Brazil Macro | March 2022

Economic Activity

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SUMMARY

- **We are maintaining our GDP growth forecasts for the horizon of 2022 to 2023.** The 4Q21 GDP data pointed to a stronger than anticipated economic growth in the period, implying a greater carryover (+0.3%) to the current year. For 2022, if, on the one hand, the rise in risk premia and the more severe tightening of financial conditions act to stifle economic activity, on the other hand, the economy tends to benefit from the performance of less cyclical commodity-related sectors (e.g., farm output) and from the remaining effects of the post-pandemic normalization process, particularly in the services sector and in the labor market. We think this will be particularly true for 1H22. From a demand standpoint, we project growth in household consumption, sustained by an expected expansion in the real wage bill (a byproduct of the labor market recovery), as well as by an increase in government spending, given the normalization of the provision of public services (notably health and education) along with a fiscal impulse. In our view, the deterioration in investments will be partially mitigated by resilience shown both by the building sector (with a longer cycle) and by commodities-related capital goods sectors. Conversely, in 2H22, we expect the materialization of the delayed effects of a tight monetary policy and deteriorated financial conditions, implying a relevant negative carryover for the following year. We expect a 0.7% GDP growth in 2022.

- **For 2023, we expect the lagged effects of monetary policy to prompt a retreat in real activity.** We estimate a GDP contraction of 0.2%, way below the consensus estimate (+1.4%).

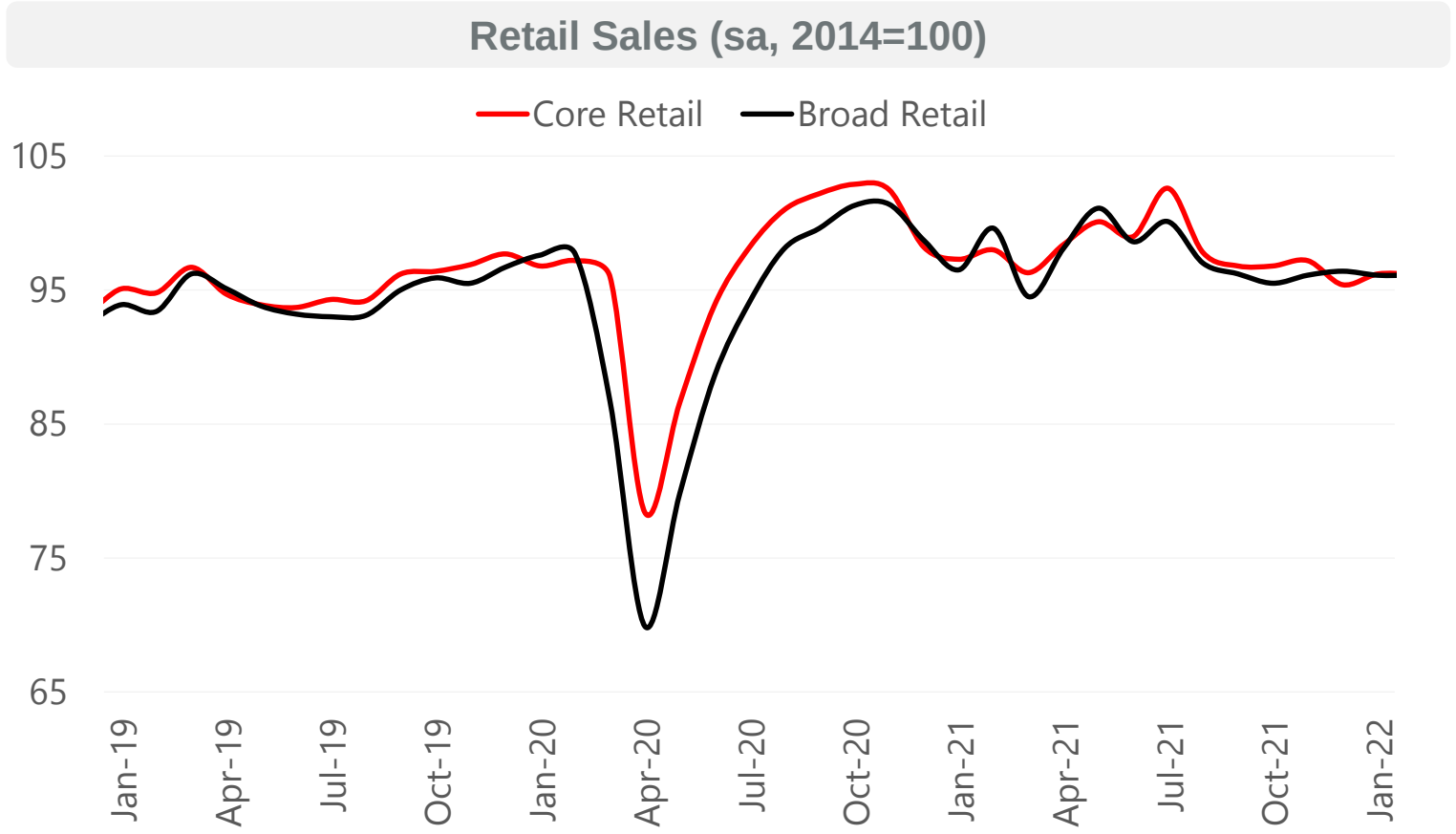
- **Considering the slower than expected recovery in the labor market participation rate, we are lowering our estimate for the average unemployment rate in 2022.** We maintain our expectation of worsening conditions in the labor market throughout 2022 and 2023, as the benefits of the reopening process fade and the effects of the monetary tightening intensify. We estimate an average unemployment rate of 13.3% in 2022 (previously 13.7%), 14.0% in 2023 (unchanged), and 13.2% in 2024, with the jobless rate standing above the structural (NAIRU) level for most of that horizon.

RETAIL SALES

01

Continued Flattening Expectations for Retail Sales

- Inflationary pressures and rising interest rates continue to bring challenges to retail activity ahead, amid an environment with still high unemployment and low consumer confidence. Furthermore, supply hurdles seen worldwide are expected to last longer than previously thought, in the wake of the Russian-Ukrainian conflict contributing to a weakening outlook for goods-related sectors.

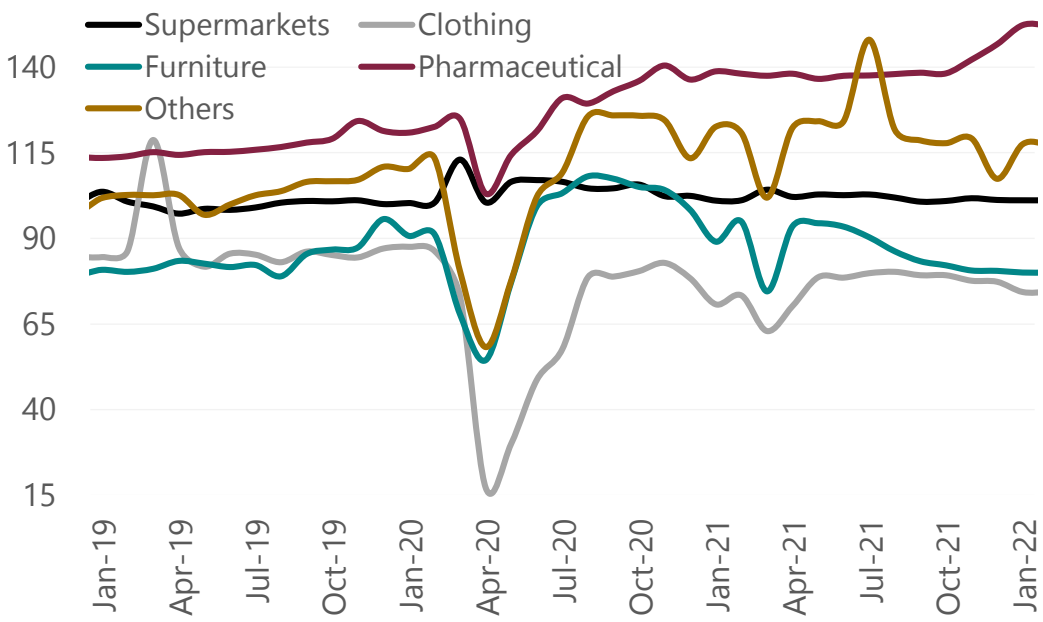


Sources: IBGE, Santander

Essential Goods Show Resilience

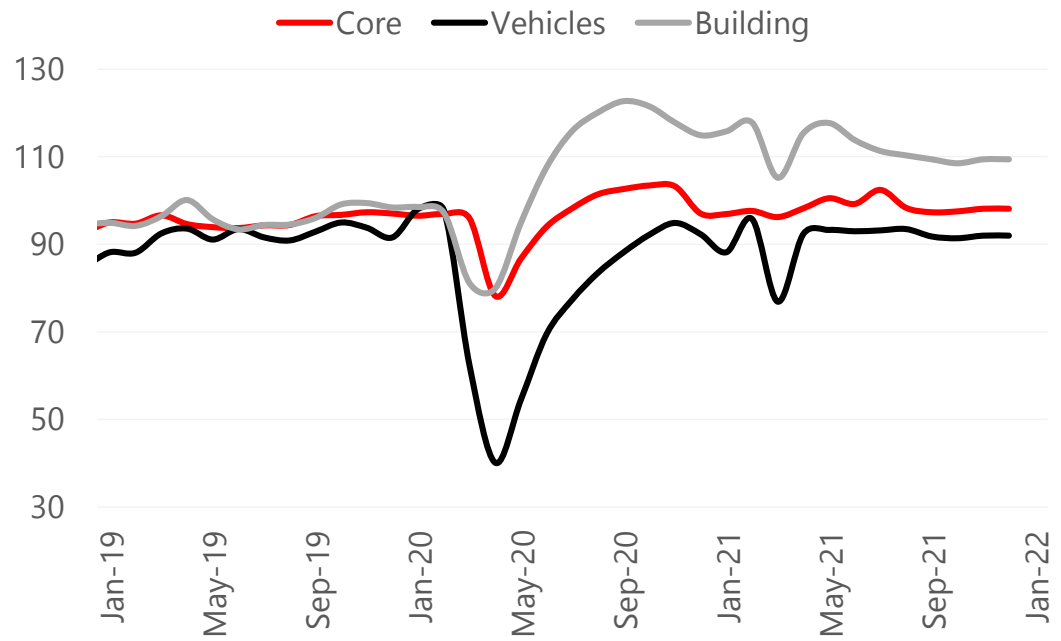
- Food and health related products have been benefitted amid the COVID19 pandemic outbreak, and have shown resilience as the sanitary crisis subsides. However, regarding the remaining categories, we see both credit-led and income-led retail activities facing a discouraging environment ahead, reinforced by the demand shifting towards services consumption.

