Brazil Macro | November 2021

Economic Activity

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SUMMARY

- **We are lowering our GDP growth forecasts for the horizon of 2021 to 2023.** The flattish GDP figure seen in 2Q21 highlighted heterogeneity in the composition of economic activity. The tertiary sector posted healthy figures, while farm output gave back part of its positive 1Q21 GDP contribution and industry weighed on activity, reflecting cost increases and the widespread shortage of input. We expect this heterogeneity to be repeated throughout 2H21, with farm output and industry dragging down activity less intensely. Some important segments of the tertiary sector are still running at depressed levels, which leaves room for positive growth contributions as the public health crisis is overcome and urban mobility returns to “normality”. In the short term, August activity numbers reinforced our view of a 3Q21 not as strong as previously anticipate, mainly because of the goods-related sectors amid a shift of spending out of goods and back into services, as the pandemic fades and economy reopens. These numbers prompted us to reduce our 3Q21 GDP projection to +0.3% (from +0.7%) as well as our 2021 projection, to +4.9% (from +5.1%).

- **For 2022, after previously reducing our GDP estimate to 1.5% (from 1.7%), a tighter monetary policy path prompted us to reduce (again) our estimate to 1.0%.** We expect good growth contributions to come from the mechanical recovery of the services sector reopening, the labor market recovery, as well as the support from less cyclical commodity-related sectors. These factors are expected to be shadowed by delayed effects of a tighter monetary policy and the deterioration of financial conditions. For 2023, we reduced our estimate to 0% (from 0.8%).

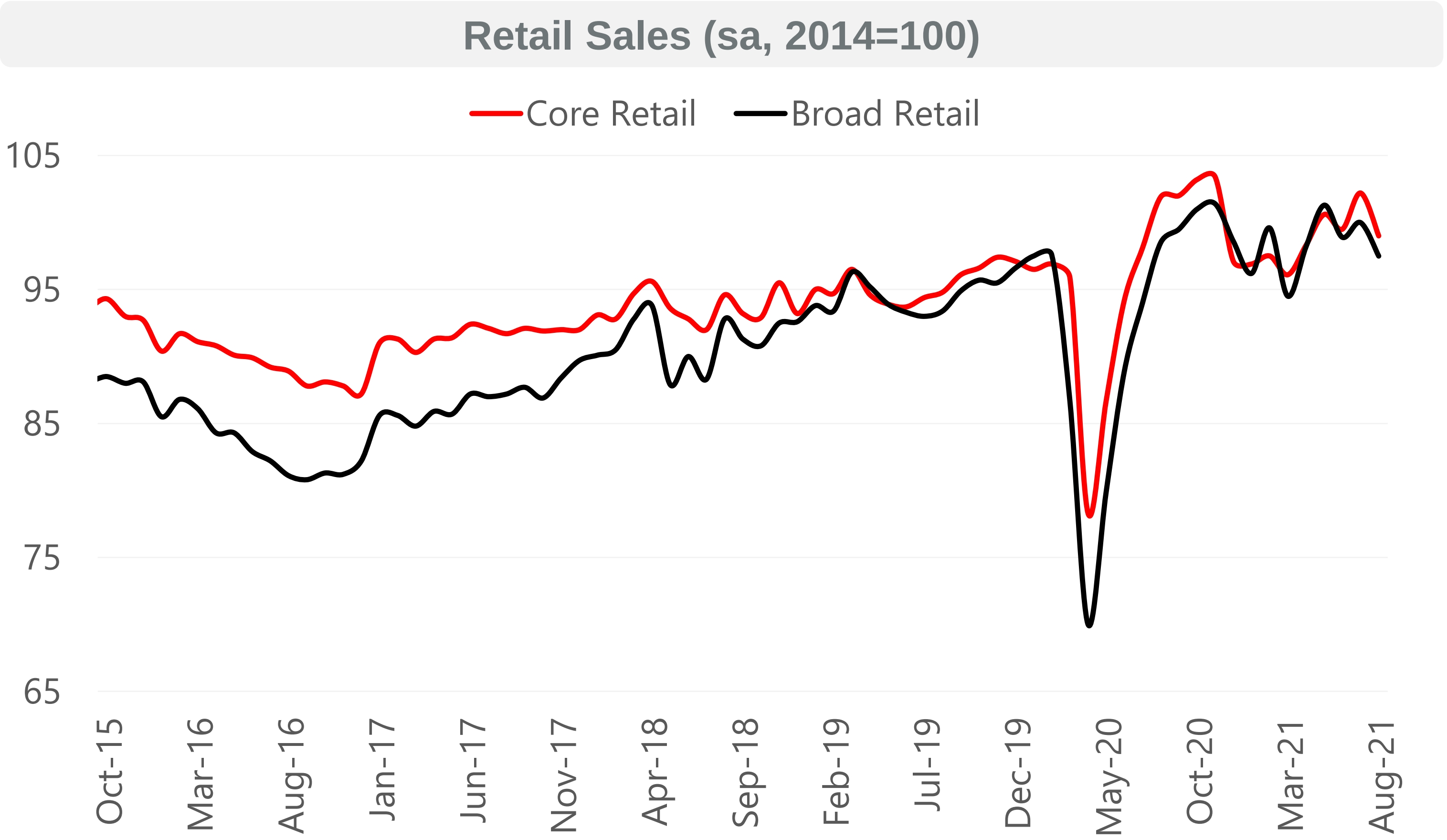
- **We are also downgrading a bit our expectations for the job market**. As employment conditions should be impacted by a tighter monetary policy and greater economic uncertainty, we foresee a less steep decline in the unemployment rate throughout 2022 and 2023. We now expect the average unemployment rate at 14.0% in both 2022 and 2023 (previously 13.7% and 12.9%, respectively). We do not anticipate a full closure of the jobless gap before 2024. Yet we recognize that the structural level of unemployment could also be impacted by more challenging economic conditions.

RETAIL SALES

01

Retail sales are expected to slow the pace in 2H21

- We expect a softening in the pace of growth of retail sales, amid a shift of spending into services as the economy reopens. Moreover, the impact of inflation eating into household income along with supply chain problems (mainly in durable goods) also contribute to this weakening scenario.

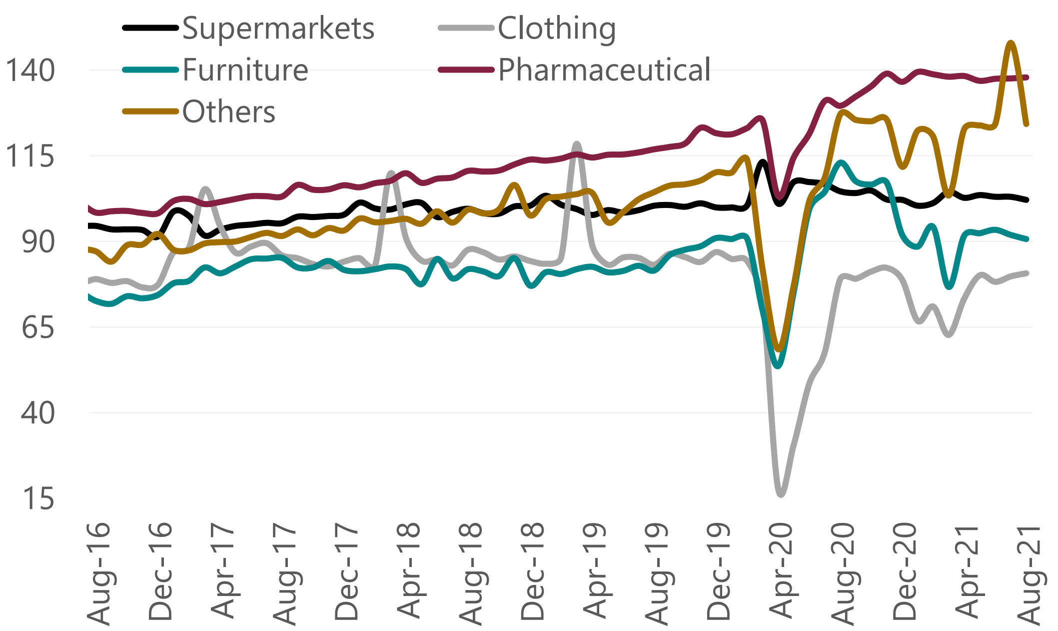


Sources: IBGE, Santander

Credit-led segments should support retail sales in 2H21 and in 2022

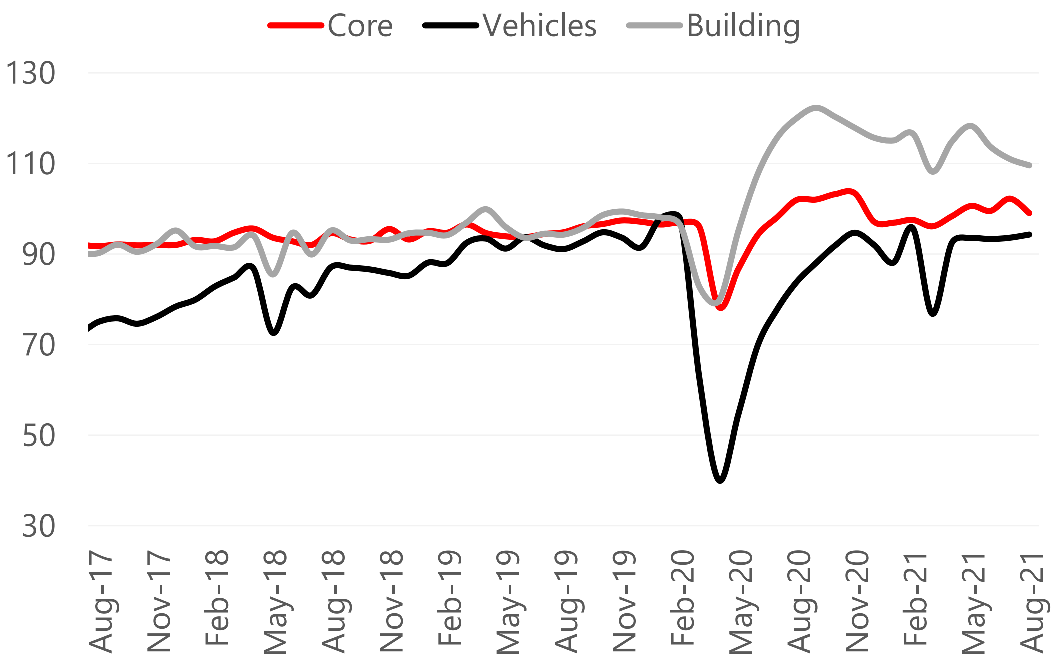
- Amid the bright outlook for household credit granting, credit-led segments (e.g, building materials and furniture) should support retail sales in 2H21 and in 2022. The exception to this rule may be vehicles; not due to a lack of demand but to supply shortage.

Core Retail Sales (sa, 2014=100)



Sources: IBGE, Santander

Broad Retail Sales (sa, 2014=100)

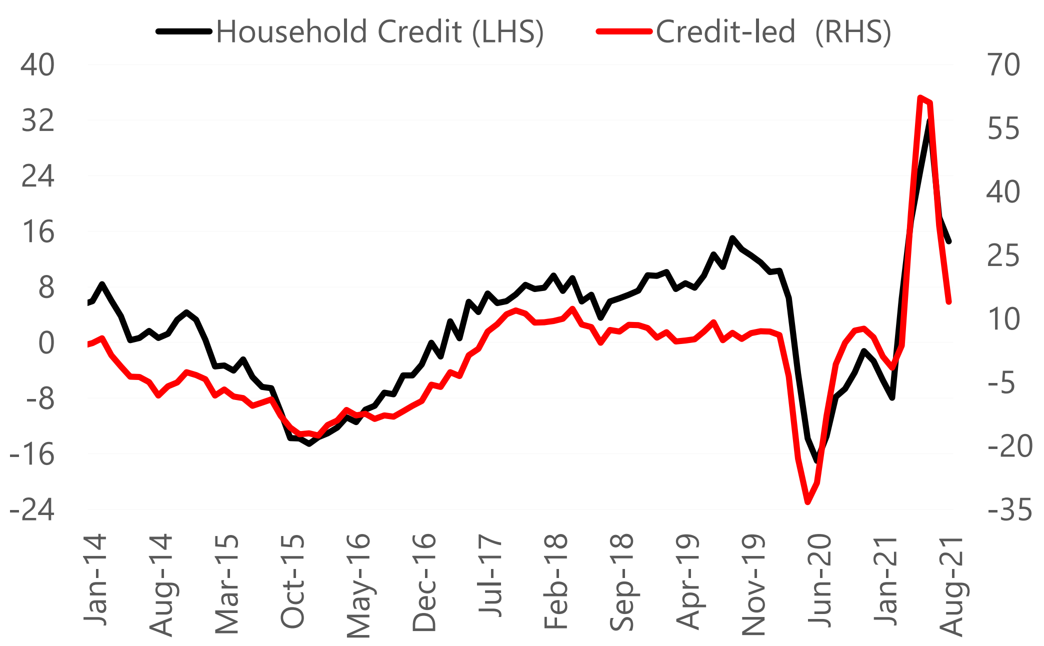


Sources: IBGE, Santander

Income-led segments sales should normalize in 2H21

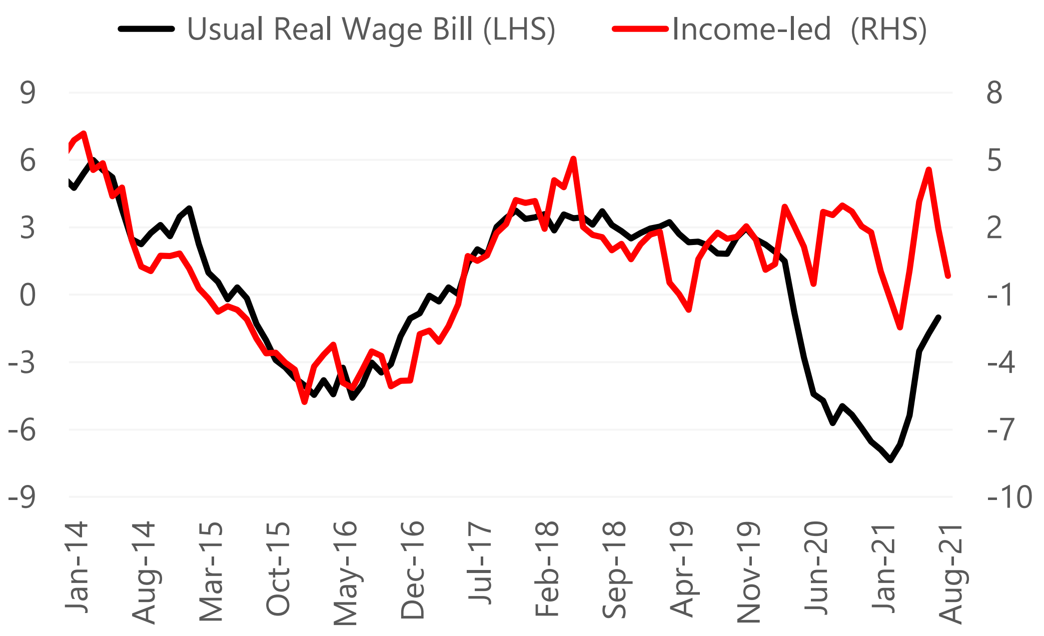
- After both series presenting highly correlation for a long period, a wide gap between income-led segments sales and usual real wage bill was open in 2020, following the pandemic upsurge. We expect income-led segment sales to normalize in 2H21 as emergency aid stipends are reduced. For 2022, the expected growth in real income (subproduct of labor market recovery) can contribute to avoiding goods to playing a strong drag role in household consumption as services should be the main driver of recovery.

