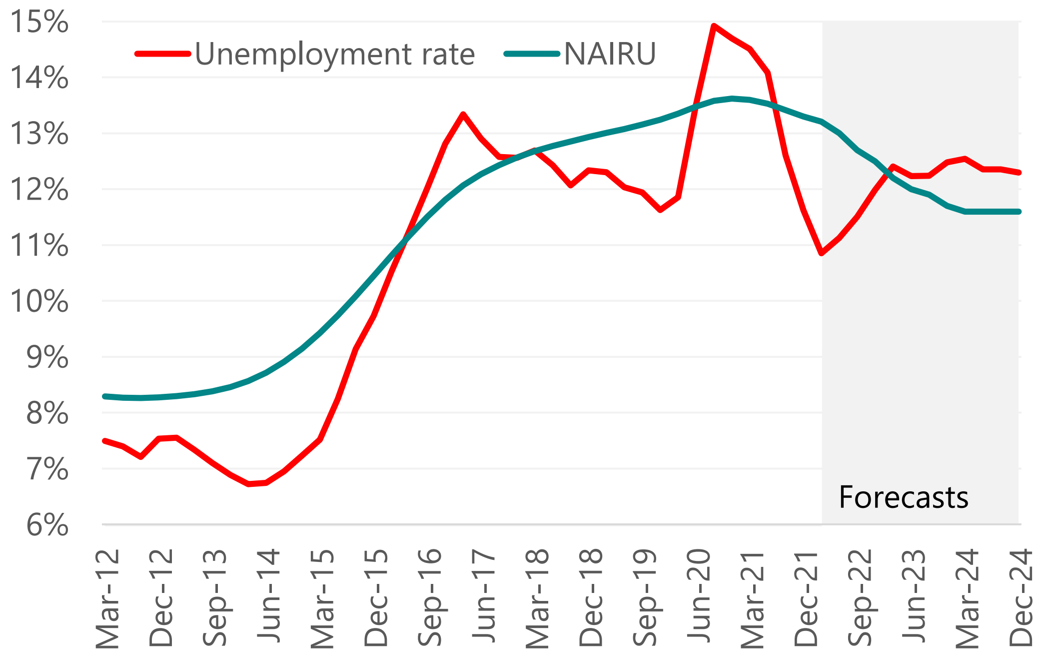
Unemployment Rate to Rise in the Following Months

- 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.

		Apr-22	Jun-22
Unemployment Rate (avg)	2022	12.7	11.4
	2023	14.0	12.3
	2024	13.3	12.4
Unemployment Rate (YE, sa)	2022	13.8	12.0
	2023	13.6	12.5
	2024	12.9	12.3
Unemployed (YE, Millions sa)	2022	15.1	13.1
	2023	15.0	13.8
	2024	14.3	13.7

Sources: IBGE, Santander.

New Unemployment Rate Trajectory (sa)

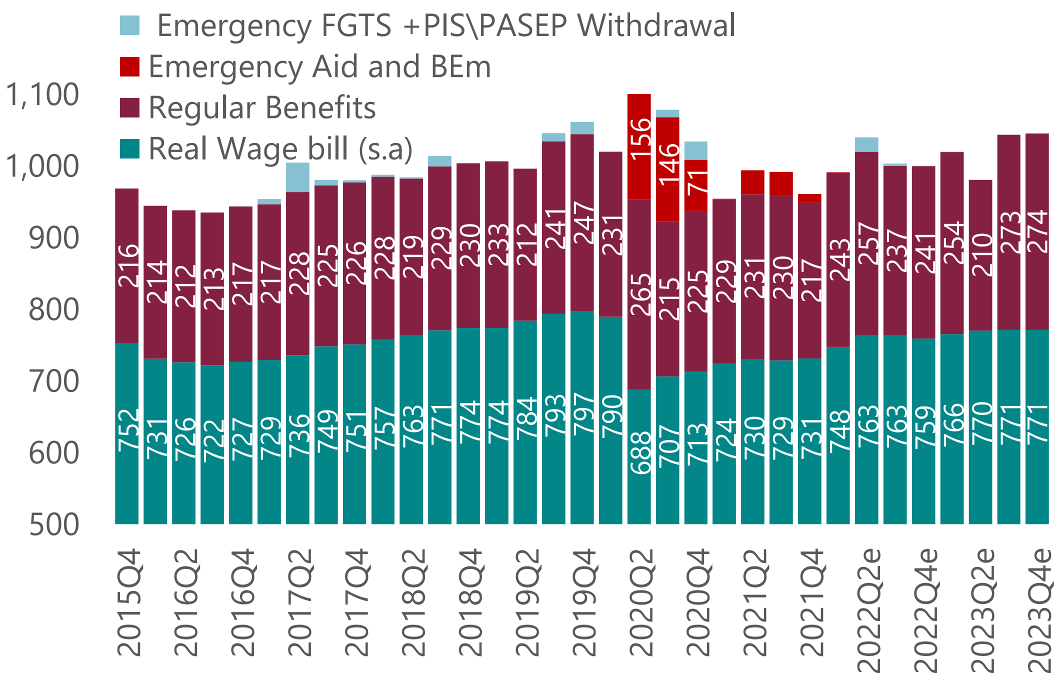


Sources: IBGE, Santander.

"Expanded" Real Wage Bill Largely Impacted by Inflation

- As for the "expanded" real wage bill scenario (labor income added with government transfers and social programs), our forecasts had only minor changes, as the higher expected level of employment was offset by the upward revisions in our inflation scenario. We project that the "expanded" real wage bill will grow 3.1%, 0.8%, and 1.2% in 2022, 2023, and 2024, respectively (we previously estimated gain of 3.2%, 1.1%, and 1.8%, respectively).

"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%	+4.1%	+1.5%	+1.8%
Real Wage Bill (With Government Transfers)	-8.0%	+3.1%	+0.8%	+1.2%

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

Macro Scenario: Projections

- For our Scenario Review 'A BITTERSWEET SCENARIO' (sent on June 02, 2022), click on the link: https://bit.ly/Std-scenreview-jun22

Macroeconomic Variables		Previous		Current
GDP (%)	2022E	0.7	↑	1.2
	2023E	-0.3	↓	-0.6
	2024E	1.5	↓	0.5
IPCA (%)	2022E	7.9	↑	9.5
	2023E	4.0	↑	5.3
	2024E	3.0	→	3.0
Selic Rate (% end of period)	2022E	13.25	↑	13.50
	2023E	10.00	↑	10.50
	2024E	7.00	↑	8.00
FX Rate - USDBRL (end of period)	2022E	5.00	↑	5.15
	2023E	4.80	↑	5.00
	2024E	4.70	↑	5.10
Current Account Balance (% of GDP)	2022E	-1.2	↓	-1.4
	2023E	-1.0	↓	-1.2
	2024E	-2.0	→	-2.0
Primary Fiscal Balance (% of GDP)	2022E	0.0	↑	0.4
	2023E	-0.8	↑	-0.6
	2024E	-0.6	↓	-0.7
Gross Public Debt (% of GDP)	2022E	80.6	↓	79.0
	2023E	84.1	↓	83.1
	2024E	87.5	↓	87.2

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

IMPORTANT DISCLOSURES

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. (“Santander Investment Bolsa”), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates**: Lucas Maynard and Gabriel Couto*.**

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.