Core Retail Sales (sa, 2014=100)



Sources: IBGE, Santander

Broad Retail Sales (sa, 2014=100)

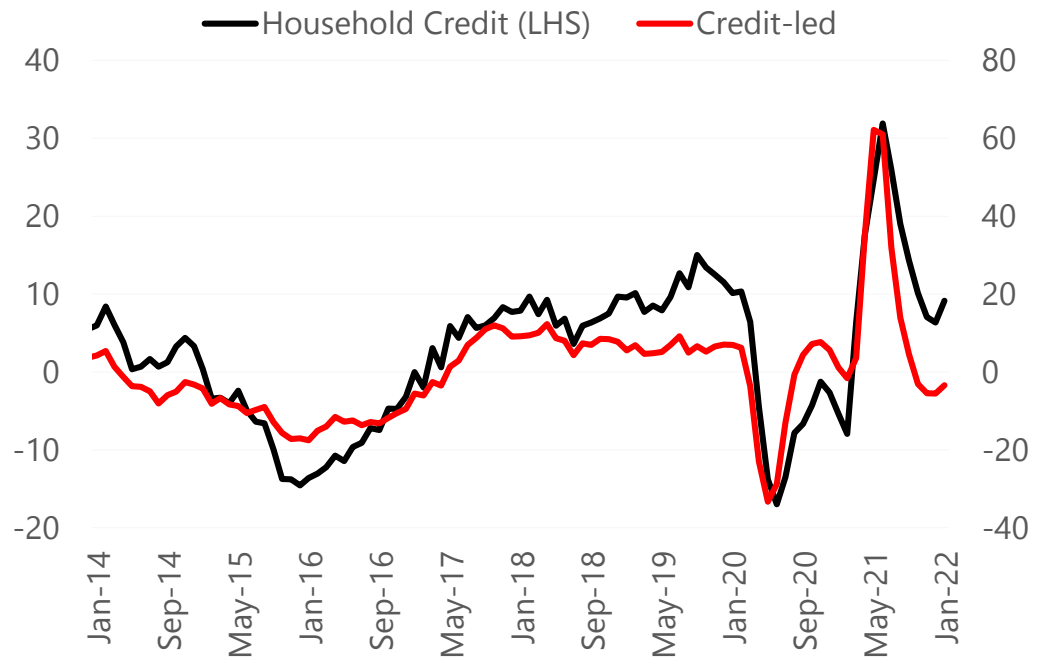


Sources: IBGE, Santander

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

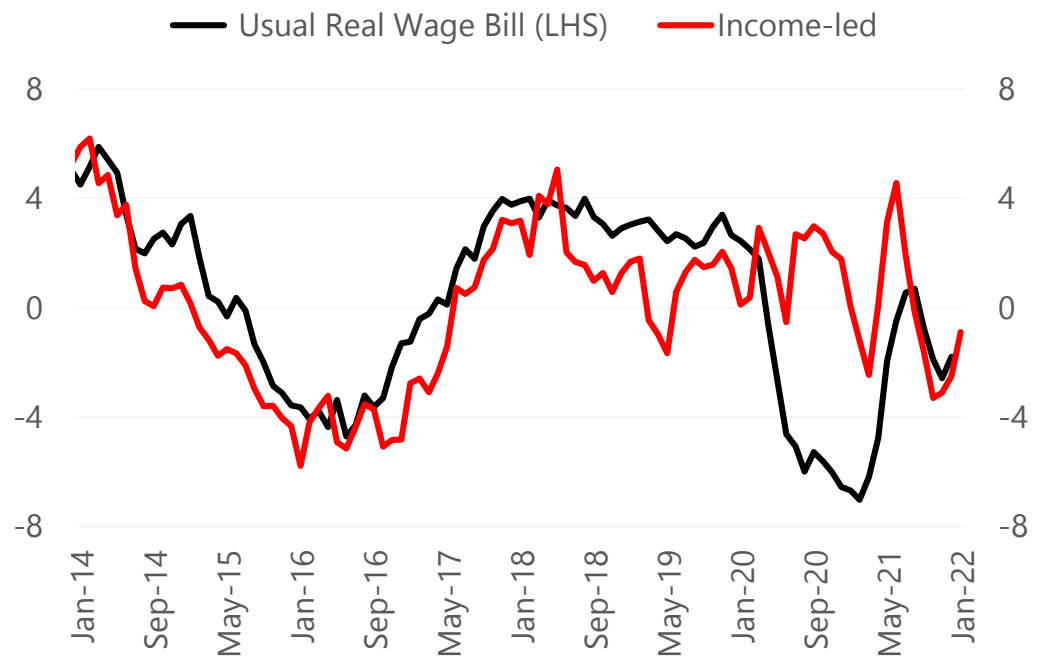
- For 2022, the resilience of household consumption should come from the labor market recovery (with an expected real wage bill expansion as a byproduct), mainly from the informal segment, and from an increase in government transfers (*Auxílio Brasil*). Amid the rising interest rates context, we don't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

Retail Sales and Credit (3mma, % YoY)



Sources: IBGE, Santander

Retail Sales and Income (3mma, % YoY)



Sources: IBGE, Santander

Retail Sales Breakdown

Retail Sales Breakdown											
		% MoM			% YoY			% QoQ			%
Weights		Nov-21	Dec-21	Jan-22	Nov-21	Dec-21	Jan-22	Jun-21	Sep-21	Jan-22	Feb-20*
66.9%	Core Retail Sales	0.4	-1.9	0.8	-4.2	-3.0	-1.9	2.0	-0.1	-0.9	-1.0
8.3%	Fuels	-1.4	0.0	-0.4	-7.0	-6.3	-6.8	2.1	-1.7	-2.7	-12.9
30.6%	Hypermarkets, supermarkets	0.8	-0.5	-0.1	-0.7	-0.4	-1.0	0.4	-0.7	0.2	0.7
6.2%	Fabrics, clothing and footwear	-2.0	-0.4	-3.9	-4.4	-1.0	2.6	9.9	5.2	-3.9	-13.9
7.4%	Furniture and home appliances	-1.8	-0.1	-0.6	-21.2	-18.0	-11.5	8.9	-7.6	-4.2	-12.3
5.1%	Pharmaceuticals	2.9	3.2	3.8	2.6	7.8	10.0	-0.5	0.4	6.4	24.2
0.9%	Books, papers and magazine	0.3	2.1	-2.0	-14.1	-6.0	23.1	16.4	-1.7	0.8	-35.4
0.6%	Office equipment and supplies	-0.1	-1.8	0.3	-5.6	-6.4	-7.1	2.5	-6.2	1.5	-14.0
7.8%	Other personal items	1.2	-9.9	9.4	-2.6	-5.8	-6.0	7.4	4.7	-3.9	3.5
100%	Broad Retail Sales	0.6	0.3	-0.3	-2.9	-2.7	-1.4	2.5	-1.5	0.0	-1.6
8.9%	Building Materials	0.4	-1.4	-0.3	-4.0	-8.2	-7.8	2.1	-4.7	-1.6	9.8
24.2%	Vehicles	0.7	1.1	-1.9	1.7	0.4	2.8	6.8	-0.1	-0.2	-6.7

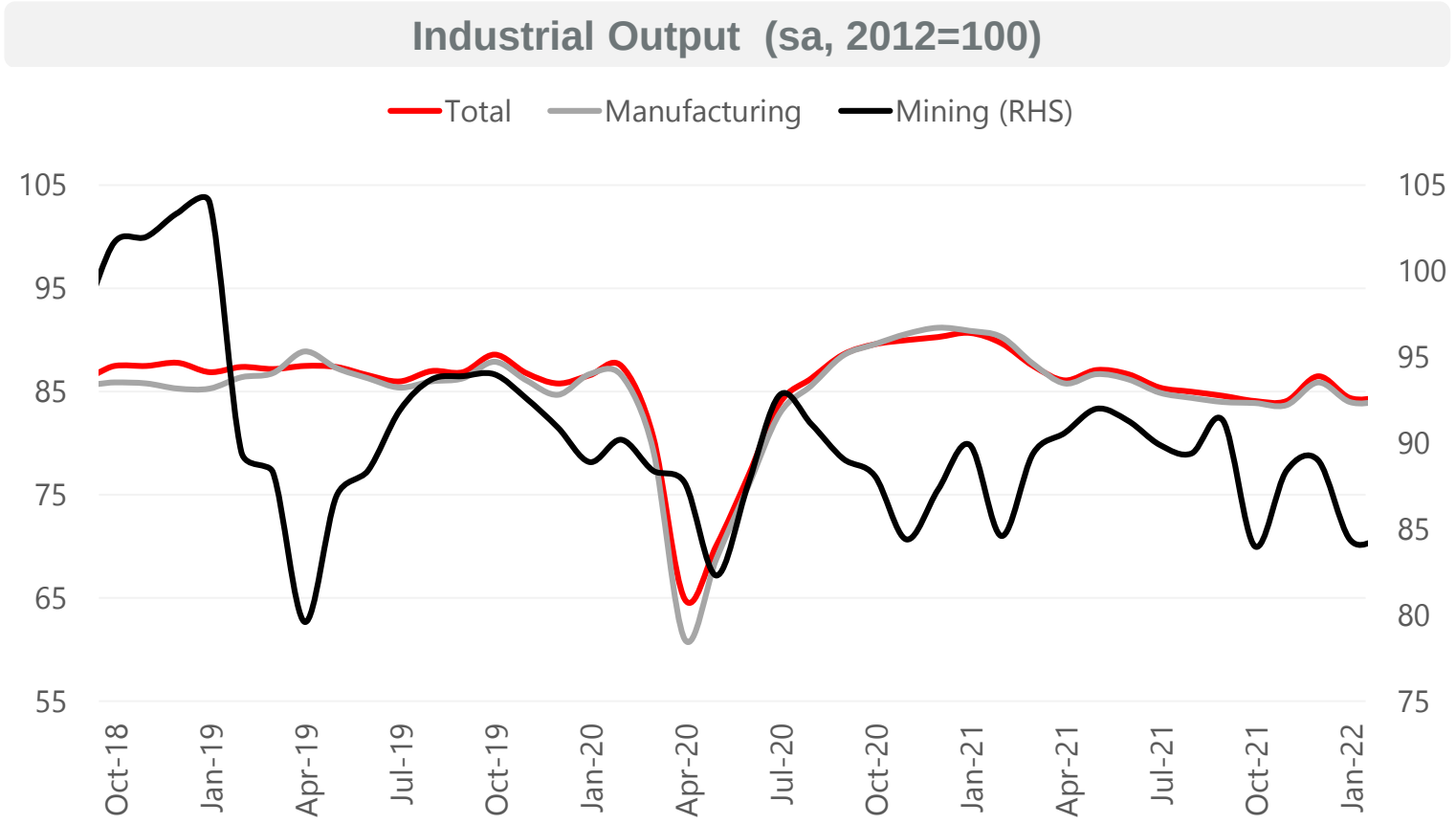
Sources: IBGE, Santander

INDUSTRIAL PRODUCTION

02

Industry Continued to Weigh on Activity and we Expect a Short-Term Flattening

- Manufacturing continued to weaken, virtually fully giving back December's positive surprise. The lingering supply chain hurdles worldwide along with demand shifting from goods towards services reinforces a weak outlook for industry ahead. However, in the short-term, better-than-expected coincident indexes suggest a softening in the negative trend seen recently.