Retail Sales and Credit (3mma, % YoY)



Sources: IBGE, Santander

Retail Sales and Income (3mma, % YoY)



Sources: IBGE, Santander

Retail sales breakdown

Retail Sales Breakdown										
		Jun-21			Jul-21			Aug-21		
Weights		% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ
66.9%	**Core Retail Sales**	**-1.1**	**6.3**	**2.7**	**2.7**	**5.8**	**3.6**	**-3.1**	**-4.2**	**1.9**
8.3%	Fuels	-0.8	11.8	2.5	-0.7	6.6	5.6	-2.4	0.4	3.1
30.6%	Hypermarkets, supermarkets	-0.5	-3.1	1.0	0.0	-1.7	0.4	-0.9	-4.6	-0.8
6.2%	Fabrics, clothing and footwear	-2.4	61.4	15.5	2.0	42.0	15.0	1.1	1.0	10.5
7.4%	Furniture and home appliances	1.1	-5.4	7.0	-1.6	-12.0	5.8	-1.3	-19.8	5.8
5.1%	Pharmaceutical	0.4	13.2	-0.9	0.1	4.9	-0.8	0.2	6.5	-0.1
0.9%	Books, papers and magazine	4.8	17.2	13.7	-5.9	-23.3	8.2	-1.0	1.6	4.8
0.6%	Office equipment and supplies	-4.2	3.7	2.2	-0.1	-5.1	2.5	-4.7	-9.1	-1.1
7.8%	Other	0.3	22.7	7.1	19.1	36.9	14.2	-16.0	-1.7	13.3
100%	**Broad Retail Sales**	**-2.4**	**11.5**	**2.8**	**1.1**	**7.1**	**2.7**	**-2.5**	**0.0**	**0.8**
8.9%	Building Materials	-3.9	5.4	2.0	-2.4	-4.7	1.0	-1.3	-7.1	-2.1
24.2%	Vehicles	-0.2	32.9	7.1	0.3	17.9	5.9	0.7	16.8	7.0

Sources: IBGE, Santander

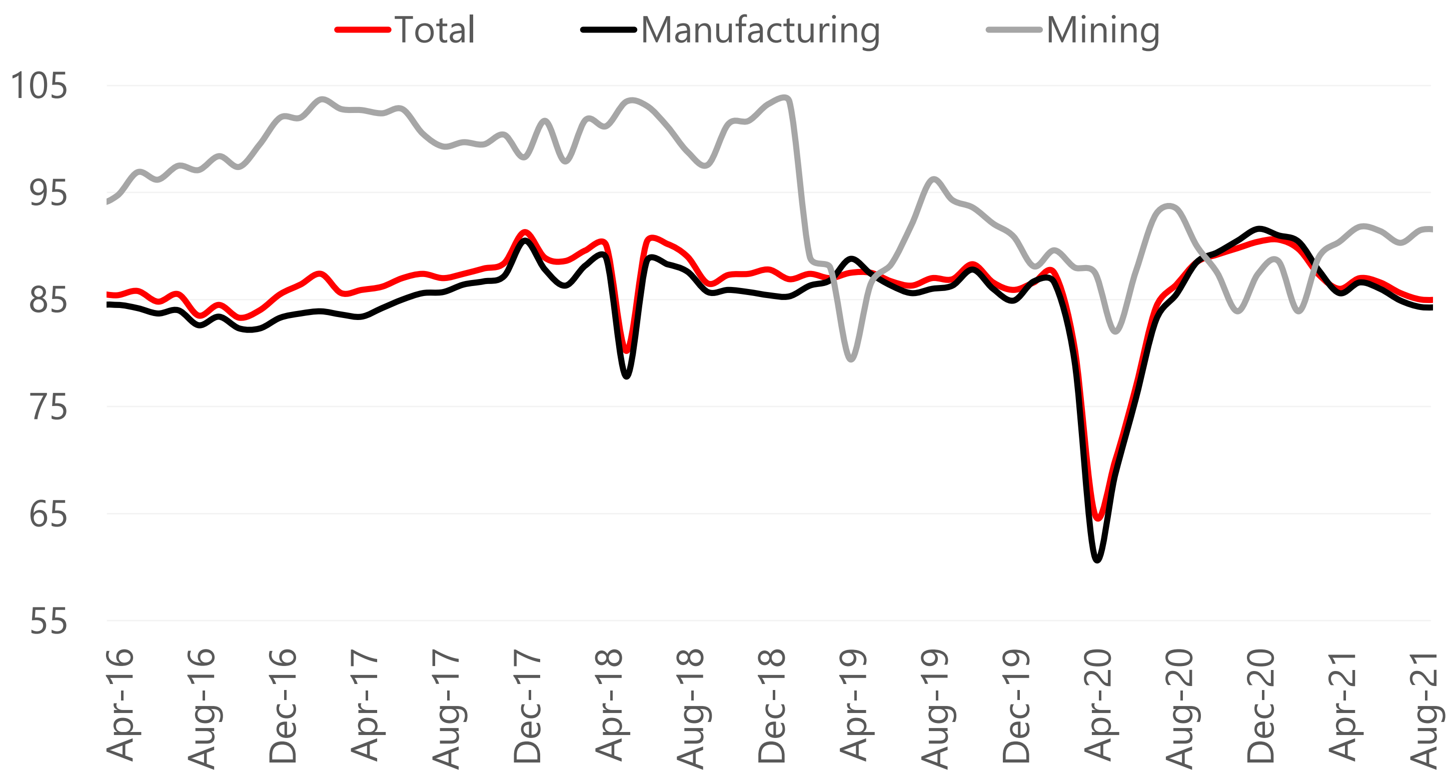
INDUSTRIAL PRODUCTION

02

Industry should continue to weigh on activity in 2H21 due to supply-chain problems

- Industrial GDP retreated in 2Q21, reflecting a decline in manufacturing but partially offset by mining and manufacturing. We expect the industrial sector to continue to weigh on activity in 2H21, albeit less intensely (sequentially).

Industrial Production (sa, 2012=100)

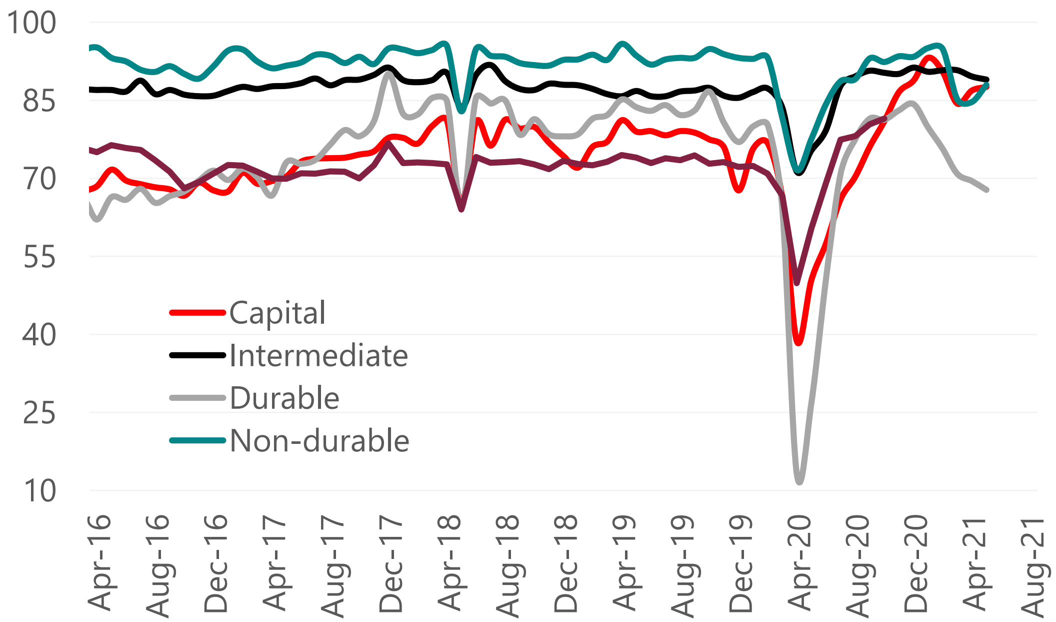


Sources: IBGE, Santander

Investments should slow down amid tighter financial conditions

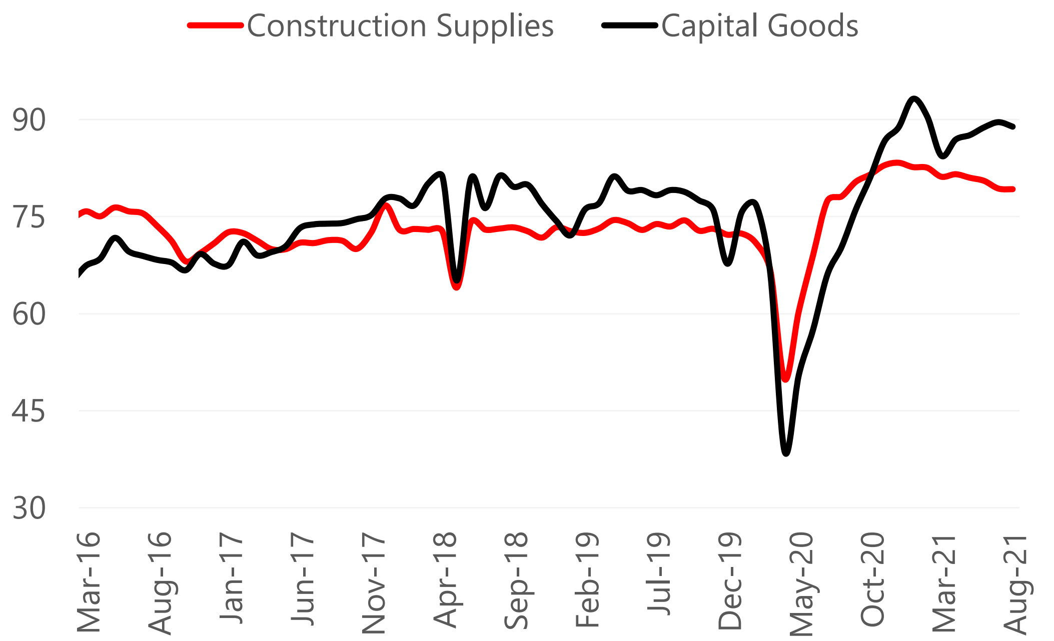
- After standing at high levels recently, we expect domestic capital goods production to soften ahead, amid tighter financial conditions and a softening in commodities prices. Nonetheless the less positive outlook, regarding the full-year GDP of 2021, we still expect a solid contribution from investments. This increase in investments can contribute to support activity next year, with demand finding more supply capacity ahead.

Industrial Production (sa, 2012=100)



Sources: IBGE, Santander

Related to Investments (sa, 2012=100)

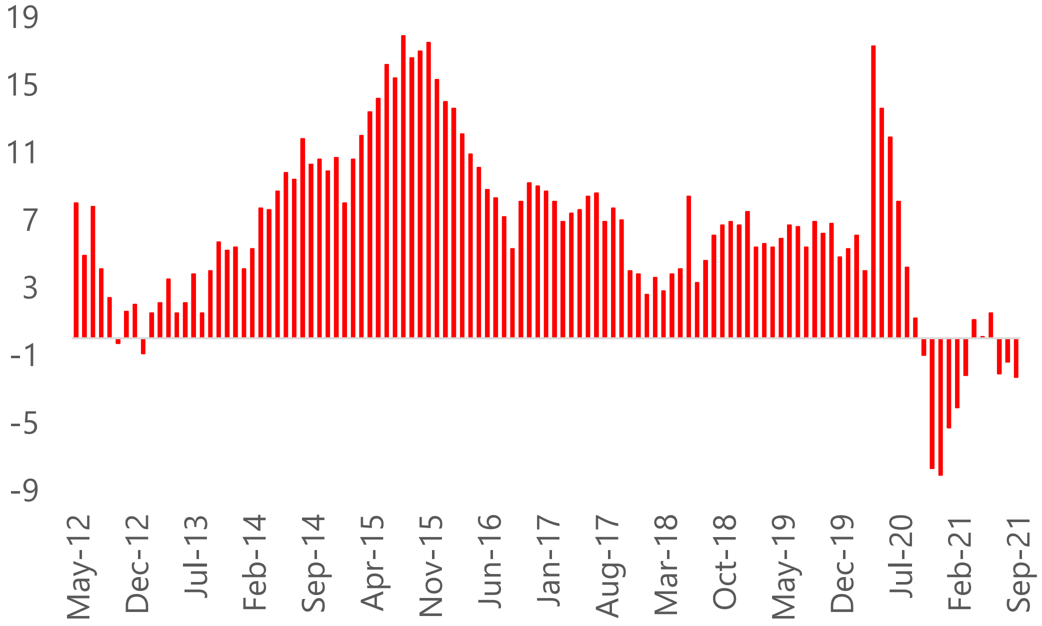


Sources: IBGE, Santander

Inventories still stand at historically low levels

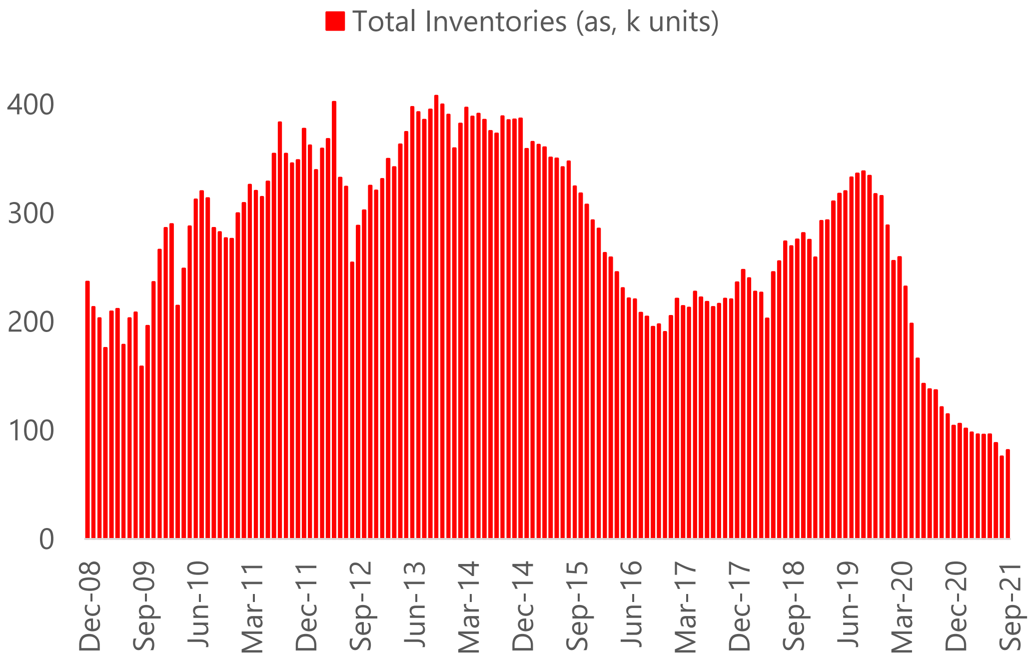
- We understand this is a widespread pattern present among the manufacturing sectors (not exclusive from auto vehicle sector). In usual cycles, low inventories level use to be a tailwind for production growth ahead. This time around, however, amid important supply hurdles seen worldwide in the wake of the pandemic, low inventories now could mean that local industry is having a hard time overcoming high costs and widespread input shortages.

Inventories Perception (sa, points)



Sources: FGV, Santander

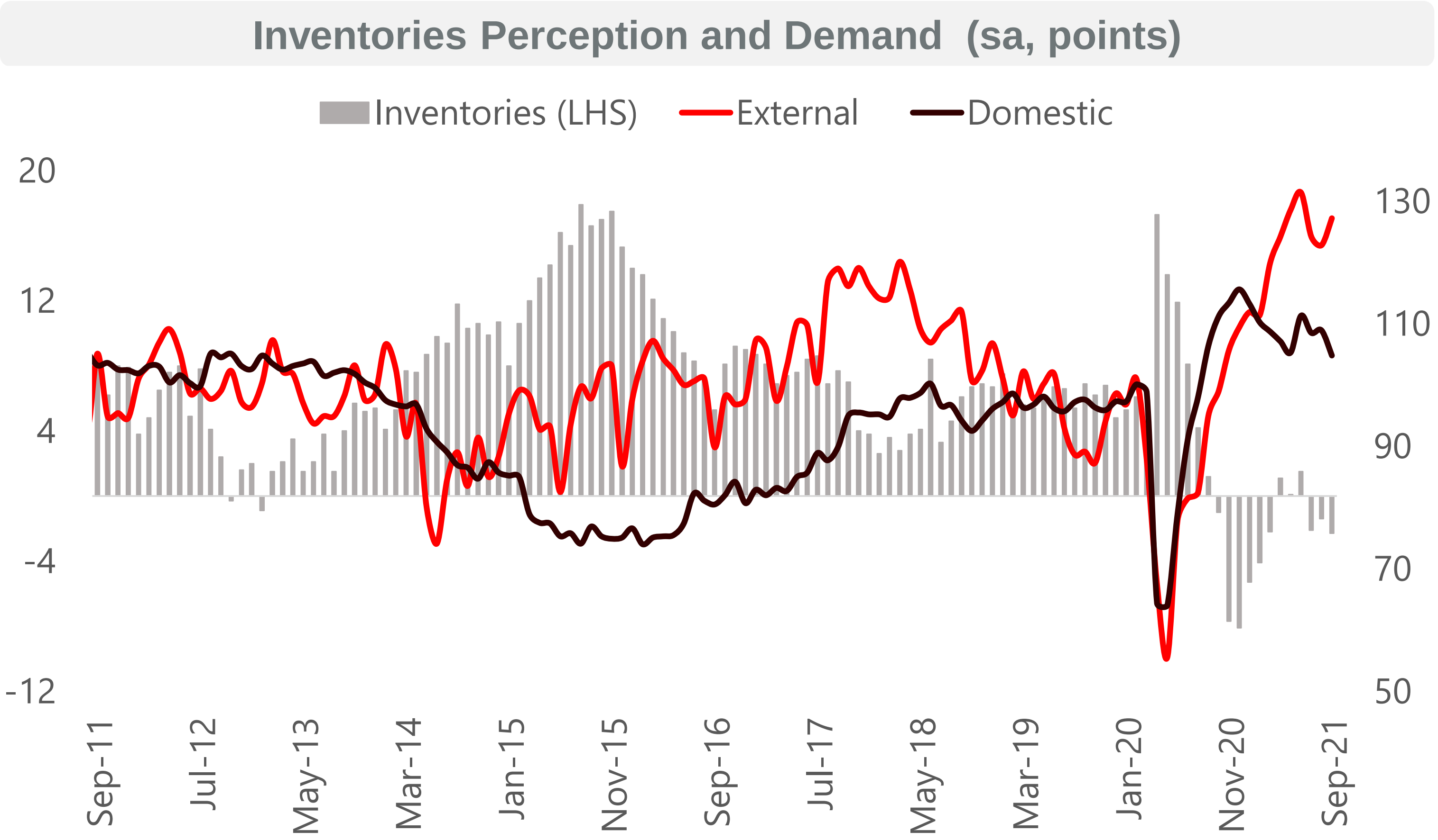
Auto Inventories (sa, Units in Thousands)



Sources: Anfavea, Santander

Weak output of industry is not due to lack of demand

- The effects of the widespread shortage of inputs are spotlighted when we bring to the equation the demand perception among businessmen. Indeed, both demands are still at solid readings, which, along with the low inventories level, would be a tailwind for production.



Sources: FGV, Santander

Industrial production breakdown

Industrial Production Breakdown										
		% MoM			% YoY			% QoQ		
	Weights	Jun-21	Jul-21	Aug-21	Jun-21	Jul-21	Aug-21	Jun-21	Jul-21	Aug-21
Total Industry	100%	-0.5	-1.2	-0.7	12.0	1.2	-0.6	-3.0	-1.4	-1.2
Mining	**11%**	**-0.4**	**-1.2**	**1.3**	**4.2**	**-2.7**	**-1.6**	**4.6**	**3.9**	**0.7**
Manufacturing	**89%**	**-0.7**	**-1.3**	**-0.7**	**13.1**	**1.8**	**-0.5**	**-4.1**	**-2.4**	**-1.8**
Capital Goods	8%	1.4	0.9	-0.8	53.8	33.8	29.9	-1.8	1.6	3.2
Intermediate Goods	60%	-0.7	-0.7	-0.6	10.8	0.1	-2.1	-1.9	-2.2	-2.2
Consumer goods	32%	-1.5	-0.2	-0.1	6.4	-3.5	-4.3	-8.2	-3.9	-0.8
Durable	7%	-1.3	-2.8	-3.4	31.5	-9.6	-17.4	-9.8	-7.6	-6.5
Non-Durable	25%	-1.7	0.5	0.7	2.0	-2.0	-0.8	-5.8	-1.3	1.2
Construction Supplies	**-**	**-0.6**	**-1.5**	**-0.1**	**16.8**	**2.1**	**1.5**	**-1.3**	**-1.8**	**-1.9**

Sources: IBGE, Santander

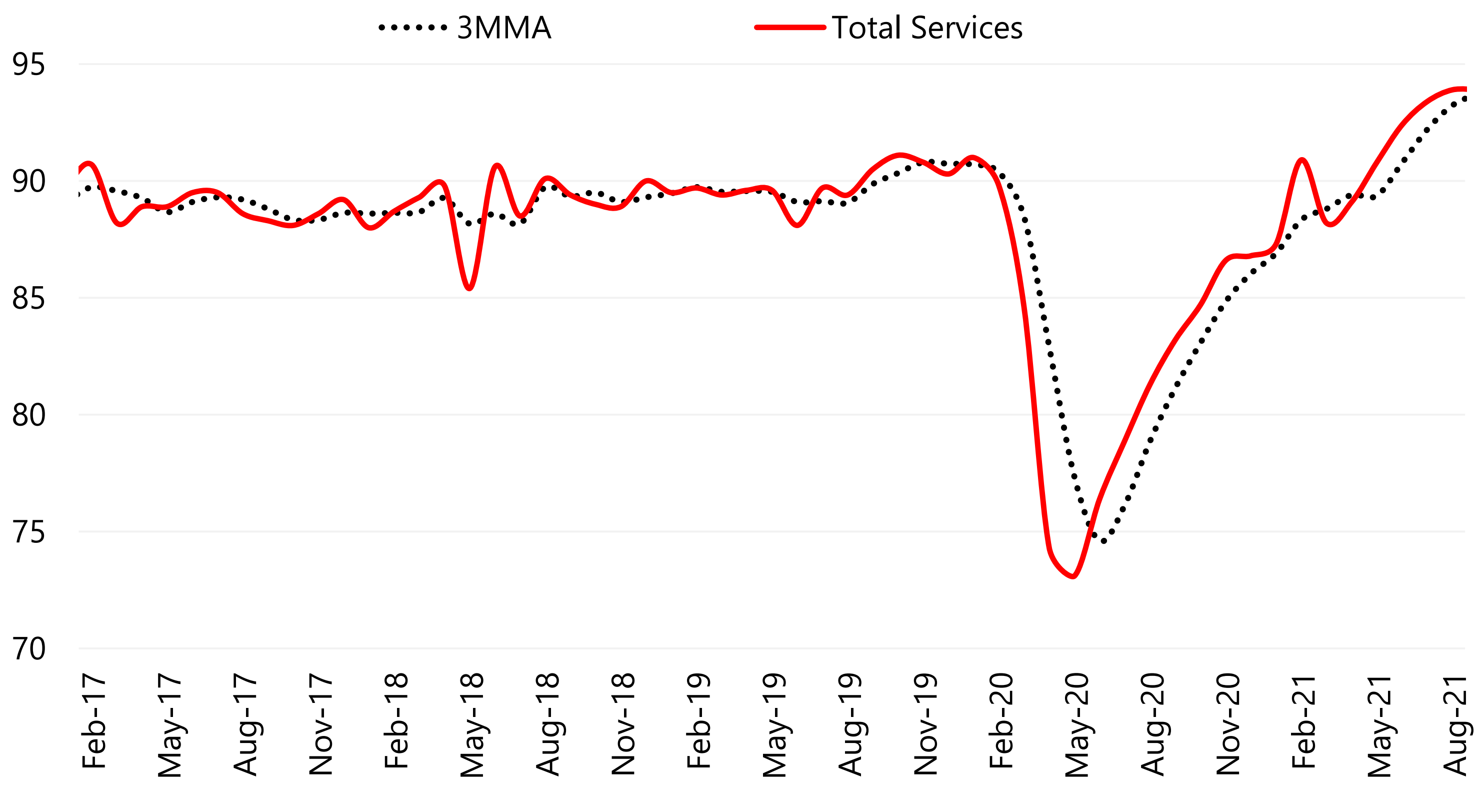
SERVICES

03

Solid growth and resilience amid the reopening of the economy

- Following the reopening of the economy and the demand shifting from goods towards services, the services sector continued strengthening in 3Q21, mainly driven by mobility-related segments such as Services to Families (e.g, food services, accommodation) and Transports (notably Air Transports). The headline index reached the highest reading since 2014.