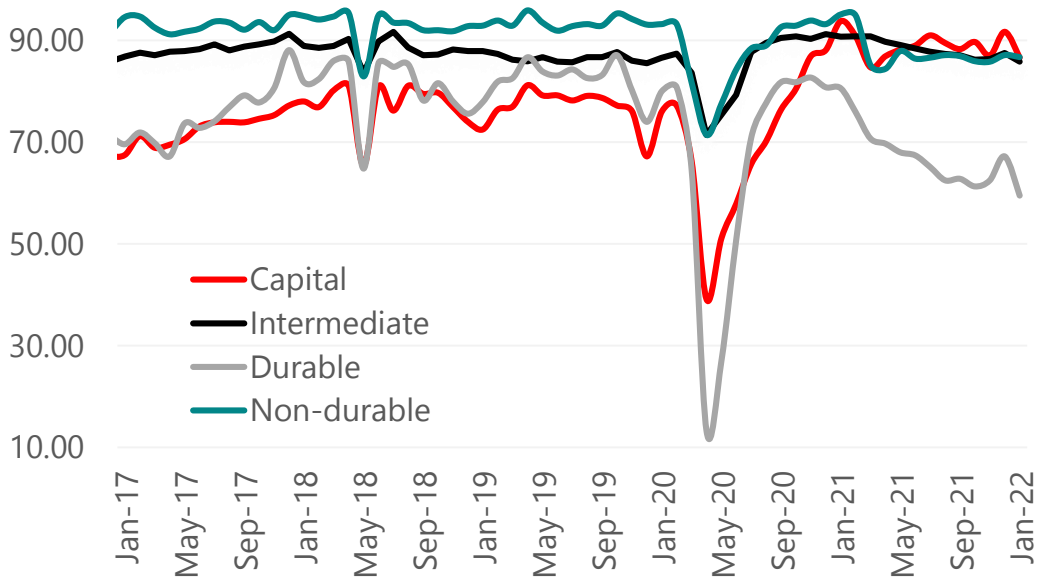


Sources: IBGE, Santander

Investments Growth Still at High Prints but Should Slow Ahead

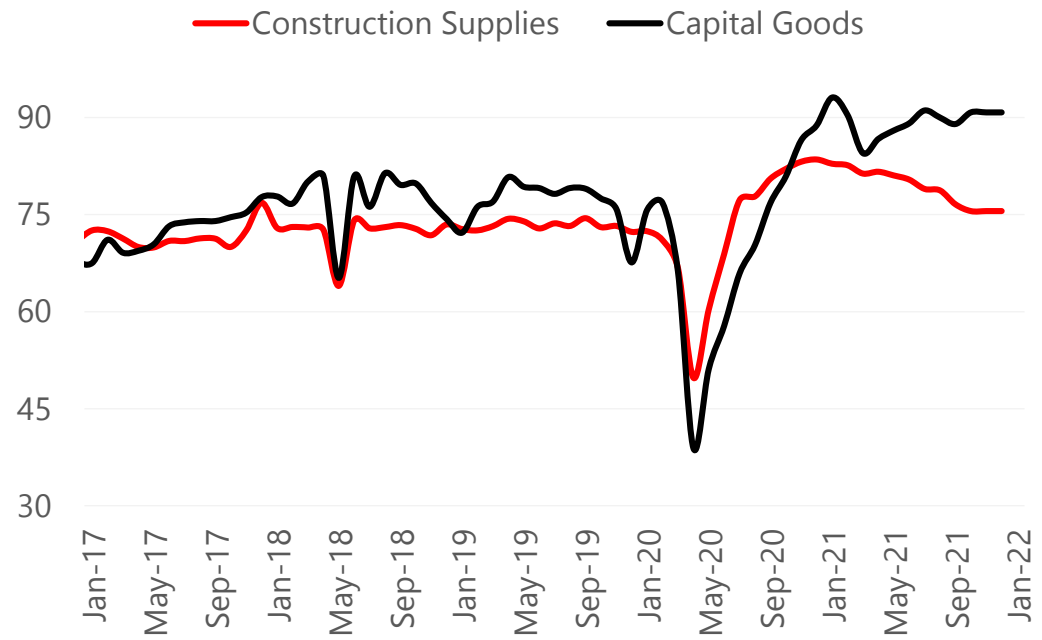
- In the wake of historically eased financial conditions and the positive commodities cycle, investments climbed two-digits in 2021 and reached the highest rate (% of GDP) since 2014. This element can contribute to support activity next year, with demand finding more supply capacity ahead. The longer cycle of the building sector and the still positive commodities cycle can mitigate the impact in 2022 of the financial conditions worsening.

Industrial Production (sa, 2012=100)



Sources: IBGE, Santander

Related to Investments (sa, 2012=100)

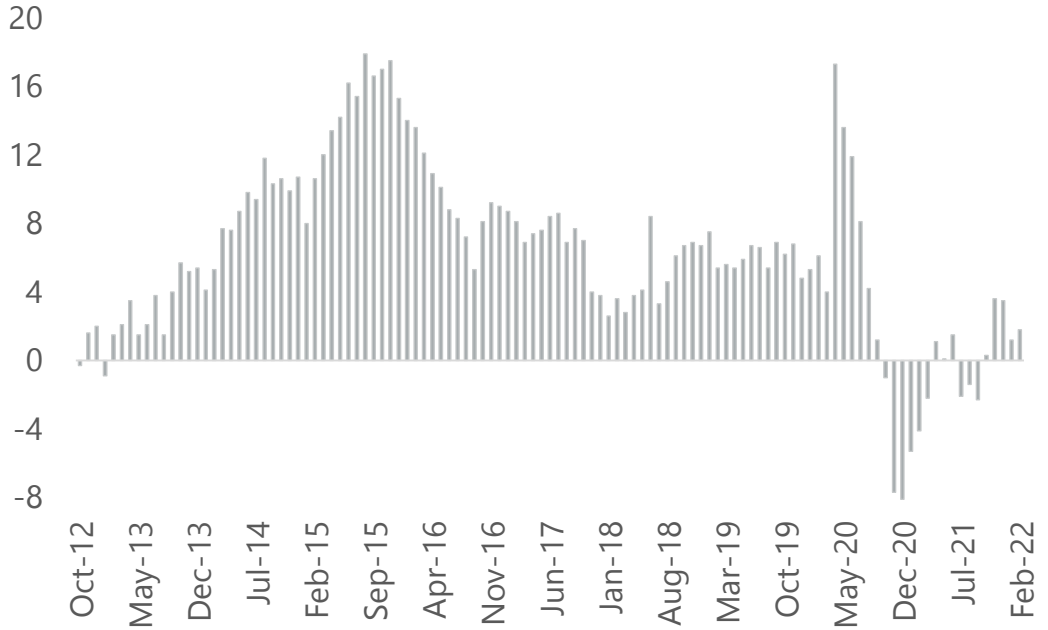


Sources: IBGE, Santander

Do Inventories Begin to Recover?

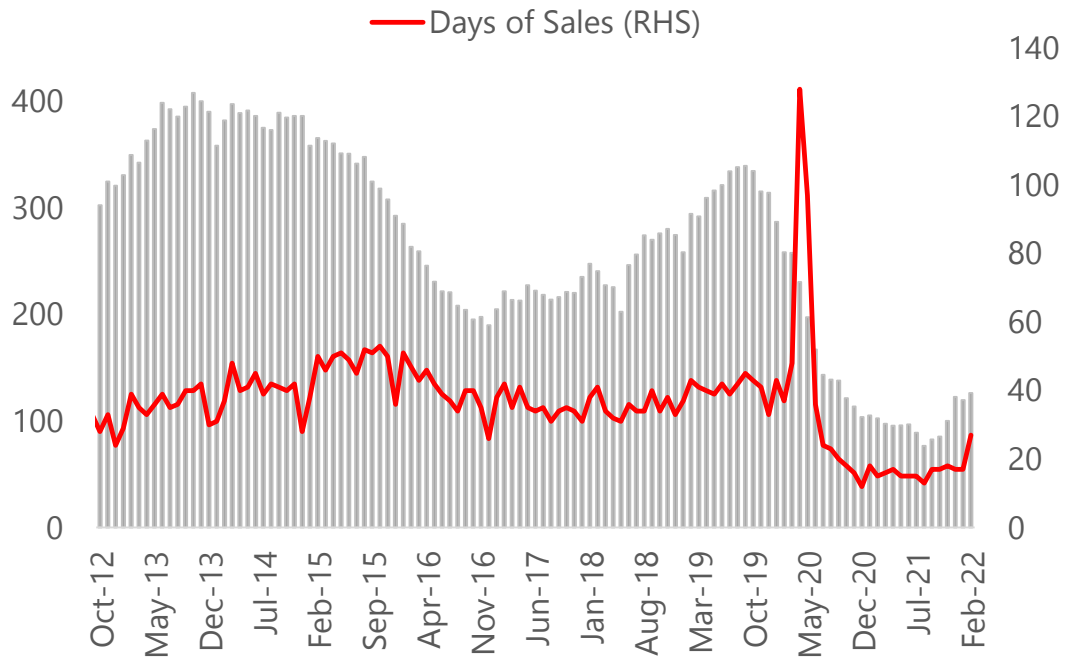
- The historically low inventories level recently reached means that local industry (not only auto factories) had a hard time overcoming high costs and widespread inputs shortage amid important supply hurdles seen widespread. However, the last results suggested better figures. Inventories replenishment 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			Feb-20 %
	Weights	Nov-21	Dec-21	Jan-22	Nov-21	Dec-21	Jan-22	Nov-21	Dec-21	Jan-22	Jan-22
Total Industry	100%	0.0	2.9	-2.4	-4.3	-4.9	-7.2	-1.7	-0.1	0.5	-3.5
Mining	**11%**	**5.2**	**0.7**	**-5.2**	**4.5**	**1.9**	**-6.6**	**-2.5**	**-3.4**	**-1.1**	**-6.4**
Manufacturing	**89%**	**-0.2**	**2.6**	**-2.2**	**-5.5**	**-5.9**	**-7.3**	**-1.5**	**0.1**	**0.5**	**-3.0**
Capital Goods	8%	-3.0	5.4	-5.6	4.4	3.7	-8.0	-1.7	-0.1	-0.8	12.2
Intermediate Goods	60%	0.1	1.4	-1.9	-2.9	-4.0	-5.1	-1.5	-0.8	-0.4	-1.8
Consumer goods	32%	0.2	3.6	-2.5	-9.6	-9.4	-11.9	-0.2	1.0	1.6	-10.8
Durable	7%	2.0	7.5	-11.5	-20.8	-16.6	-25.8	-4.3	0.3	1.4	-26.4
Non-Durable	25%	-0.1	1.5	-0.5	-6.4	-7.5	-8.3	-0.6	-0.7	-0.1	-7.0
Construction Supplies	**-**	**-0.8**	**-0.5**	**-0.1**	**-8.0**	**-11.8**	**-10.9**	**-4.6**	**-4.0**	**-3.1**	**5.3**