Total Services (sa, 2014=100)

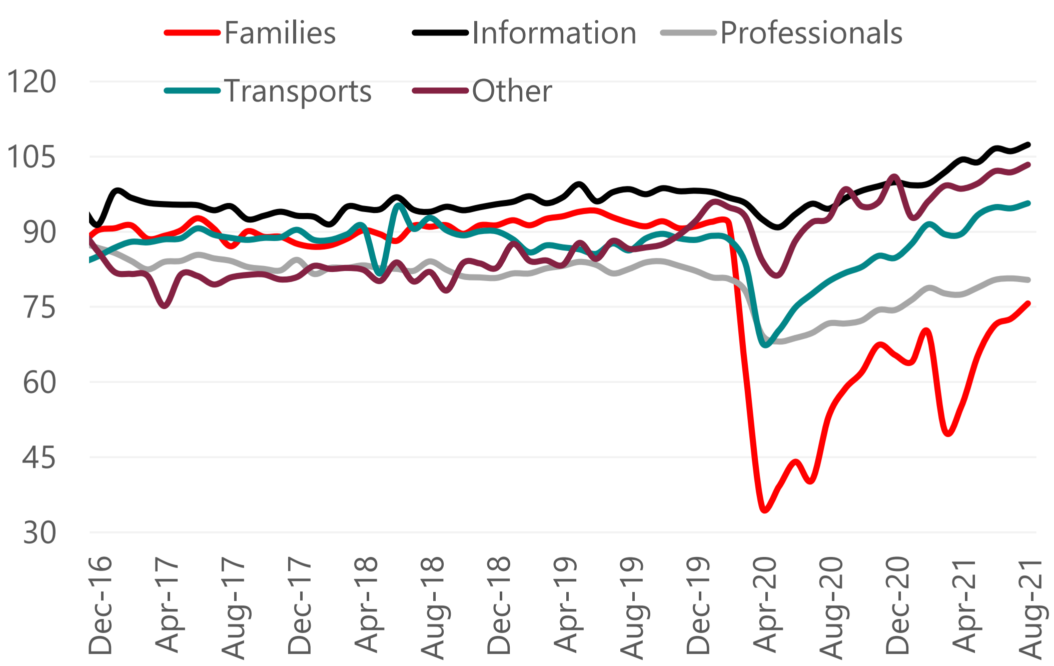


Sources: IBGE, Santander

Solid growth and resilience amid the reopening of the economy

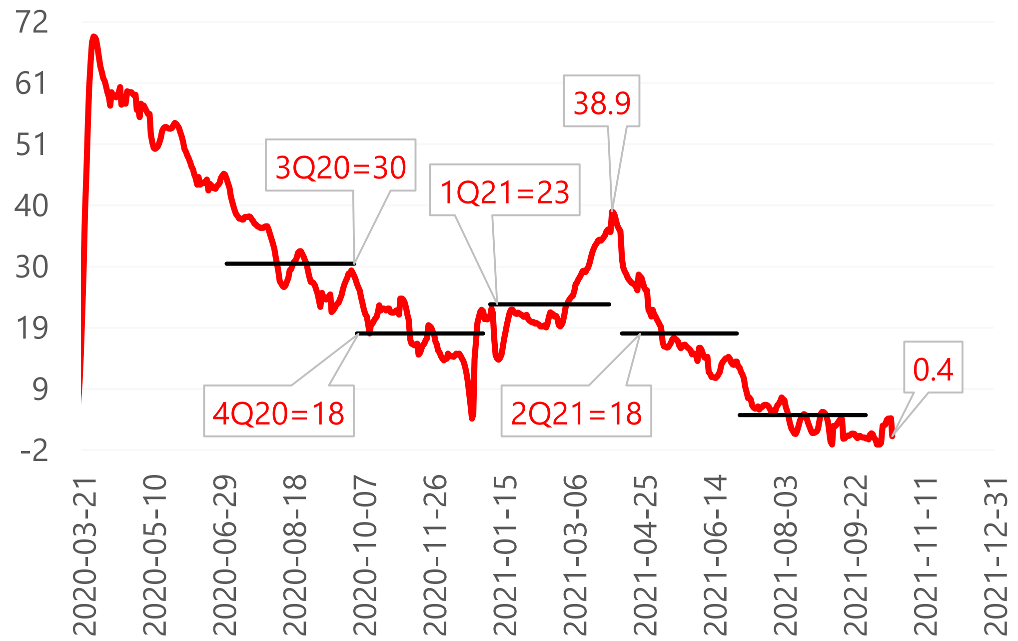
- Looking at the details, most of the subsectors has already recovered from the pandemic's impact, with only Services to Families and segments of Transports still presenting some idleness regarding the pre-pandemic mark. We expect these segments to be the main driver of services in 2S21, as the economy reopens and mobility stands perennially at "normal" levels.

Total Services Breakdown (sa, 2014=100)



Sources: IBGE, Santander

Google Mobility* (Jan/20=0) – 28dmma

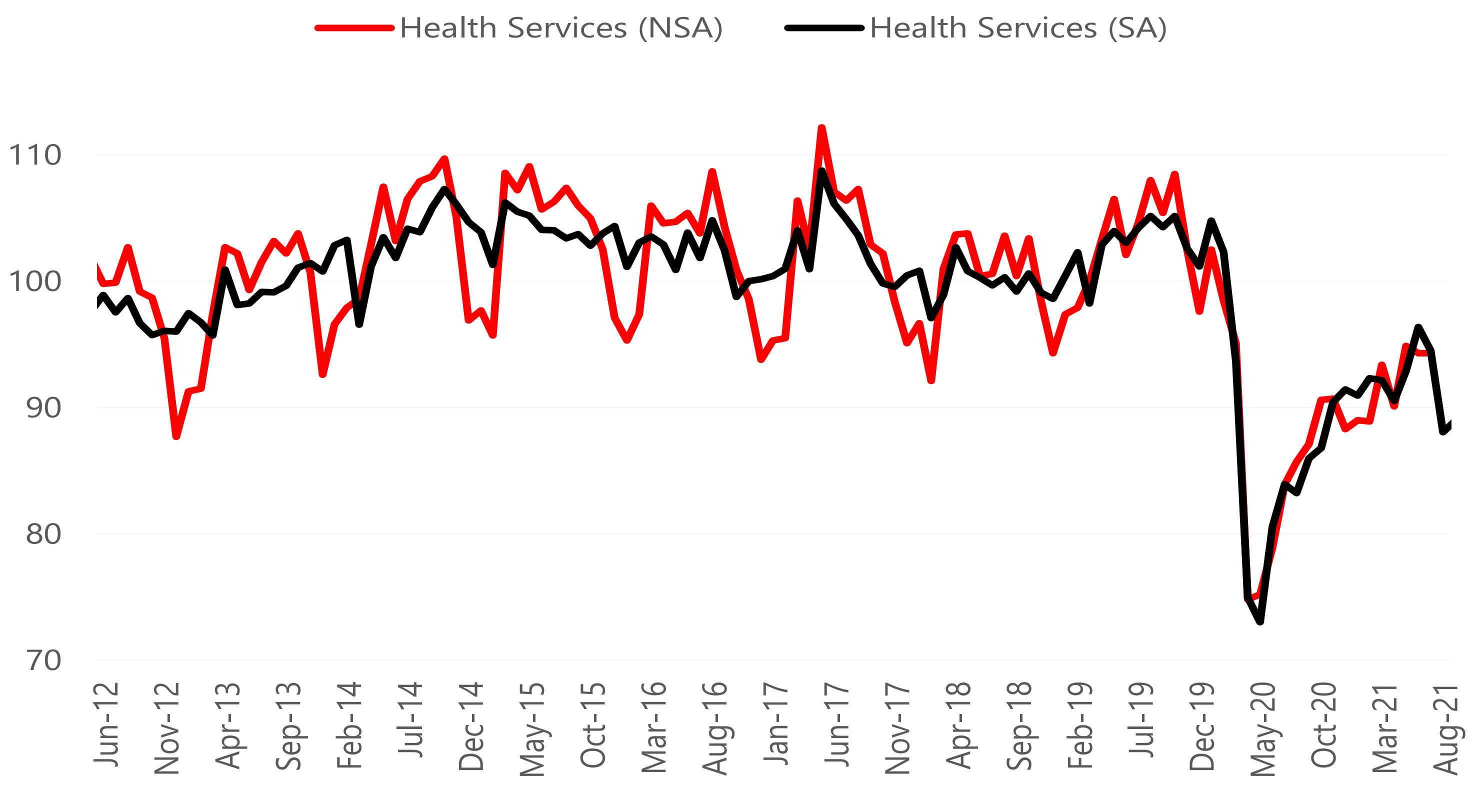


Sources: Google, Santander
* Lockdown index: Data until October 19.

Less cyclical services show idleness, leaving room for growth ahead

- Health services are not captured in the IBGE's monthly survey but are important in the composition of GDP (mercantile health in Other Services and non-mercantile health in Public Services). We expect these segments to recover ahead as mobility increases and sanitary crisis is gradually overcome. Currently, health services stands at levels ~15% below the 2019 average.

Health Services (points)



Sources: Datasus, Santander. Our seasonal adjustment procedure.

Services sector breakdown

Services Breakdown										
		% MoM			% YoY			% QoQ		
	Weights	Jun-21	Jul-21	Aug-21	Jun-21	Jul-21	Aug-21	Jun-21	Jul-21	Aug-21
Total Services	100%	1.8	1.1	0.5	21.2	17.8	16.6	2.2	3.1	4.3
Families	**8%**	**9.0**	**2.0**	**4.1**	**73.0**	**76.0**	**42.3**	**4.2**	**19.4**	**28.6**
Accommodation and Food	7%	9.4	2.4	4.5	82.4	86.0	46.3	4.4	20.4	30.4
Other Services to Families	1%	2.7	0.4	-0.3	34.7	33.4	23.3	6.8	9.3	8.3
Information	**31%**	**2.6**	**-0.5**	**1.2**	**13.9**	**11.1**	**13.5**	**4.7**	**3.5**	**3.2**
Technology	26%	1.5	0.4	1.2	10.8	10.0	12.8	3.8	2.6	2.5
Telecommunication	19%	-0.3	1.0	0.0	0.7	1.9	1.7	0.1	0.6	0.6
Information Technology	7%	1.5	1.7	2.0	26.6	23.3	31.5	8.4	5.3	4.3
Audiovisual	5%	18.9	-12.2	2.1	46.6	21.4	20.9	15.1	12.8	11.8
Professional/Adm	**23%**	**1.9**	**0.4**	**-0.4**	**16.7**	**14.4**	**12.7**	**1.7**	**2.6**	**3.2**
Professional	7%	1.9	5.3	-6.8	21.5	23.2	12.5	2.4	4.2	4.0
Administrative	16%	1.4	-0.4	0.4	14.8	11.0	12.7	1.2	2.0	2.6
Transportation	**31%**	**1.6**	**-0.2**	**1.1**	**27.7**	**20.9**	**19.6**	**3.5**	**4.6**	**4.7**
Ground Transportation	18%	0.9	-0.2	-0.1	29.2	21.5	17.5	2.1	3.0	3.0
Water Transportation	2%	0.3	4.6	-2.3	15.3	21.4	17.9	6.3	3.0	2.3
Air Transport	3%	15.6	-4.9	7.4	161.5	96.0	86.4	6.7	49.1	49.5
Storage and Mail	9%	-3.5	-0.2	1.2	14.4	10.1	12.6	2.1	1.5	-0.2
Other Services	**7%**	**2.4**	**-0.2**	**1.5**	**15.5**	**11.1**	**11.7**	**4.2**	**3.3**	**3.3**

Sources: IBGE, Santander

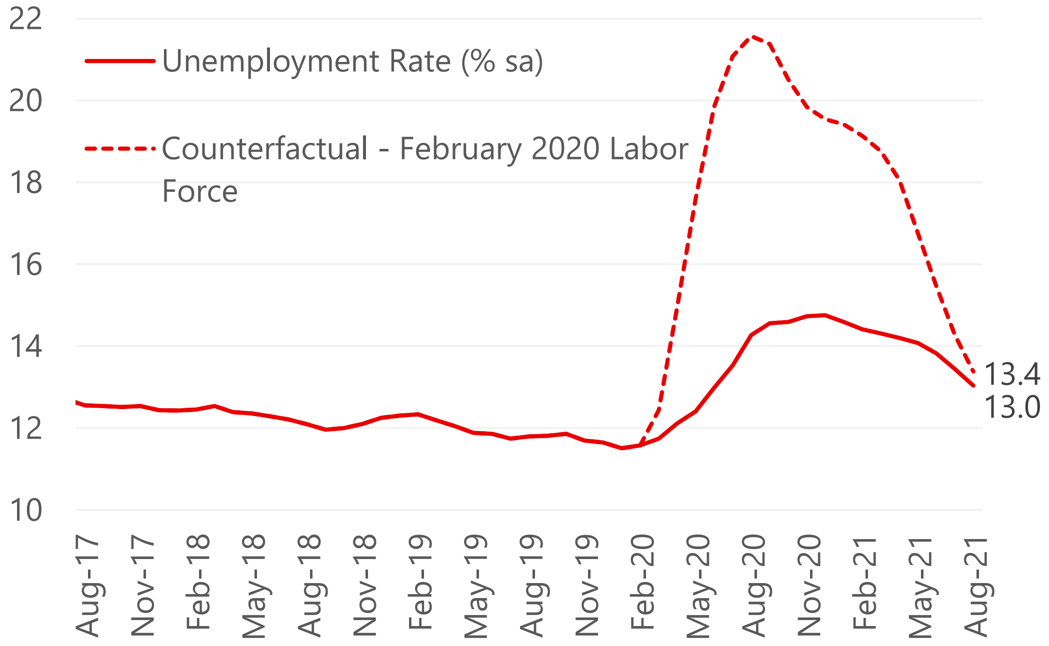
LABOR MARKET

04

Labor force normalization continues on the heels of higher urban mobility

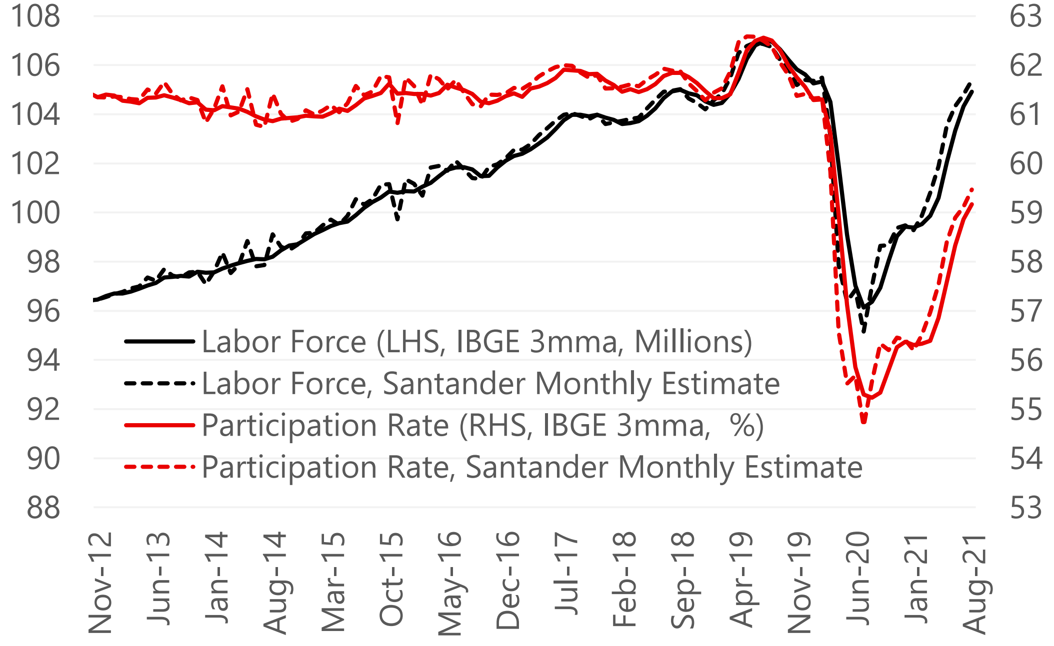
- Since April, PNAD data has shown a better outlook for labor force normalization, benefited by higher levels of urban mobility. We expect this behavior to continue in the coming months, as there should be no new setbacks in the reopening. In August, the labor force has almost reached pre-crisis levels.