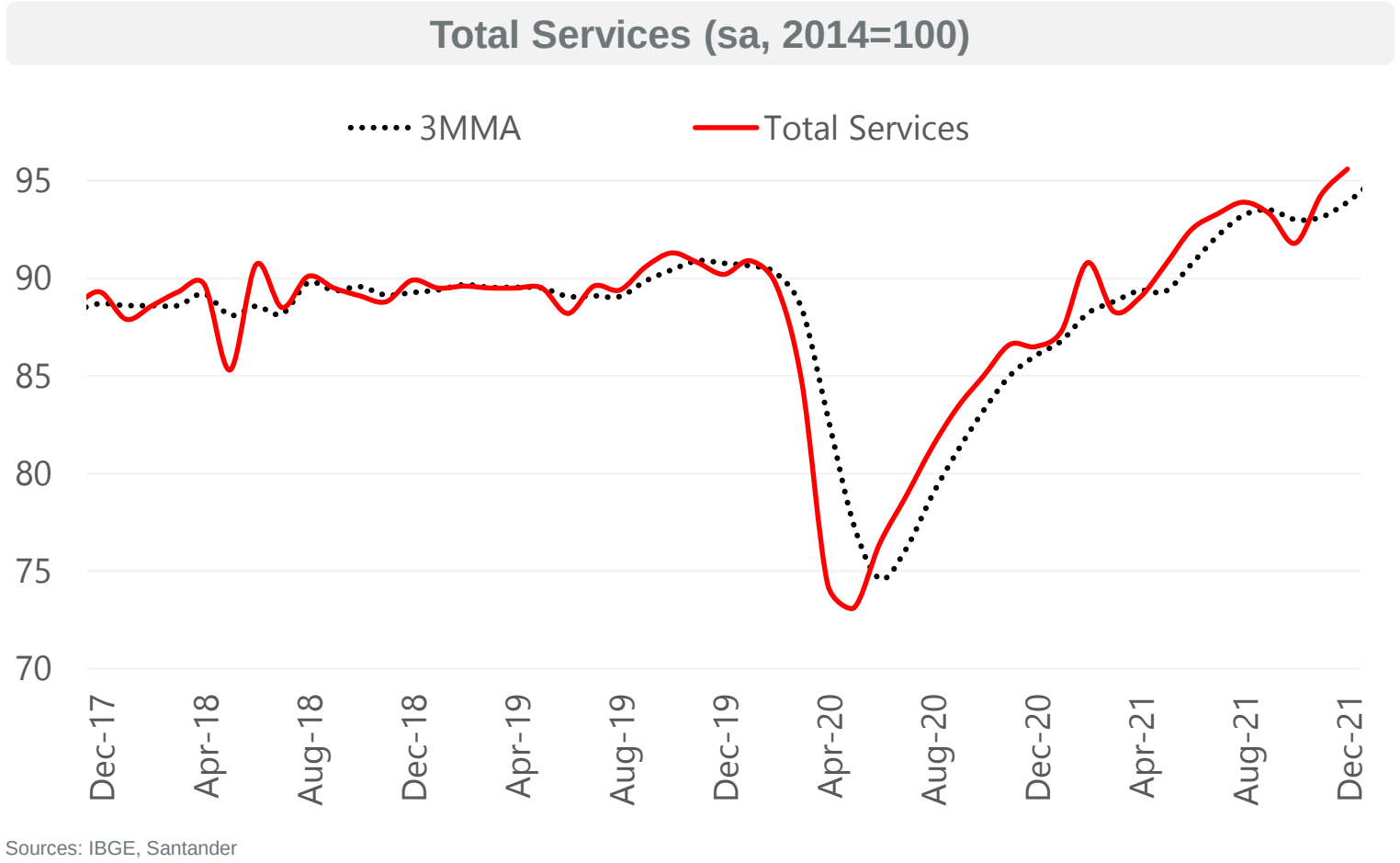
Sources: IBGE, Santander

SERVICES

03

Services Continue to be Benefit from Reopening

- Advances in the reopening process (and the consequent increase in mobility) continued to strengthen the service sector. Most mobility-related activities are gaining traction but remain at readings below their pre-pandemic mark. However, with the increasing digitalization during the worst moments of the pandemic, the provision of technologic and informational services drove the more cyclical services toward levels above the pre-crisis mark. It remains to be seen whether this evolution will be permanent.

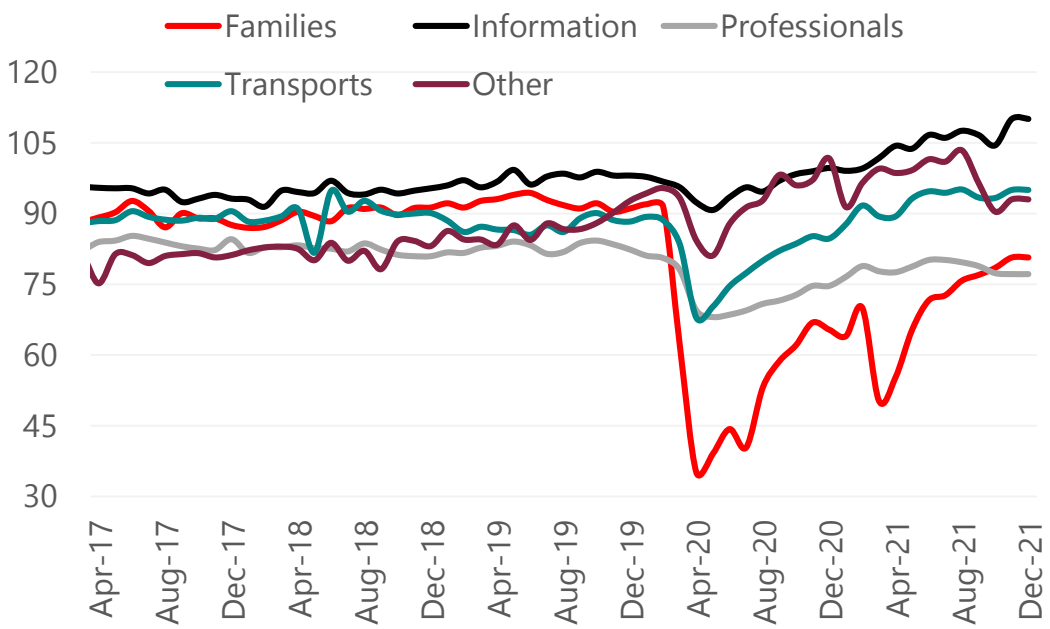


Sources: IBGE, Santander

Mobility-related Segments to be the Main Driver of Services

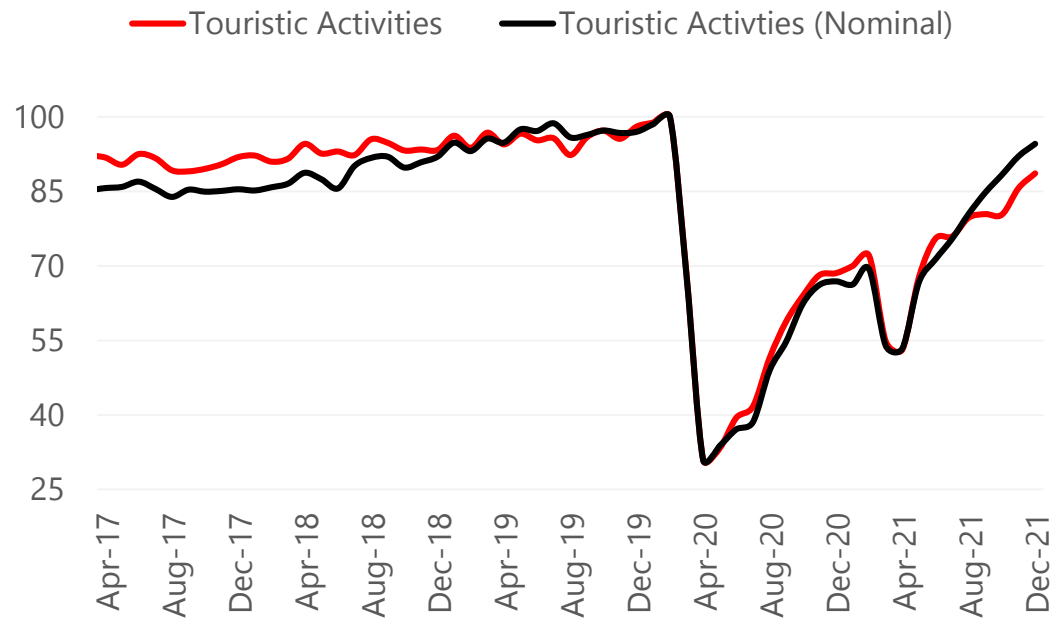
- Mobility-related segments like transports and services to families have gained traction recently. The latter still show wide idleness regarding the pre-crisis mark (roughly 11%), which leaves room for positive contributions to GDP growth from the services sector. It's worth noting that, despite the 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			%
	Weights	Sep-21	Oct-21	Dec-21	Sep-21	Oct-21	Dec-21	Jun-21	Sep-21	Dec-21	Feb-20
Total Services	100%	-0.6	-1.6	1.4	11.5	7.4	10.5	2.2	3.0	0.4	6.6
Families	**8%**	**1.7**	**1.8**	**0.9**	**32.9**	**24.6**	**21.6**	**4.0**	**17.6**	**6.6**	**-11.2**
Accommodation and Food	7%	2.1	1.5	0.7	37.7	26.3	21.6	4.3	18.8	6.5	-11.6
Other Services to Families	1%	0.3	1.3	2.7	9.2	14.8	21.0	6.0	5.6	3.2	-10.3
Information	**31%**	**-0.8**	**-2.2**	**-0.2**	**10.1**	**6.4**	**9.9**	**4.7**	**2.0**	**0.8**	**12.8**
Technology	26%	-1.1	-1.8	-0.9	9.5	5.8	10.0	3.8	1.9	1.2	14.5
Telecommunication	19%	-1.6	-2.3	-0.7	-0.3	-2.8	-2.4	-0.2	0.1	-2.9	-4.5
Information Technology	7%	0.2	-0.9	1.3	25.4	19.3	25.3	8.7	4.3	7.5	48.9
Audiovisual	5%	0.8	-1.9	1.9	15.5	10.8	9.2	14.9	0.6	0.9	1.3
Professional	**23%**	**-0.4**	**-2.8**	**2.6**	**10.1**	**4.8**	**7.6**	**1.7**	**1.4**	**-1.6**	**-0.2**
Professional	7%	3.0	-4.6	2.0	17.5	5.8	8.6	3.2	3.3	-4.8	12.7
Administrative	16%	-1.6	-1.6	1.4	7.1	4.3	7.1	1.1	0.7	-0.9	-2.9
Transportation	**31%**	**-1.9**	**-0.1**	**1.8**	**13.8**	**9.9**	**14.9**	**3.6**	**1.9**	**1.0**	**9.8**
Ground Transportation	18%	-0.7	1.2	2.6	10.8	8.3	16.9	2.3	1.4	2.2	5.8
Water Transportation	2%	0.1	1.7	2.0	13.6	14.8	19.1	5.9	1.9	2.8	19.4
Air Transport	3%	-9.1	-5.9	10.6	39.6	26.6	52.0	6.3	22.3	1.0	-3.3
Storage and Mail	9%	0.2	-1.3	-3.3	13.3	8.3	4.5	2.0	0.2	-0.8	10.6
Other Services	**7%**	**-6.3**	**-6.6**	**1.4**	**-1.6**	**-6.1**	**-4.4**	**4.2**	**0.8**	**-6.9**	**0.5**

Sources: IBGE, Santander

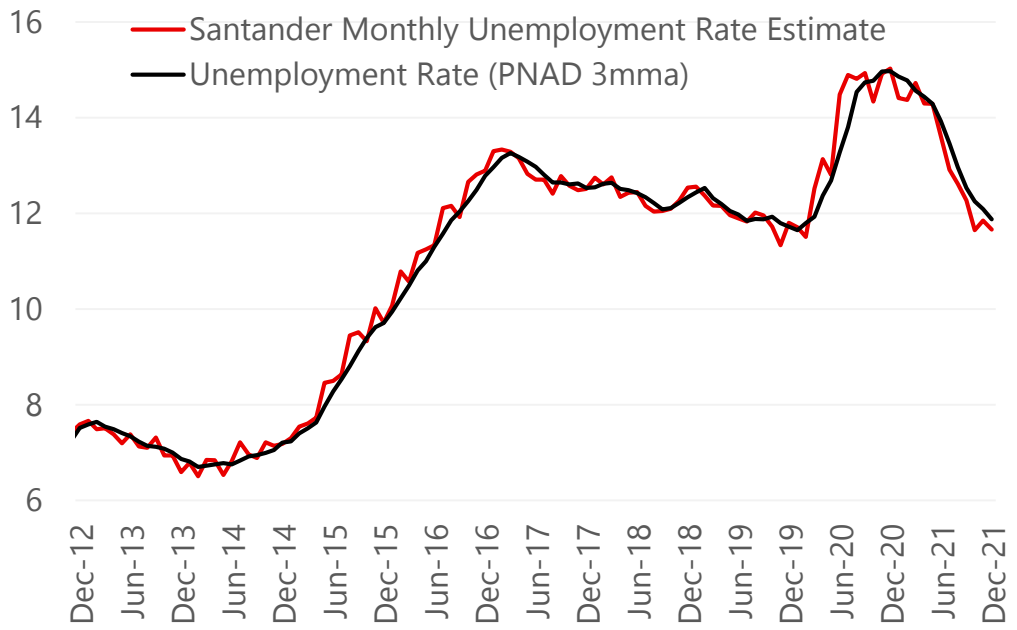
LABOR MARKET

04

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

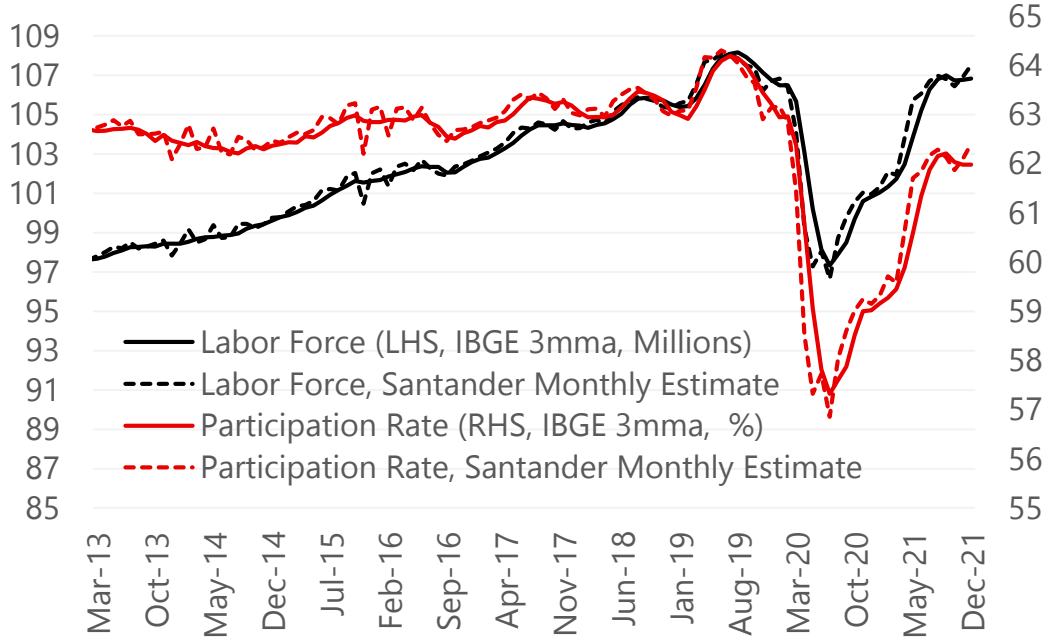
- Based on the PNAD survey, we expect the resumption of growth in the labor force to limit the drop in the unemployment rate, as the employed population grows at a slower pace in the coming months. We expect the participation rate to return to pre-crisis levels and the effects of the economic reopening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

Unemployment Rate (sa)



Sources: IBGE, Santander.

Labor Force and Participation Rate (sa)

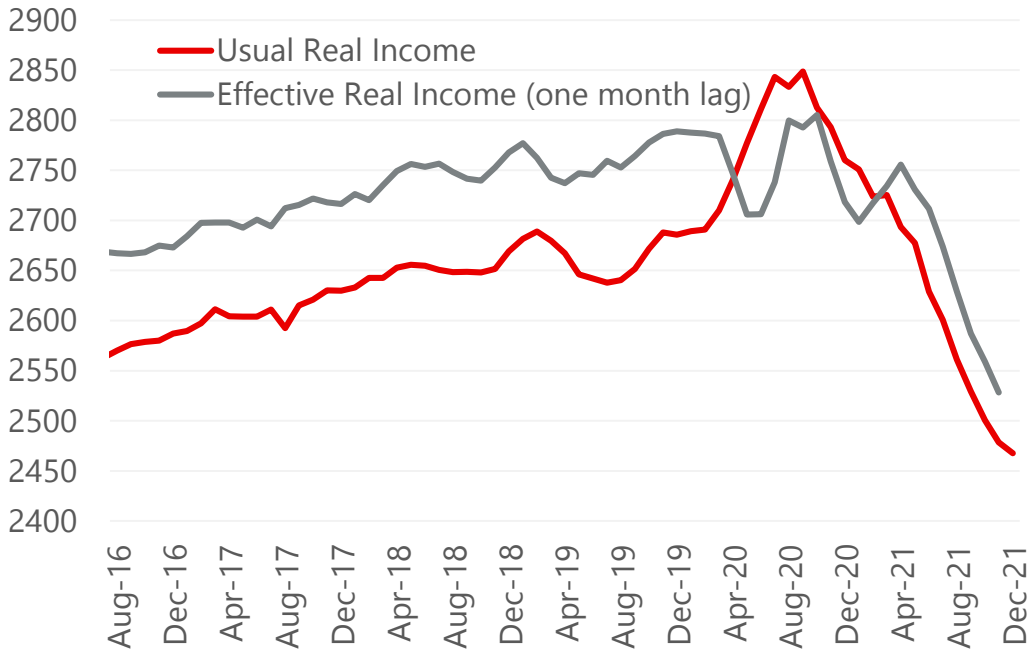


Sources: IBGE, Santander.

Real Income in Depressed Levels

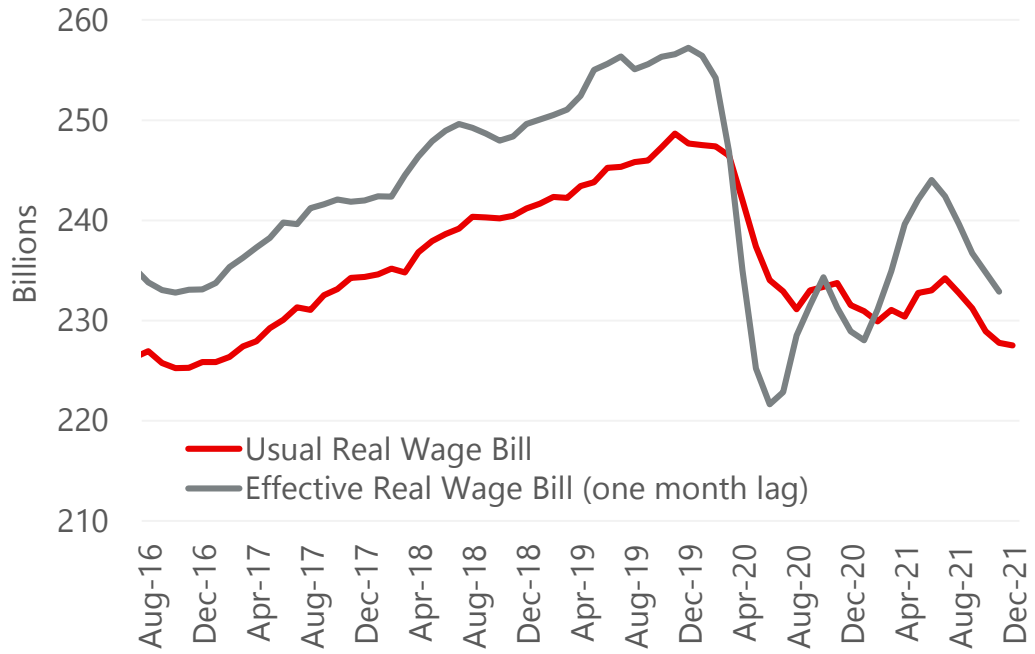
- The effective real wage bill posted a 0.8% MoM-sa decrease in November (data lagged one month relative to other PNAD series), while the usual real wage bill decreased 0.1% MoM-sa in December, due to the sharp drop in average income. Real income continues to show a negative trend, as inflation remains high.

Average Real Income (BRL, sa)



Sources: IBGE, Santander.

Real Wage Bill (BRL, sa)

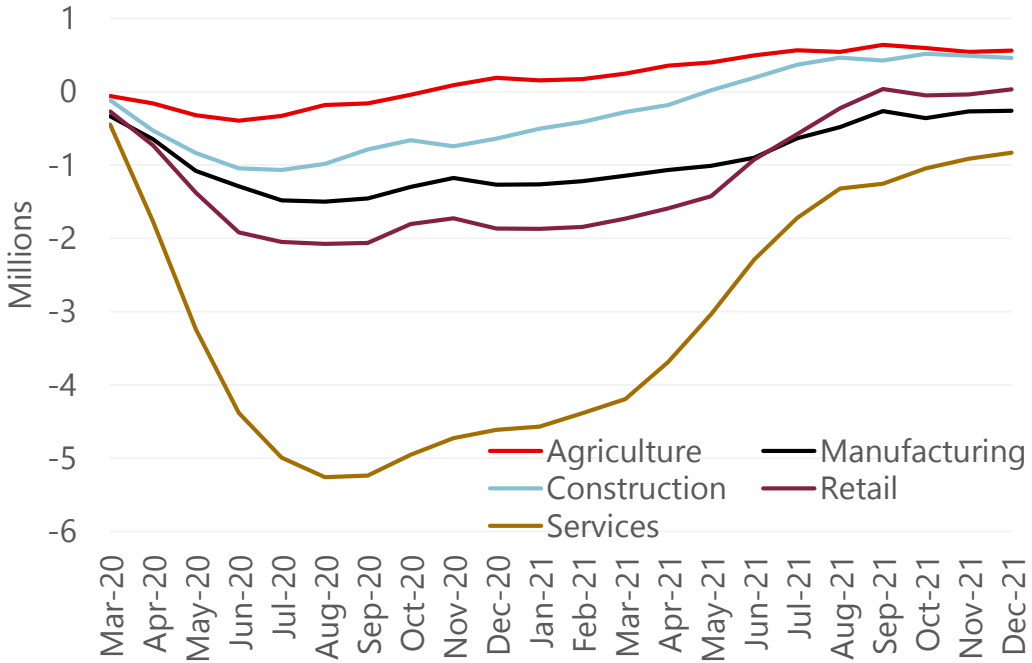


Sources: IBGE, Santander.

Services Sector Still Below the Pre-Crisis Mark

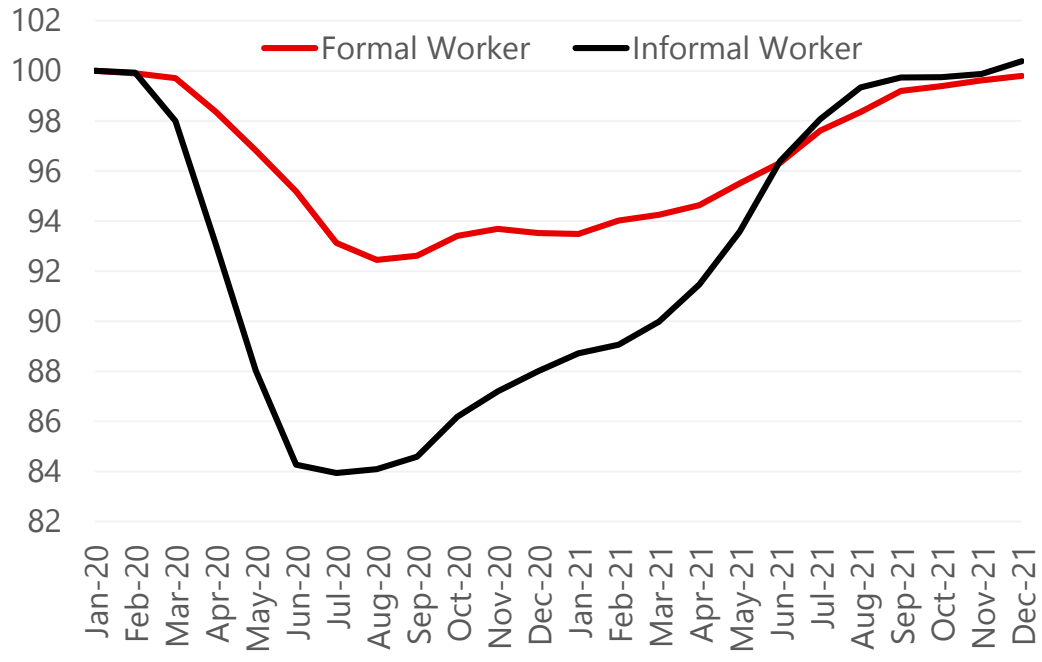
- The main contributions to December's employment growth came from services and retail, still benefiting from the reopening process. The accumulated job losses in the services sector since the beginning of the pandemic are now below 1.0 million. The growth in formal employment has decelerated and is now closer to a long-term growth trend.