Counterfactual Exercise



Sources: IBGE, Santander.

Participation Rate and Labor Force (sa)

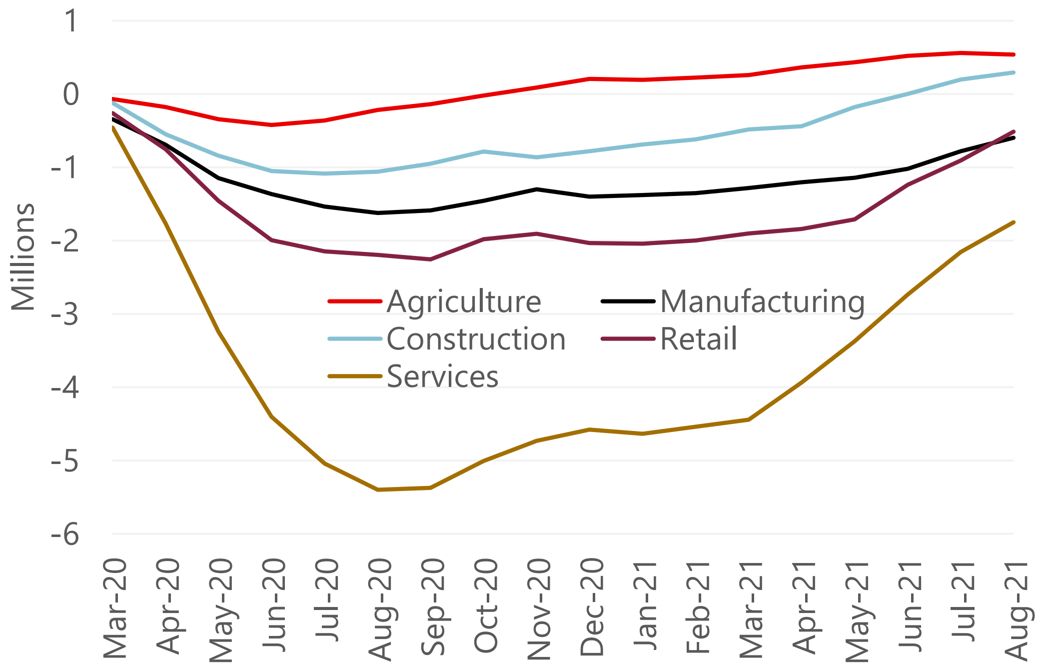


Sources: IBGE, Santander.

Services sector is still the laggard

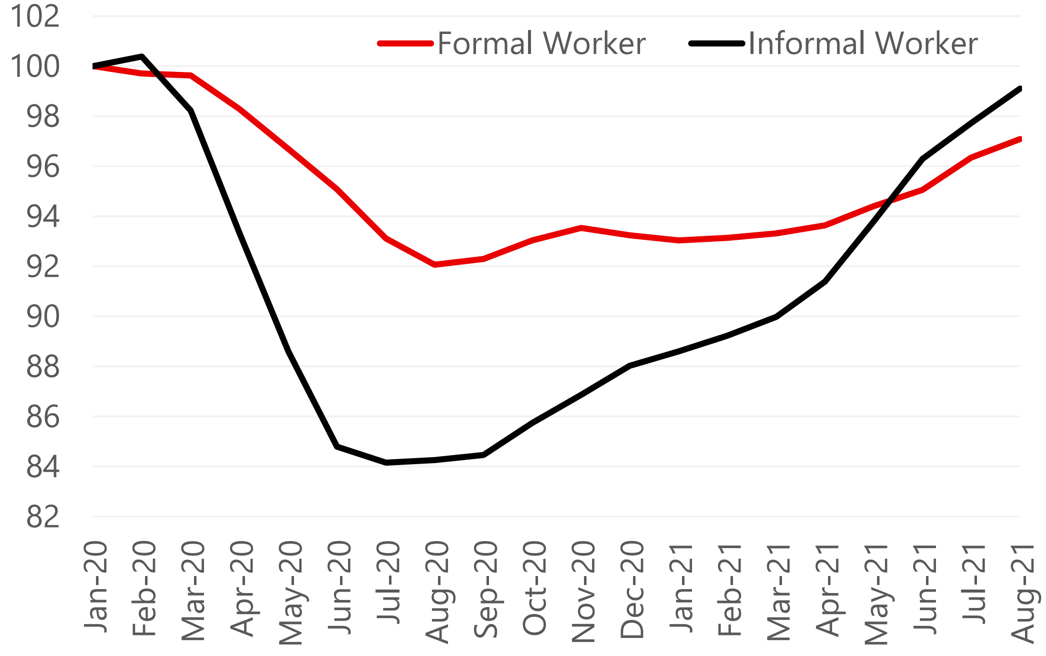
- Most of the job losses during the pandemic are in the services sector. We expect the sectors more dependent on social interaction to lead the employment recovery in 2H21, as urban mobility maintains higher levels and benefits informal workers.

Post-Pandemic Accumulated Job Losses (sa)



Sources: IBGE, Santander.

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

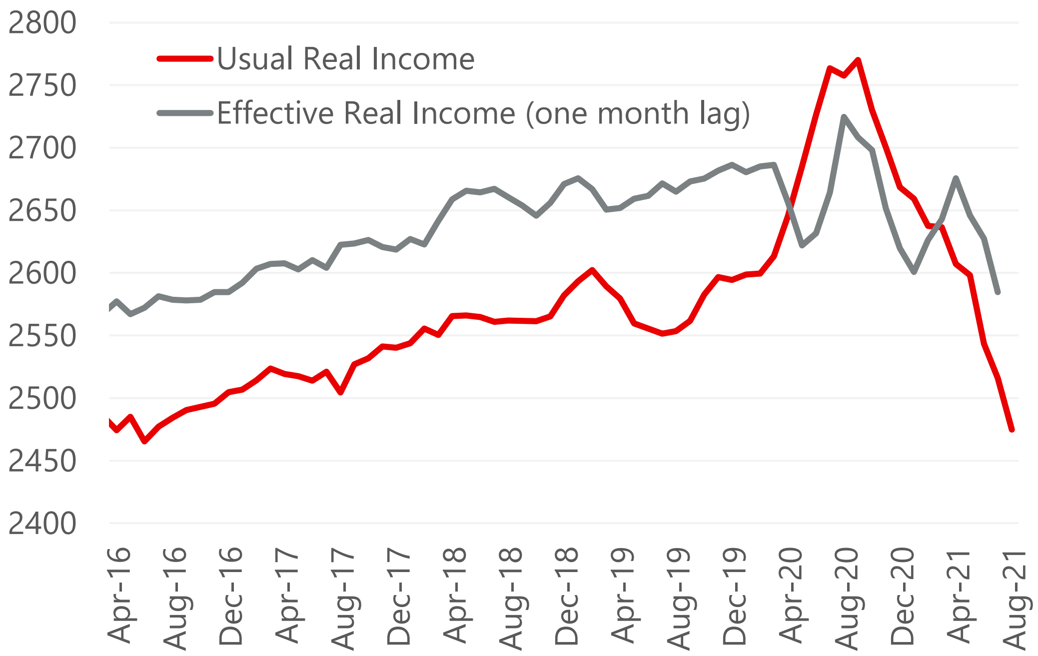


Sources: IBGE, Santander.

Real wage bill still in depressed levels

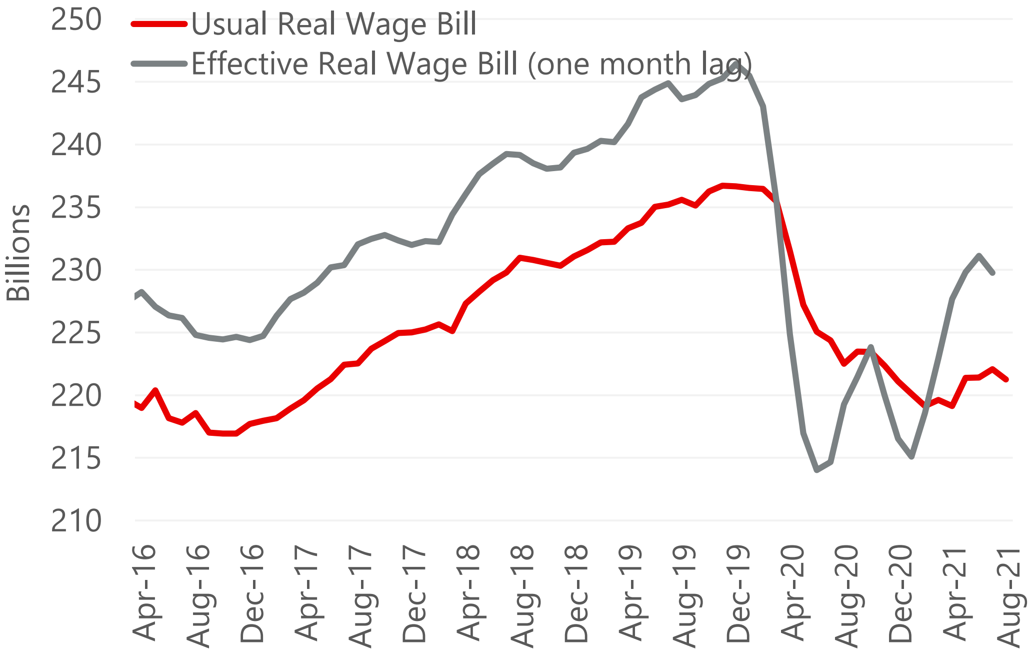
- Real wage bill is still in a precarious situation. There has been a decoupling between the usual and effective real wage bills due to the composition effect, as job losses were concentrated among employees with lower wages. Both indicators remain far from pre-pandemic levels.

Average Real Income (BRL, sa)



Sources: IBGE, Santander.

Real Wage Bill (BRL, sa)

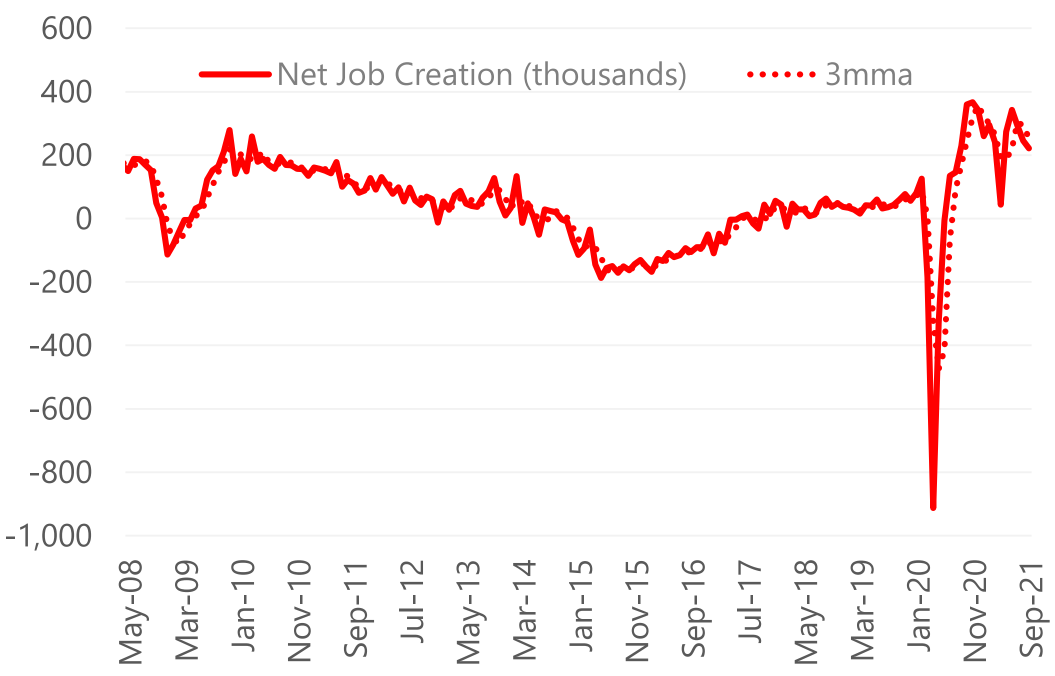


Sources: IBGE, Santander.