Post-Pandemic Accumulated Job Losses (sa)



Sources: IBGE, Santander.

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

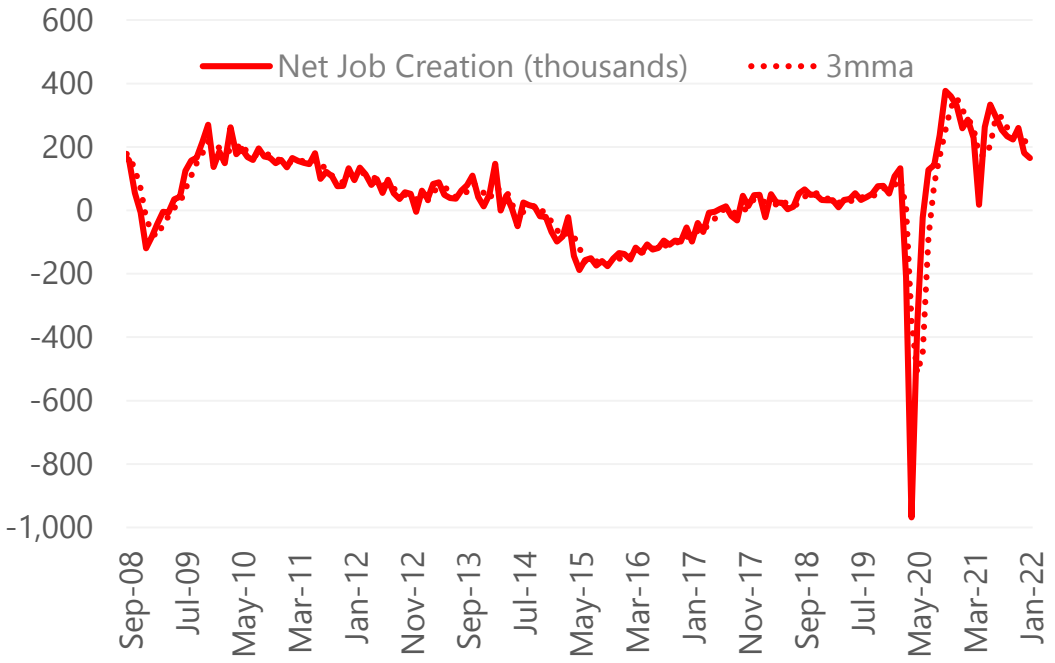


Sources: IBGE, Santander.

CAGED Remains in a Slow Deceleration Trend

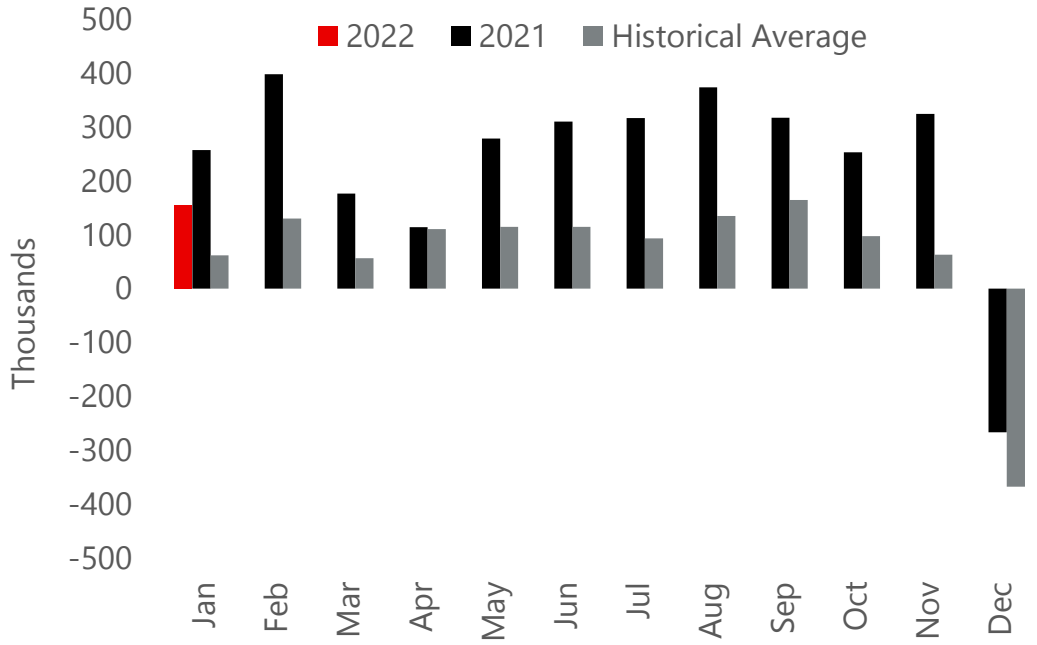
- According to the January CAGED survey, net formal job creation stood at 155.2k (vs. consensus at 160k and Santander's estimate of 200k). After our seasonal adjustment, we calculate that net formal job creation decelerated to 164.6k, from 180.9k in December.

CAGED Net Job Creation (sa)



Sources: Ministry of Labor, Santander.

Net Job Creation and Historical Average

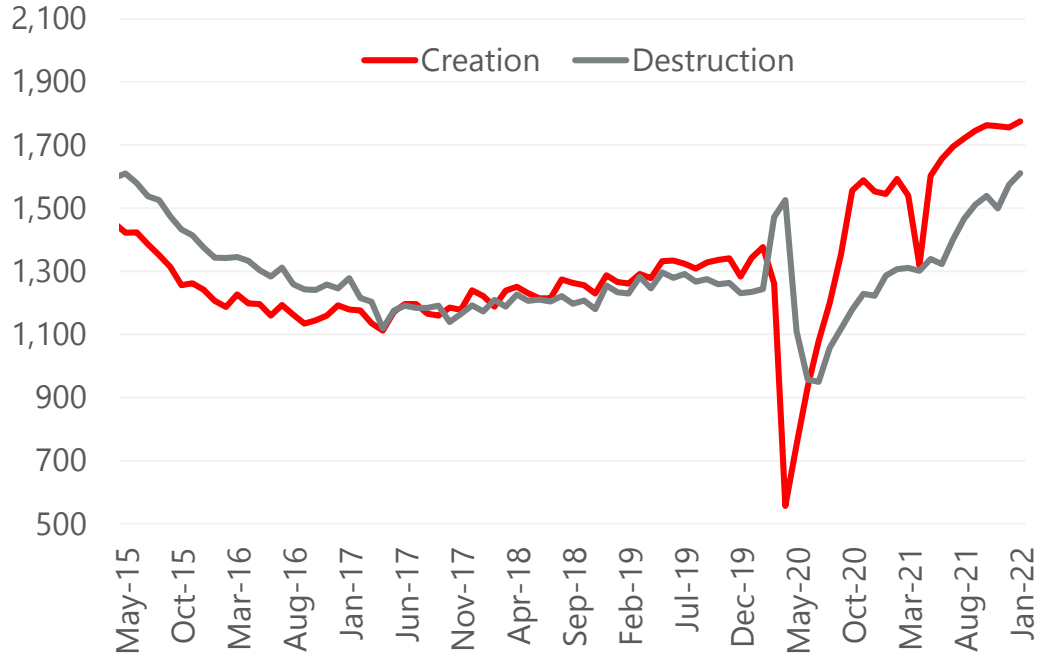


Sources: Ministry of Labor, Santander.

CAGED: End of BEm Program Continues to Affect the Results

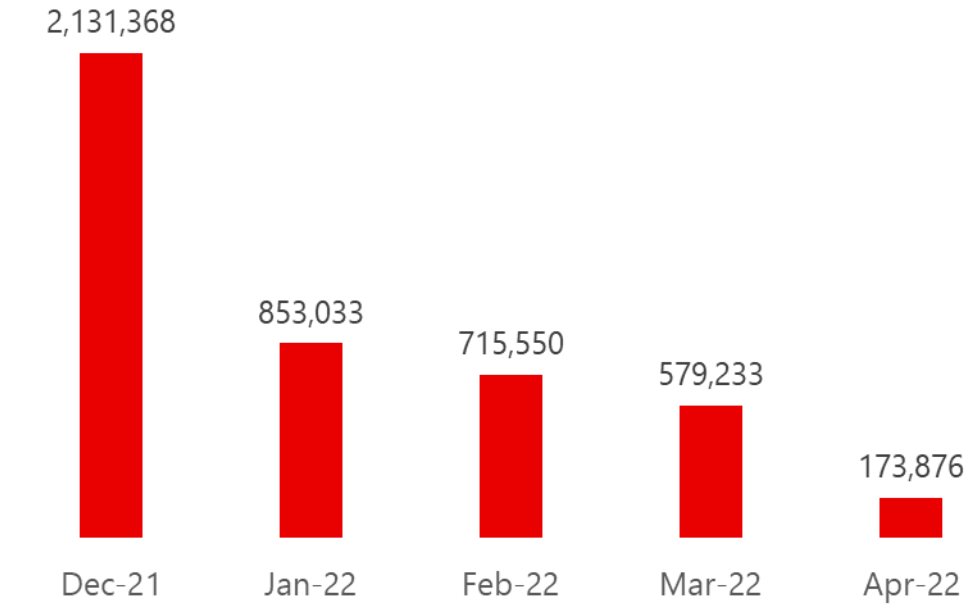
- We believe that the end of the formal employment program (BEm) continued to affect the data, as the layoffs series renewed its recent highs in seasonally adjusted terms. Each month, fewer workers are included in the program's temporary job guarantee as the waiver periods for layoffs of the program's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

CAGED: Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

Jobs Secured by BEm Program

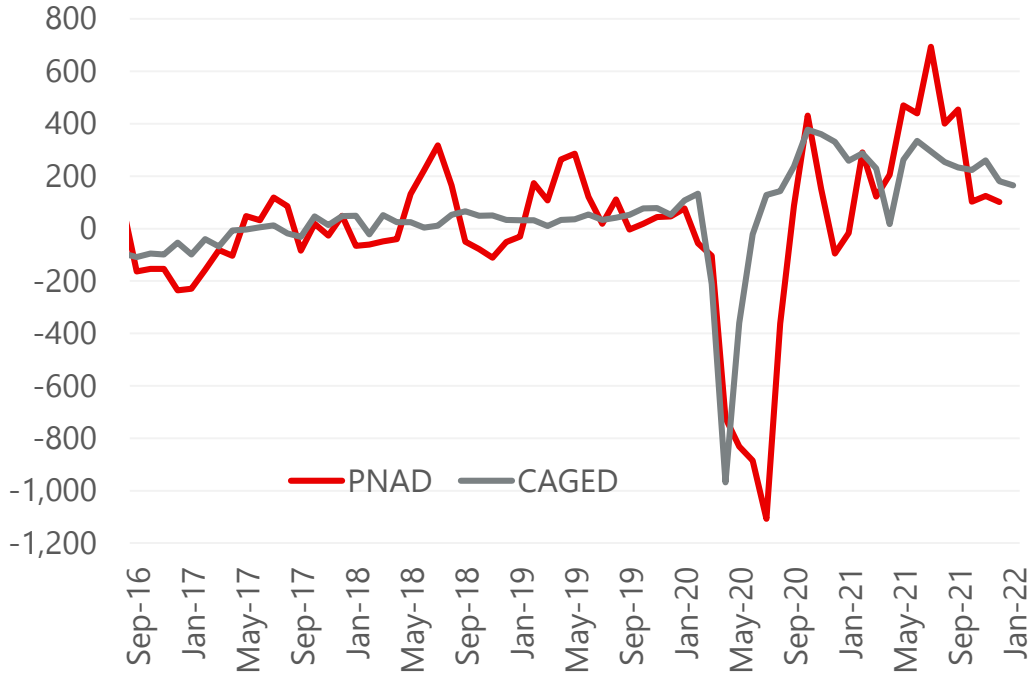


Sources: Ministry of Labor, Santander.