CAGED has shown strong results in the past few months, despite some deceleration

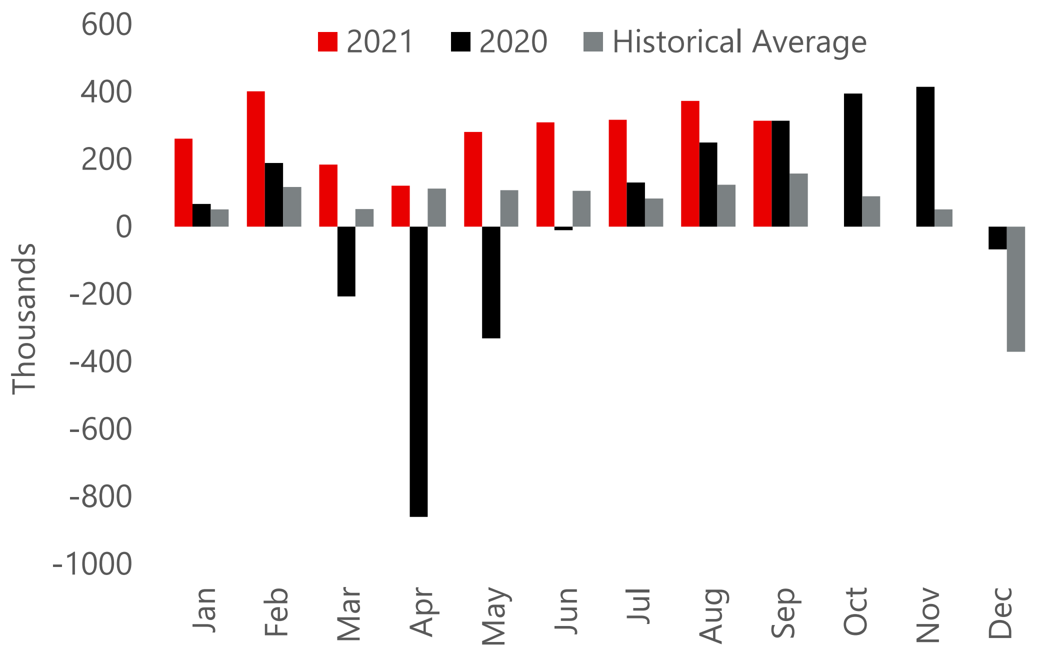
- Since January 2021, CAGED recovery seems to be more aligned with most economic activity statistics, after possible underreporting issues in 2H20. The higher mobility levels since May have led to another acceleration in net formal job creation. We evaluate that the end of the government's job protection program (BEm) has caused the recent deceleration in net job creation.

CAGED Net Job Creation (sa)



Sources: Ministry of Labor, Santander.

Net Job Creation and Historical Average

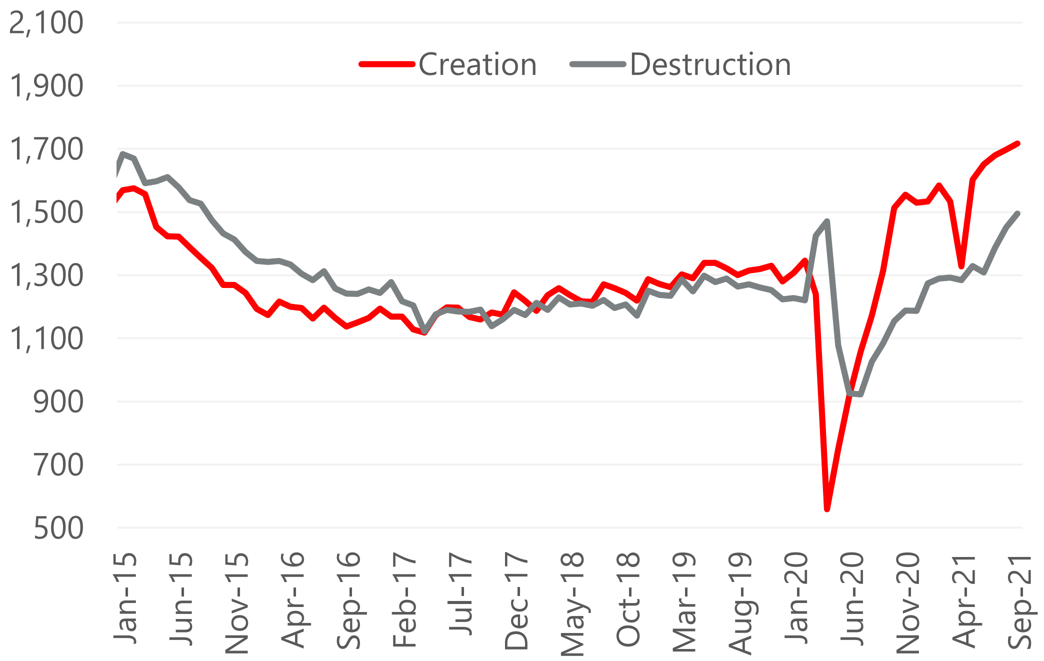


Sources: Ministry of Labor, Santander.

CAGED: End of BEm program may have led to an increase in layoffs

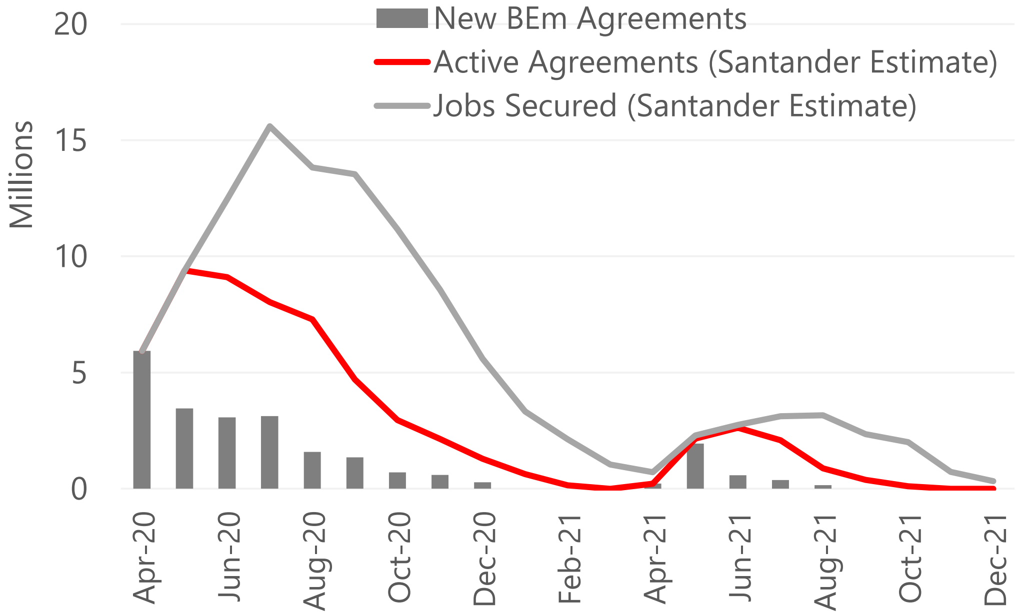
- We consider that the end of the BEm program on August 26 is already affecting the data, as layoffs are already at levels close to the ones observed in the initial months of the pandemic. We evaluate that the round of the program that started in April has limited layoffs, and also helped to boost net job creation.

CAGED: Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

BEm Agreements and Jobs Secured

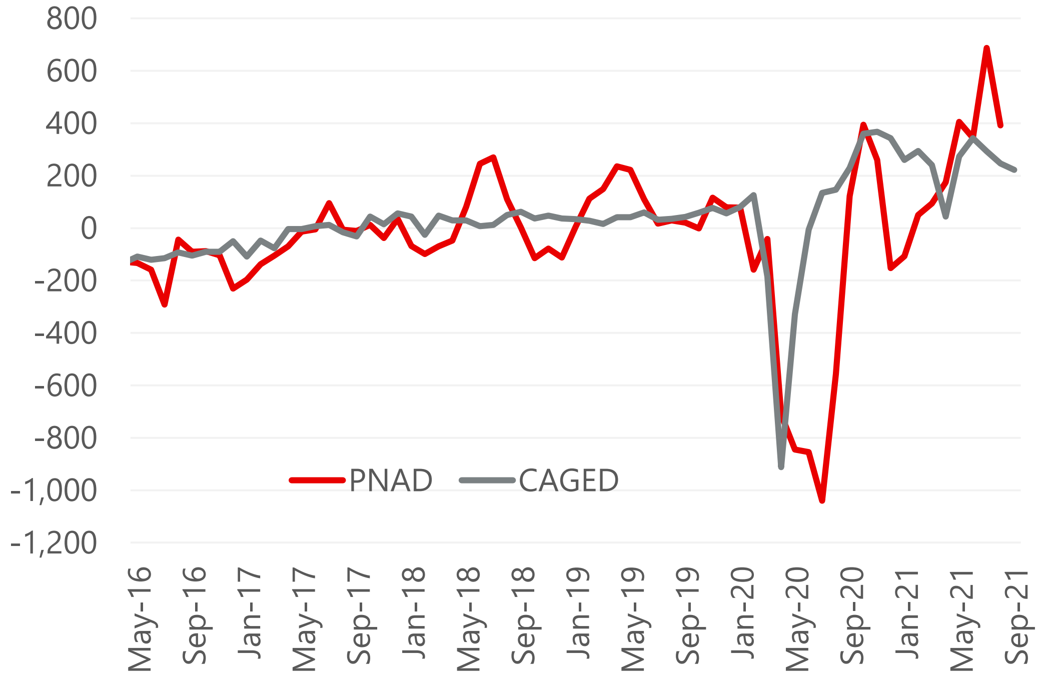


Sources: Ministry of Labor, Santander.

PNAD data is correcting the underestimation in formal employment

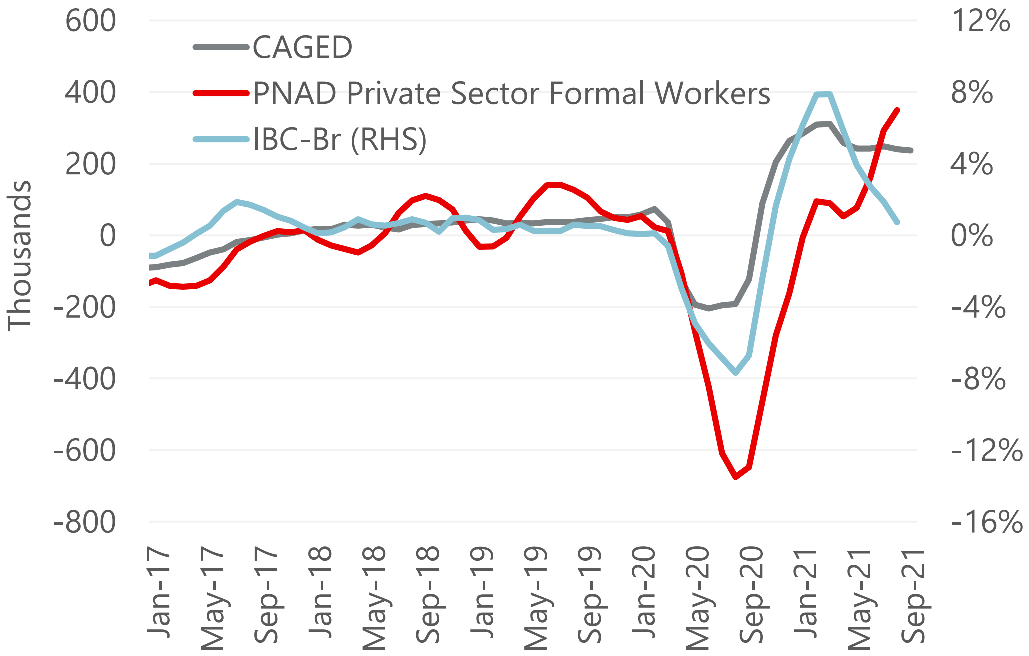
- In our view, the IBGE's efforts to increase the PNAD survey's response rate could have positively affected the formal employment level in June, July and August.

Net Formal Job Creation (thousands, sa)



Sources: Ministry of Labor, IBGE, Santander.

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



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

August 2021 PNAD results

PNAD Breakdown									
	s.a.			% YoY			% Feb-20*		
	Jun-21	Jul-21	Aug-21	Jun-21	Jul-21	Aug-21	Jun-21	Jul-21	Aug-21
Unemployment rate (%)	**13.8**	**13.4**	**13.0**	**0.8**	**-0.1**	**-1.2**	**2.2**	**1.9**	**1.5**
Participation rate (%)	**58.3**	**58.9**	**59.2**	**2.4**	**3.5**	**3.9**	**-3.0**	**-2.4**	**-2.1**
Labor force (millions)	**103.3**	**104.3**	**104.9**	**6.3**	**8.4**	**8.8**	**-2.0**	**-1.0**	**-0.4**
Employment	89.0	90.3	91.2	5.3	8.6	10.4	-4.1	-2.8	-1.9
Unemployment	14.3	14.0	13.7	12.9	7.3	-1.0	2.1	1.8	1.5
Formalization Rate (%)	**56.6**	**56.6**	**56.4**	**-3.1**	**-2.9**	**-2.8**	**-0.2**	**-0.2**	**-0.3**
Formal Workers (millions)	50.4	51.1	51.5	-0.1	3.3	5.3	-2.5	-1.8	-1.4
Informal Workes (millions)	38.6	39.2	39.8	13.5	16.3	17.9	-1.6	-1.1	-0.5
Average usual earnings (BRL)**	**2,543**	**2,516**	**2,475**	**-6.6**	**-8.8**	**-10.2**	**-2.2**	**-3.2**	**-4.8**
Average effective earnings (BRL)**	**2,627**	**2,585**	**-**	**-0.2**	**-3.0**	**-**	**-2.2**	**-3.7**	**-**
Usual wage bill (BRL bn)**	**221.4**	**222.1**	**221.3**	**-1.7**	**-1.0**	**-0.7**	**-6.4**	**-6.1**	**-6.4**
Effective wage bill (BRL bn)**	**231.1**	**229.8**	**-**	**8.4**	**7.2**	**-**	**-4.9**	**-5.5**	**-**

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

** In real terms

Sources: IBGE, Santander.