PNAD and CAGED Data Converged

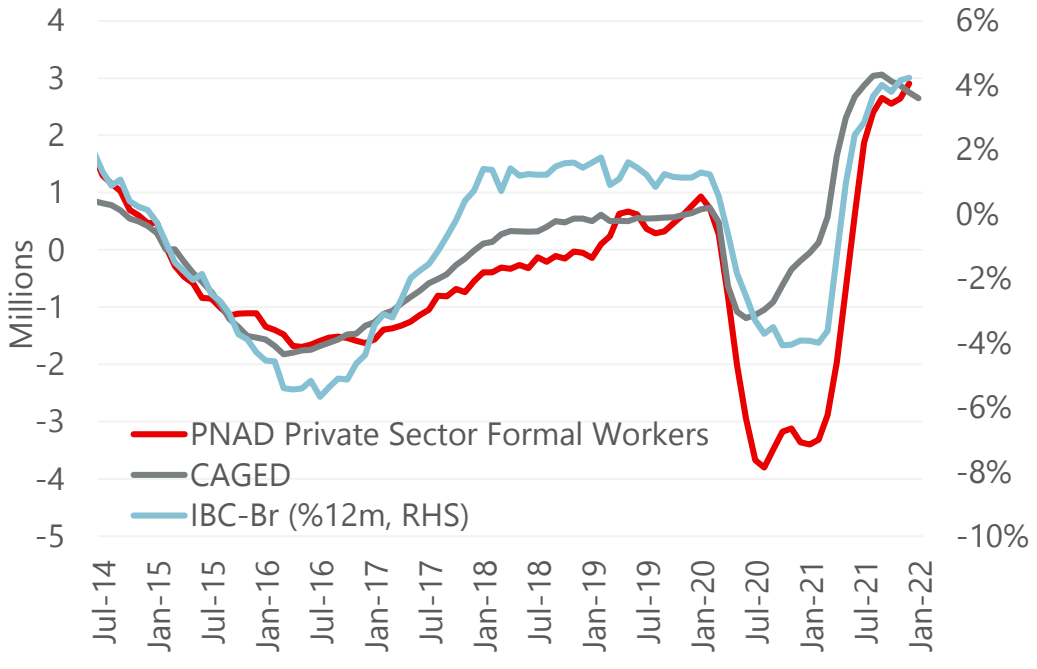
- In our view, after methodological problems in both surveys, CAGED and PNAD have converged. As the BEm program ended, the gap to core economic activity indicators has also closed.

Net Formal Job Creation (thousands, sa)



Sources: Ministry of Labor, IBGE, Santander.

Net Job Creation and IBC-Br (12m)



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

December 2021 PNAD Results

PNAD Breakdown	s.a.			% YoY			% Feb-20*		
	Oct-21	Nov-21	Dec-21	Oct-21	Nov-21	Dec-21	Oct-21	Nov-21	Dec-21
Unemployment rate (%)	12.3	12.1	11.9	-2.5	-2.8	-3.1	0.5	0.3	0.1
Participation rate (%)	62.0	62.0	62.0	3.5	3.0	3.0	-0.9	-1.0	-1.0
Labor force (millions)	106.7	106.8	106.8	7.0	6.2	6.0	0.2	0.3	0.3
Employment	93.7	93.9	94.1	10.2	9.7	9.8	-0.3	-0.1	0.2
Unemployment	13.1	12.9	12.7	-11.3	-14.5	-16.7	4.1	2.8	1.0
Formalization Rate (%)	57.2	57.2	57.2	-2.0	-1.8	-1.6	-0.1	-0.1	-0.1
Formal Workers (millions)	53.6	53.7	53.8	6.4	6.3	6.7	-0.5	-0.3	-0.1
Informal Workers (millions)	40.1	40.1	40.3	15.6	14.3	14.0	-0.2	0.0	0.5
Average usual earnings (BRL)**	2,500	2,478	2,468	-11.1	-11.4	-10.8	-7.1	-7.9	-8.3
Average effective earnings (BRL)**	2,559	2,528	-	-8.7	-8.4	-	-8.2	-9.3	-
Usual wage bill (BRL bn)**	228.9	227.8	227.5	-1.9	-2.6	-1.8	-7.5	-7.9	-8.0
Effective wage bill (BRL bn)**	234.8	232.9	-	0.3	0.7	-	-7.6	-8.4	-

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

** In real terms

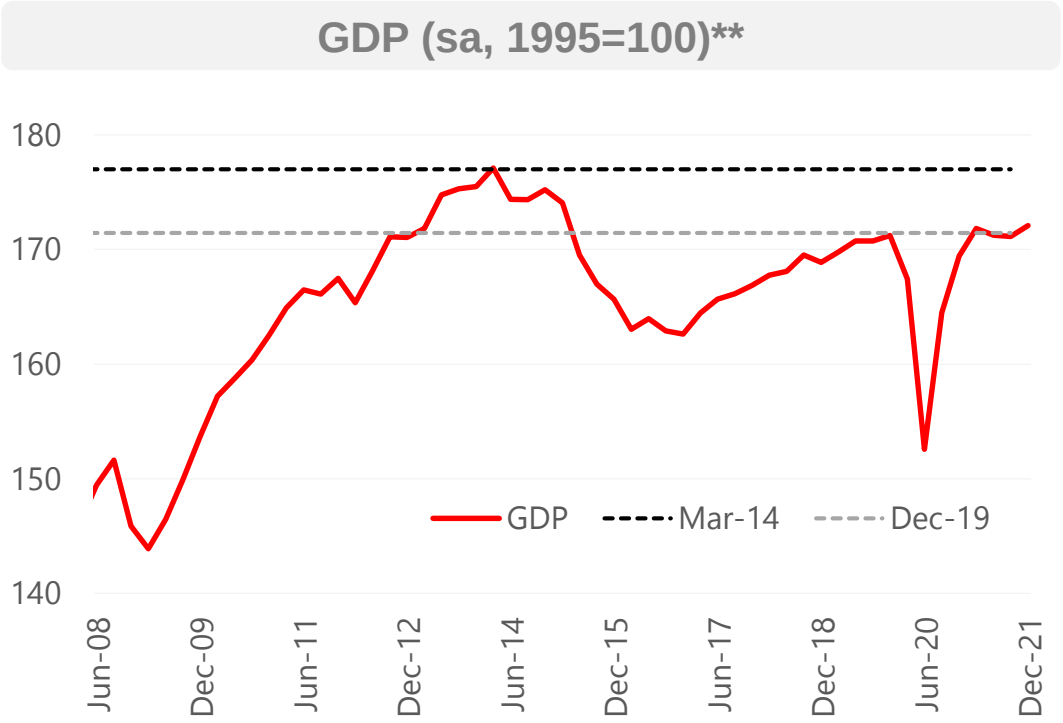
Sources: IBGE, Santander.

GDP

05

A Stronger Than Anticipated 4Q21

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



Sources: IBGE, Santander.

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

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

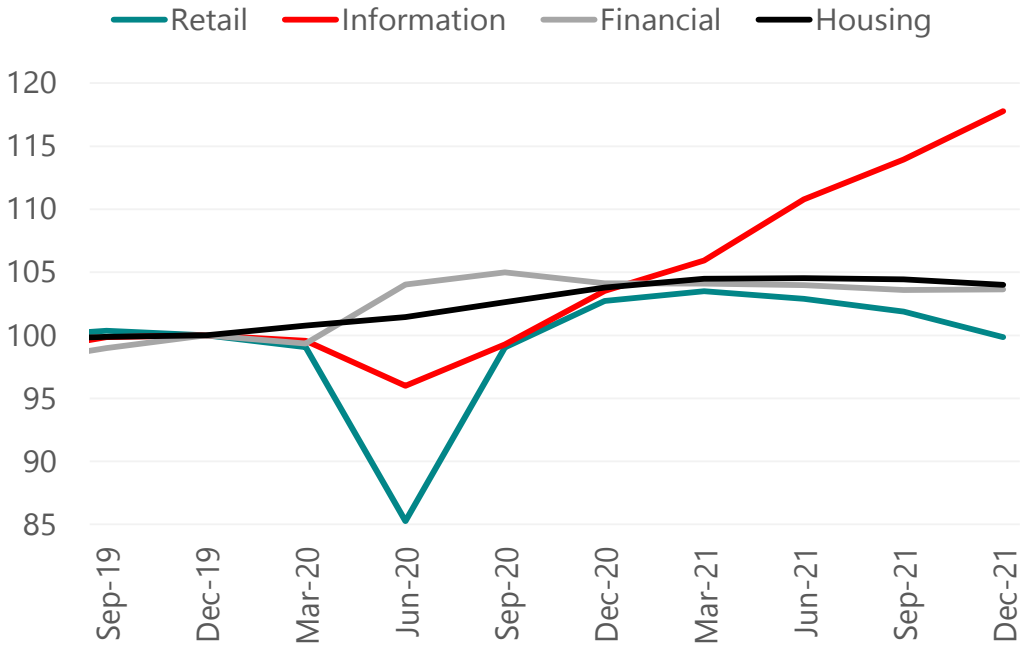
	4Q21		2021	2020	4Q19*	Carry **
	% YoY	% QoQ	%	%	%	%
GDP	1.7	0.5	4.6	-3.9	0.5	0.3
Supply						
Taxes	2.2	0.4	6.4	-4.7	2.0	0.3
Farm Output	**-0.8**	**5.8**	**-0.2**	**3.8**	**1.1**	**-0.4**
Industry	**-1.3**	**-1.4**	**4.5**	**-3.4**	**-0.4**	**-1.2**
Mining	4.5	-2.4	3.0	1.3	-1.6	0.0
Manufacturing	-6.9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

Santander

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

- Other Services and Public Services account for almost 30% of GDP and are still running at a depressed basis (1.4% and 1.7% below 4Q19 level, respectively). He saw these segments gradually recovering throughout 2H22 and we expect a continued rebound in 1S22, contributing to GDP growth from 1Q22 onwards. The transports segment had already surpassed the pre-crisis mark, but air transport still shows wide idleness*, which leaves room for sequential growth ahead.

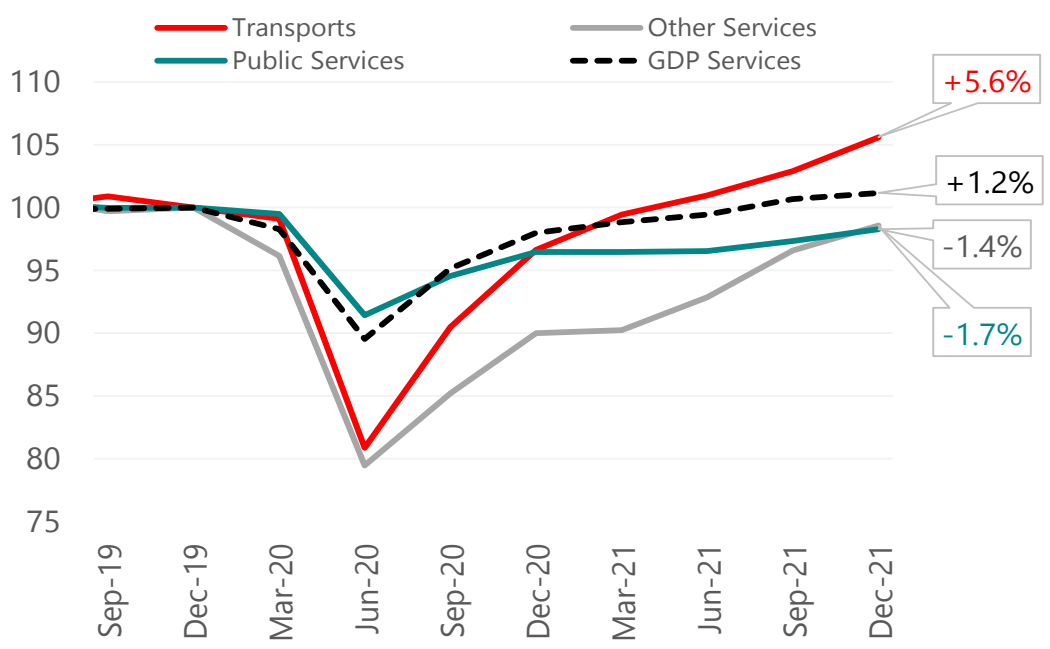
Selected Segments of Services (sa, 4Q19=100)



Sources: IBGE, Santander.