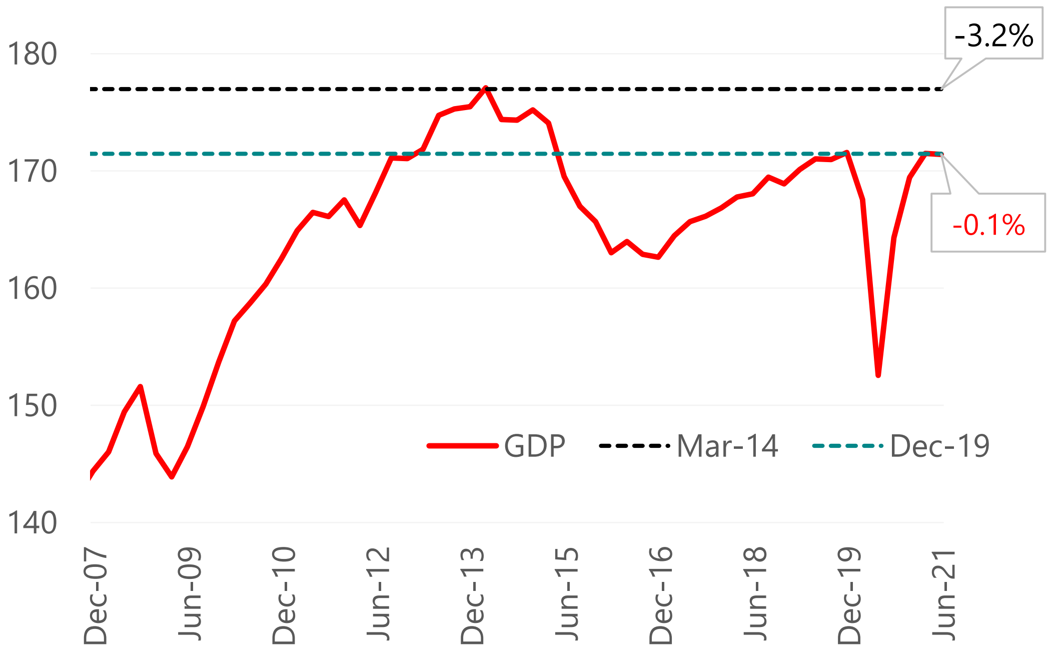
GDP

05

GDP surprised to the downside and posted a flattish figure in 2Q21

- The negative market surprise seen in 2Q21 GDP was in line with our scenario of a flattish figure. The tertiary sector contributed positively, on the heels of the recovery of urban mobility and the new round of Emergency Aid stipends. Conversely, farm output partially gave back its positive 1Q21 contribution, while industry weighed on activity, reflecting cost increases and the widespread shortage of inputs seen in manufacturing. See details*.

GDP (sa, 1995=100)**



Sources: BCB, IBGE, Santander.

*"*Weaker-than-Expected 2Q21 GDP Growth*" – September 01, 2021 - Available on: https://bit.ly/Std-GDP-090121

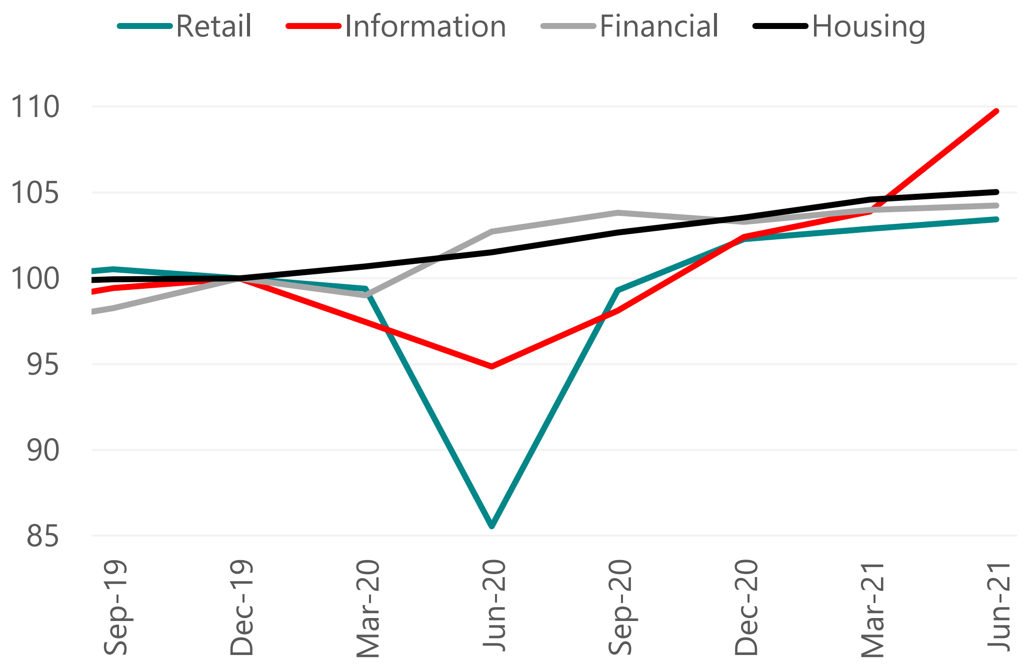
** *GDP* is 0.1% and 3.2% below the highlighted marks, respectively.

	1Q21	2Q21	2021e	Pre-Crisis*
	% QoQ	% QoQ	% Carryover	% 4Q19
GDP	1.2	-0.1	4.9	-0.1
Supply				
Taxes	1.4	-0.7	6.2	0.8
Agriculture	**6.5**	**-2.8**	**2.7**	**3.3**
Industry	**0.7**	**-0.2**	**5.5**	**1.6**
Mining	2.6	5.3	4.4	0.9
Manufacturing	-0.4	-2.2	5.5	2.1
Construction	2.9	2.7	6.1	0.6
Utilities	0.9	-0.9	1.8	1.4
Services	**0.7**	**0.7**	**4.1**	**-0.9**
Retail	0.6	0.5	6.9	3.4
Transports	3.4	0.1	9.1	-1.0
Information	1.4	5.6	10.2	9.7
Financial	0.7	0.3	1.9	4.2
Other Services	0.4	2.1	4.7	-7.2
Rents	1.0	0.4	2.7	5.0
Public Services	-0.6	0.0	0.2	-4.5
Demand				
Consumption	**0.1**	**0.0**	**2.9**	**-3.0**
Government	**-0.8**	**0.7**	**-0.1**	**-4.3**
Investments	**4.8**	**-3.6**	**16.4**	**14.9**
Exports	**4.9**	**9.4**	**11.6**	**10.2**
Imports	**10.0**	**-0.6**	**16.6**	**6.0**

Services segments still at depressed levels and should recovery in 2H21

- Transports, Other Services and Public Services account for more than 30% of GDP and are running at a well-depressed basis (1.0%,7.2% and 4.5% below 4Q19 level, respectively). We expect these segments to partially fill their pre-pandemic gaps, contributing to the economic recovery from 3Q21 onwards.

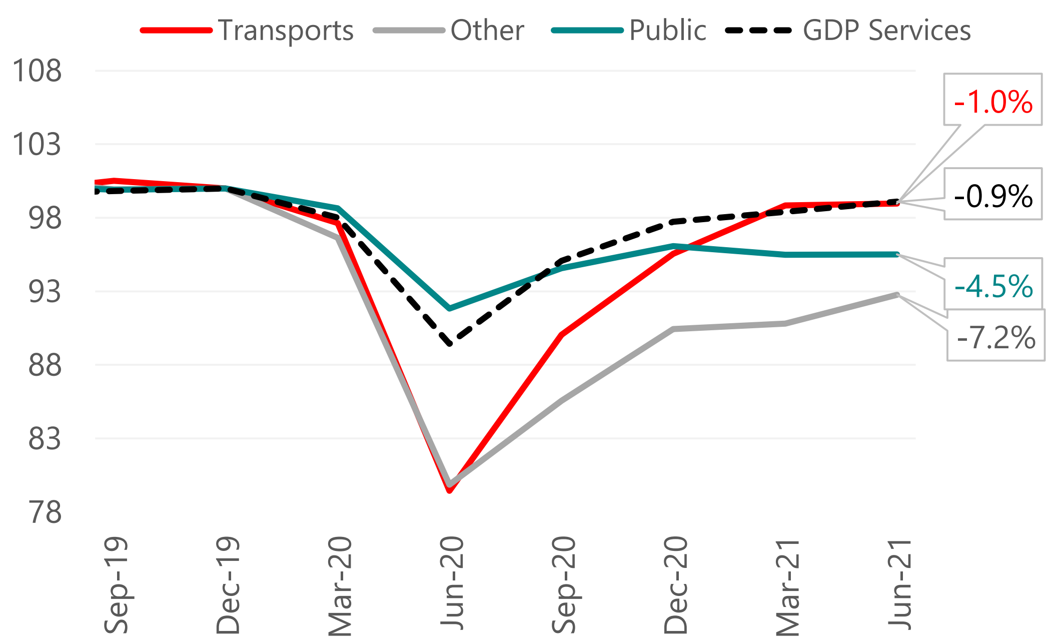
Above the pre-crisis mark (4Q19=100)*



Sources: IBGE, Santander.

* Retail, Information, Financial and Housing account for 13%, 3%, 5% and 9% of GDP, respectively, summing up ~30% of GDP.

Below the pre-crisis mark (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

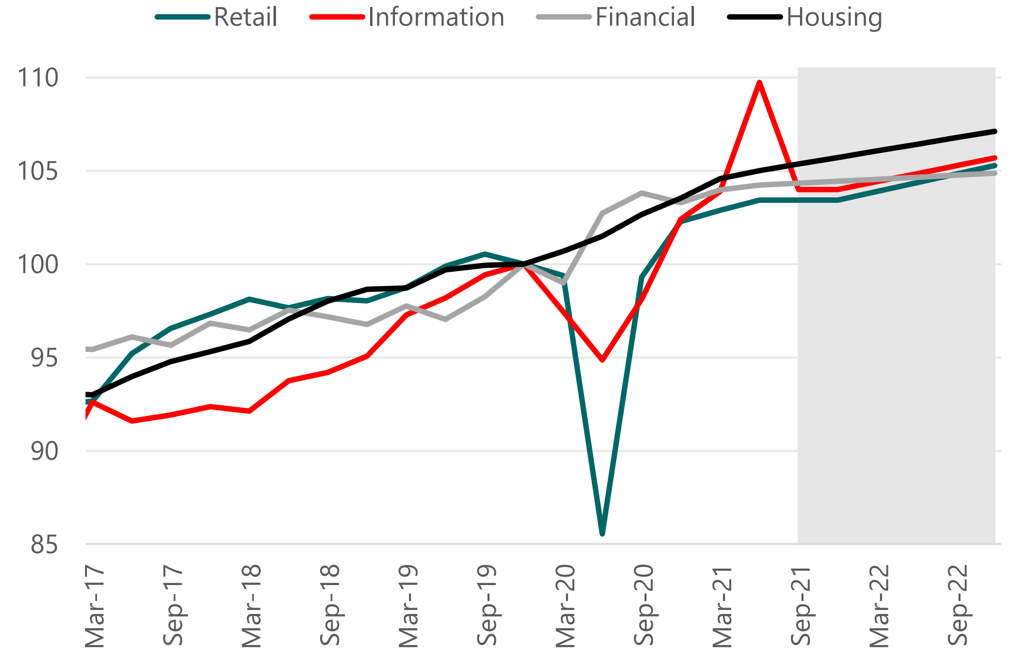
BASELINE SCENARIO

06

Simulating the potential GDP contribution from services in 2022

- We assume for the first group* a recovery pace from 3Q21 onwards equal to the minimum between the 2017-2019 average growth rate and the lowest growth rate recorded in that period (in annualized terms). For the second group**, we assume normalization in 1Q22 and from 2Q22 onwards we also assume the same assumption that was applied for the first group. In our view, these assumptions are conservative.

Above the pre-crisis mark (4Q19=100)**

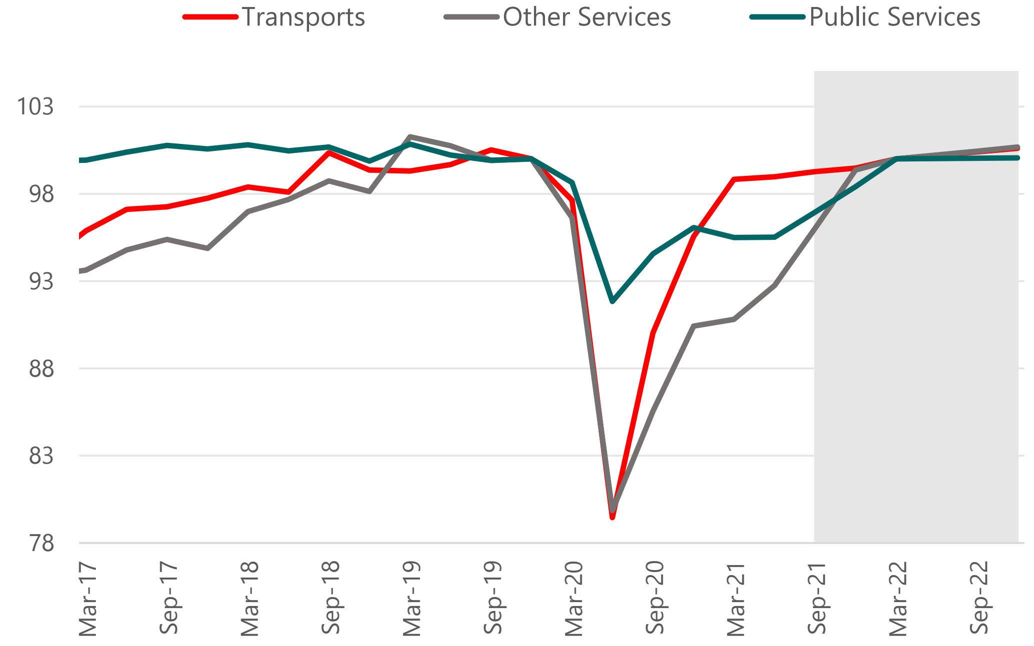


Sources: IBGE, Santander.

* First group: retail, information, financial and housing, ** second group: transports, other and public services

**grey area means Santander's estimates.

Below the pre-crisis mark (4Q19=100)*



Sources: IBGE, Santander..

Simulating the potential GDP contribution from services in 2022

- In this exercise, we find that GDP services can contribute with almost 1.6 p.p for 2022 GDP, given our assumptions. More than 1 p.p would come from Other Services and Public Services, the segments that still show wide idleness regarding the pre-pandemic mark and should post a near mechanical recovery. **This exercise was made considering the seasonally-adjusted series, which may lead to overestimated figures.** Even taking this into account, we understand this exercise reinforces our view that **the mechanical recovery of some subsectors of services can contribute with a 1-1.6 p.p to 2022 GDP growth.**

Baseline Scenario: Normality in 1Q22									
	2017	2018	2019	Avg 17-19	2020	21(e)	22(e)	Weight	Contribution
Services	1.0	2.0	1.7	1.6	-4.8	-	-	61%	1.6
Retail	2.2	2.7	1.8	2.2	-3.2	6.9	1.3	13%	0.2
Information	1.6	1.8	5.3	2.9	-0.5	7.3	-0.5	3%	0.0
Financial	-1.2	1.0	1.3	0.4	4.0	2.0	0.4	5%	0.0
Housing	1.3	3.3	2.2	2.3	2.5	3.0	1.4	8%	0.1
Transports	1.0	2.1	0.8	1.3	-9.2	9.3	1.2	4%	0.0
Other Services	0.9	3.4	2.7	2.3	-12.3	7.5	5.9	13%	0.8
Public Services	0.4	0.0	-0.2	0.1	-5.0	1.4	3.6	15%	0.5

Sources: IBGE, Santander.

GDP: Key hypotheses, basic description and risks

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

- Regarding the GDP path, high commodities prices, along with advances in the economy's reopening should contribute to a better momentum. Indeed, some important segments of the tertiary sector (accounting for nearly half of services GDP, the largest component from the standpoint of aggregate supply) are still running at depressed levels, which leaves room for growth. In the short term, August activity numbers reinforced our view of a 3Q21 not as strong as previously anticipate, mainly because of the goods-related sectors (i.e., manufacturing and some retail segments) amid a shift of spending out of goods and back into services, as the pandemic fades and economy reopens. We reduced our 3Q21 projection to +0.3% (from +0.7%) as well as our 2021 projection, to +4.9% (from +5.1%).

- For 2022, after previously reducing our GDP estimate to 1.5% (from 1.7%), a tighter monetary policy path prompted us to reduce (again) our estimate to 1.0%. We expect growth contributions to come from the mechanical recovery of the services sector reopening (mainly from those segments with idleness), the labor market recovery (with the expected real wage bill expansion as a byproduct), as well as the support from less cyclical commodity-related sectors. These factors are expected to be somehow shadowed by the delayed effects of a tighter monetary policy and the deterioration of financial conditions. For 2023, we reduced our estimate to 0% (from 0.8%), expecting the lagged effects of monetary policy and financial conditions to prevail.

- **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.

- **Downside risks:** a stronger inflationary shock making the BCB's policy stance even tighter. A prolonged shortage of inputs in some production chains, along with likely implications of the drought for industrial (due to electricity generation) and agriculture output. An additional increase of infections and delays in the vaccination campaign would likely impair the economy's reopening process.

GDP path and breakdown

GDP Baseline Scenario			
	YoY	QoQ	Full Year
4Q20	-1.1%	3.1%	-4.1%
1Q21	1.0%	1.2%	
2Q21	12.4%	-0.1%	
3Q21	4.6%	0.3%	
4Q21	2.2%	0.4%	4.9%
1Q22	1.1%	0.4%	
2Q22	1.7%	0.3%	
3Q22	0.8%	-0.3%	
4Q22	0.5%	-0.3%	1.0%

Sources: IBGE, Santander

GDP Projections					
	2018	2019	2020	2021e	2022e
Total GDP	1.8	1.4	-4.1	4.9	1.0
Agriculture & Livestock	1.3	0.6	2.0	2.3	2.0
Industry	0.7	0.4	-3.5	4.9	-1.4
Services	2.1	1.7	-4.5	4.7	1.9
Household Consumption	2.4	2.2	-5.5	3.4	1.3
Government Consumption	0.8	-0.4	-4.7	1.4	2.1
Investments	5.2	3.4	-0.8	12.2	-0.6
Exports	4.1	-2.4	-1.8	9.3	2.0
Imports	7.7	1.1	-10.0	9.8	4.7

Sources: IBGE, Santander

Labor market: flat unemployment rate in a more challenging scenario

- The vaccine rollout and the increase in urban mobility led to a faster recovery in the labor force and employment. Recent methodological changes in the PNAD household survey have anticipated part of the employment recovery, leading to a reduction in our 2021 unemployment rate forecast. We expect this effect to dissipate in 4Q21.

- We are downgrading a bit our expectations for the job market. As employment conditions should be impacted by a tighter monetary policy and greater economic uncertainty, we foresee a less steep decline in the unemployment rate. We now expect the average unemployment rate at 14.0% in both 2022 and 2023 (previously 13.7% and 12.9%, respectively). We do not anticipate a full closure of the jobless gap before 2024. Yet we recognize that the structural level of unemployment could also be impacted by more challenging economic conditions.

- **Upside risks:** Faster than expected recovery in employment due to the economic reopening.

- **Downside risks:** Stronger inflationary pressures leading the BCB to adopt an even tighter monetary policy stance. A resurgence in the pandemic leading to a resumption of restrictive measures, impacting employment and the labor force.

	2019	2020	2021e	2022e	2023e
Unemployment Rate *					
Average	11.9	13.2	13.8	14.0	14.0
End of Period (s.a.)	11.6	14.8	13.4	14.0	14.0
Unemployed Population **					
Average	12.6	13.2	14.3	15.0	15.1
End of Period	12.3	14.7	14.3	15.1	15.2

* in %

** in Millions

Sources: IBGE, Santander.

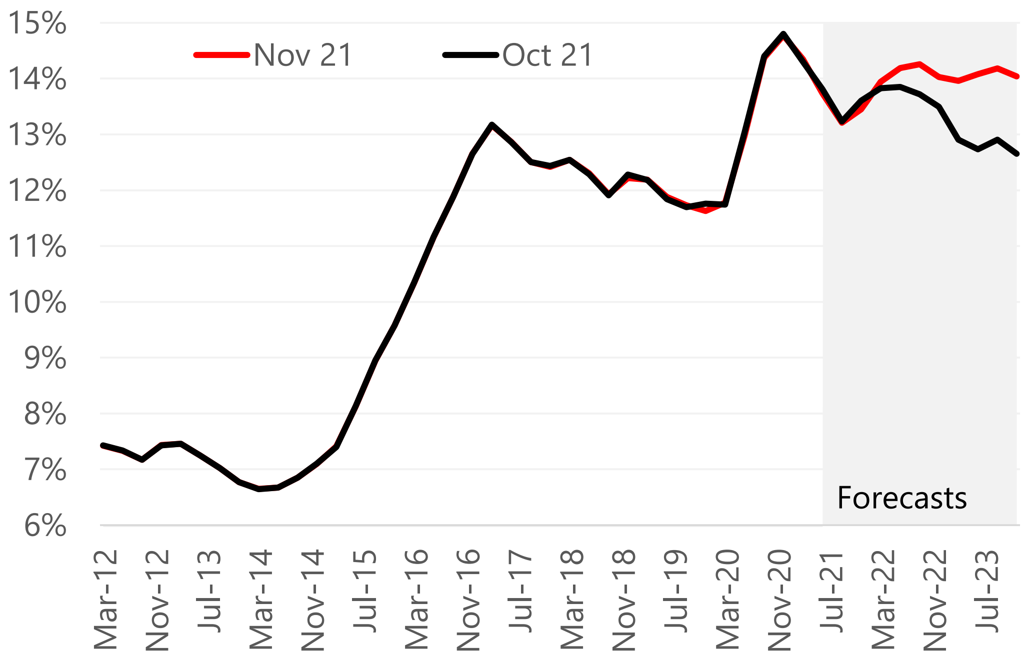
Unemployment rate to remain flat throughout 2021, 2022 and 2023

- We now expect the average unemployment rate at 14.0% in both 2022 and 2023 (from 13.7% and 12.9%, respectively). We do not anticipate a full closure of the jobless gap before 2024. Yet we recognize that the structural level of unemployment could also be impacted by more challenging economic conditions.

		Oct -21	Nov-21
Unemployment Rate (avg)	2021	13.8	13.8
	2022	13.7	14.0
	2023	12.9	14.0
Unemployment Rate (YE, sa)	2021	13.6	13.4
	2022	13.5	14.0
	2023	12.6	14.0
Unemployed (YE, Millions sa)	2021	14.5	14.3
	2022	14.6	15.1
	2023	13.9	15.2

Sources: IBGE, Santander.

New Unemployment Rate Trajectory (sa)

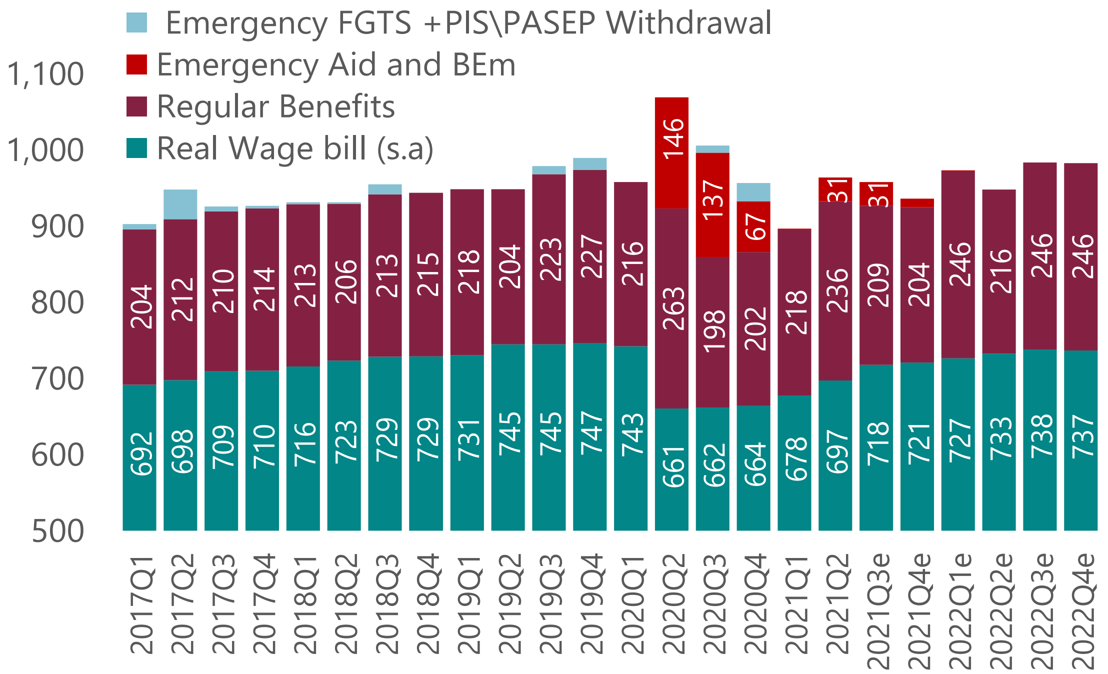


Sources: IBGE, Santander.

“Expanded” real wage bill will drop in 2021, with partial recovery in 2022

- Considering PEC of *Precatórios*, with the government transfers increase, the overall effect on the real wage bill is neutral. The effect of the new value of the welfare program and the revised value of regular transfers (impact of +1.3p.p.) barely offsets the negative impact of labor income due to inflation and monetary policy (-1.2p.p.). We now expect the “expanded” real wage bill to post 3.5% growth in 2022 (from 3.4% in our last review). Considering the revised levels of inflation and the Selic rate for the alternative simulations, we estimate the growth of the “expanded” real wage bill as between 3.0% and 4.3%. We still consider these scenarios as compatible with an expansion of household consumption of around 1.0% in 2022.

“Expanded” Real Wage Bill (BRL billion)



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

	2020	2021(E)	2022(E) - Selic Rate Simulation 10.00%	11.50%	13.00%
Real Wage Bill (No Fiscal Stimulus)	-7.9%	+3.3%	+4.6%	+4.2%	+3.7%
Real Wage Bill (Fiscal Stimulus + Auxilio Brasil BRL35bn)	+3.7%	-5.8%	+2.7%	+2.4%	+2.1%
Real Wage Bill (Fiscal Stimulus + Auxilio Brasil BRL82bn)			+3.9%	+3.5%	+3.2%

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

Macro scenario: projections

- For our extraordinary Scenario Review 'LOSING THE ANCHOR' (sent on November 05, 2021). **Click on the link:** https://bit.ly/Std-scenreview-redux-nov21

Macroeconomic variables		Previous		Current
GDP (%)	2021E	4.9	⇨	4.9
	2022E	1.5	⇩	1.0
	2023E	0.8	⇩	0.0
IPCA - Consumer Inflation (%)	2021E	9.0	⇧	9.6
	2022E	4.7	⇧	5.2
	2023E	3.3	⇧	3.5
Selic Rate (% end of period)	2021E	8.25	⇧	9.25
	2022E	9.00	⇧	11.50
	2023E	7.00	⇧	9.00
FX Rate - USDBRL (end of period)	2021E	5.35	⇧	5.50
	2022E	5.55	⇧	5.70
	2023E	5.20	⇨	5.20
Primary Fiscal Balance (% of GDP)	2021E	-0.5	⇧	-0.3
	2022E	-1.3	⇩	-1.7
	2023E	-1.1	⇩	-1.3
Gross Public Debt (% of GDP)	2021E	80.7	⇧	81.2
	2022E	83.8	⇧	87.5
	2023E	87.8	⇧	94.6
Nominal Fiscal Balance (% of GDP)	2021E	-5.0	⇩	-5.6
	2022E	-7.2	⇩	-8.3
	2023E	-7.5	⇩	-7.8
Net Government Debt (% of GDP)	2021E	58.0	⇧	58.7
	2022E	60.5	⇧	62.6
	2023E	64.1	⇧	67.8

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

Thank you.

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