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

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



Sources: IBGE, Santander.

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

Santander

BASELINE SCENARIO

06

GDP: Key Hypotheses, Basic Description and Risks

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

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

- Our expected GDP path is as follows: we forecast strong 1Q22 GDP growth (+0.5% QoQ-sa), stemming from both a continued recovery of mobility-related segments of services and a jump in farm output, followed by stability in 2Q22 (0% QoQ-sa). Conversely, we expect the materialization of the delayed effects of a tight monetary policy and deteriorated financial conditions (-0.5% QoQ-sa per quarter in 2H22), implying a -0.6% carryover for the following year.

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

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

GDP Path and Breakdown

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

Sources: IBGE, Santander

GDP Projections						
	2018	2019	2020	2021	2022e	2023e
Total GDP	1.8	1.2	-3.9	4.6	0.7	-0.2
Farm Output	1.3	0.4	3.8	-0.2	3.5	0.5
Industry	0.7	-0.7	-3.4	4.5	-1.4	-0.3
Services	2.1	1.5	-4.3	4.7	1.3	-0.1
Household	2.4	2.6	-5.4	3.6	0.8	0.0
Government	0.8	-0.5	-4.5	2.0	3.0	0.1
Investments	5.2	4.0	-0.5	17.2	-1.1	-0.6
Exports	4.1	-2.6	-1.8	5.8	6.5	2.7
Imports	7.7	1.3	-9.8	12.4	2.9	3.0

Sources: IBGE, Santander

Labor Market: Upward Pressure on the Unemployment Rate

- We have revised our 2022 average unemployment rate forecast to 13.3% (from 13.7%) and maintained our 2023 estimate at 14.0%. For 2024, we forecast a 13.2% average jobless rate, as we believe the labor market will benefit from monetary easing and a reduction in uncertainty.

- We now expect a slower recovery for the participation rate, which should still return to levels closer to the pre-crisis mark at some point in 2H22, creating upward pressure and resulting in increasing unemployment throughout the year. Furthermore, we expect the impact of the tighter monetary policy to dominate labor market dynamics from 2H22 onward. Therefore, we still see the seasonally adjusted jobless rate moving toward 14.0% by YE2022, but with a lower annual average. For 2023, we maintain our expectation of a persistently high unemployment rate, as the effects of less favorable financial conditions linger.

- **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	2021e	2022e	2023e
Unemployment Rate *					
Average	12.1	13.5	13.5	13.3	14.0
End of Period (s.a.)	11.8	14.9	12.0	13.9	13.8
Unemployed Population **					
Average	12.9	13.6	14.1	14.5	15.7
End of Period	12.6	15.1	12.9	15.3	15.2

* in %

** in Millions

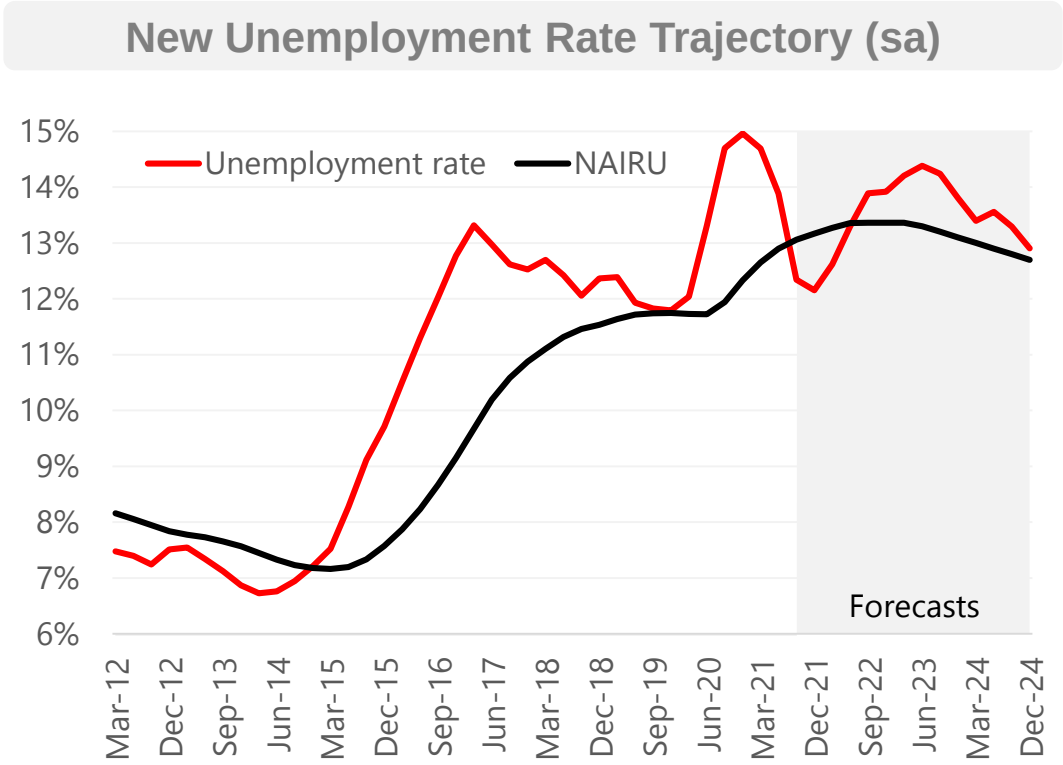
Sources: IBGE, Santander.

Unemployment Rate to Rise in the Following Months

- Despite our projection of a short period with the jobless rate below the NAIRU level in 1H22, we still see a slackened labor market in the medium term, with the unemployment rate approaching its natural level only by YE2024.

		Jan-22	Feb-22
Unemployment Rate (avg)	2021	13.5	13.5
	2022	13.7	13.3
	2023	14.0	14.0
	2024		13.2
Unemployment Rate (YE, sa)	2021	12.2	12.2
	2022	14.0	13.9
	2023	14.0	13.8
	2024		12.9
Unemployed (YE, Millions sa)	2021	13.0	13.0
	2022	15.7	15.2
	2023	15.4	15.2
	2024		14.3
NAIRU (avg)	2021	12.9	12.9
	2022	13.3	13.3
	2023	13.4	13.2
	2024		12.8

Sources: IBGE, Santander.

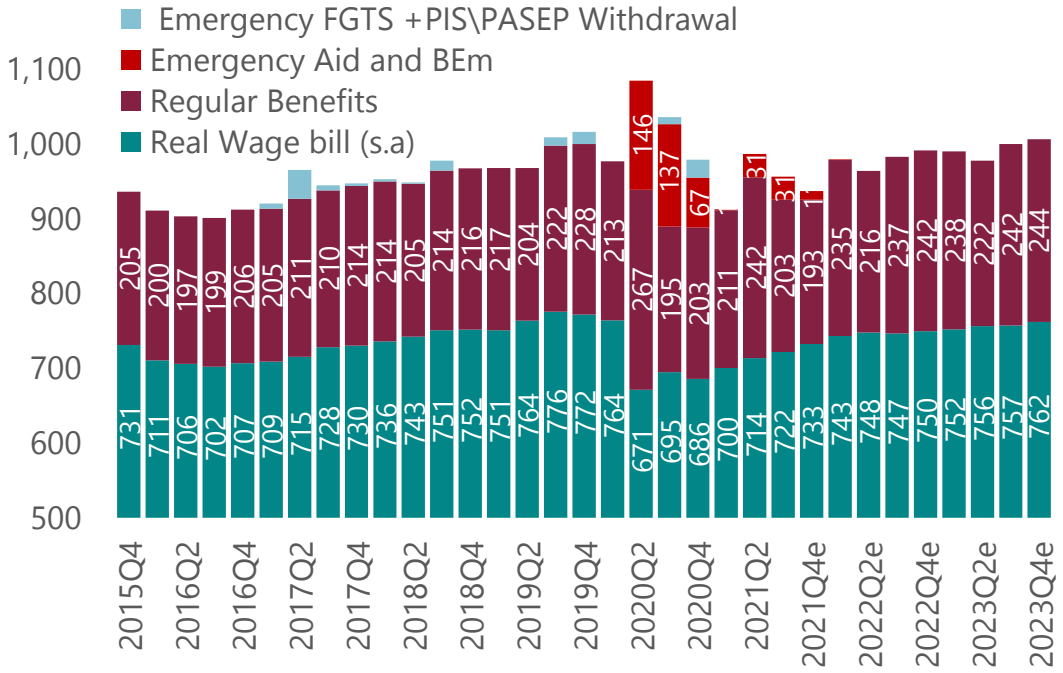


Sources: IBGE, Santander.

“Expanded” Real Wage Bill Largely Impacted by Inflation

- As for the “expanded” real wage bill scenario (considering government transfers and social programs), we see a gradual recovery after a sharp tumble in 2021 (-6.8%, according to our estimate). As inflation decelerates, the average real income indicators tend to more than offset the worsening in the employment dynamics. We project that the “expanded” real wage bill will grow 3.3%, 1.5%, and 2.1% in 2022, 2023, and 2024, respectively.

“Expanded” Real Wage Bill (BRL billion)



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

	2021(E)	2022(E)	2023(E)	2024(E)
Real Wage Bill (No Fiscal Stimulus)	2.0%	4.1%	1.4%	2.5%
Real Wage Bill (With Fiscal Stimulus)	-6.8%	3.3%	1.5%	2.1%

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

Macro Scenario: Projections

- For our Scenario Review 'HIGHER INFLATION AND SELIC FORECASTS, DESPITE THE STRONGER BRL' (sent on February 24, 2022), click on the link: https://bit.ly/Std-scenreview-feb22

Macroeconomic variables		Previous		Current
GDP (%)	2022E	0.7	→	0.7
	2023E	-0.2	→	-0.2
	2024E	1.5	→	1.5
IPCA (%)	2022E	6.0	→	6.0
	2023E	3.5	↑	3.7
	2024E	3.0	→	3.0
Selic Rate (% end of period)	2022E	12.25	↑	12.50
	2023E	9.00	→	9.00
	2024E	7.00	→	7.00
FX Rate - USDBRL (end of period)	2022E	5.70	↓	5.40
	2023E	5.20	↑	5.25
	2024E	5.00	↓	4.90
Current Account Balance (% of GDP)	2022E	-1.2	↓	-1.4
	2023E	-2.0	↑	-1.8
	2024E	-1.6	↓	-3.2
Primary Fiscal Balance (% of GDP)	2022E	-1.0	↑	-0.8
	2023E	-1.1	↓	-1.1
	2024E	-0.6	↓	-0.9
Gross Public Debt (% of GDP)	2022E	85.1	↓	84.8
	2023E	88.9	↑	89.0
	2024E	91.6	↑	92.2

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

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

Simple Personal Fair

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