Brazil Macro | September 2021

Economic Activity

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SUMMARY

- **We maintain our 2021 GDP estimate at 5.1%.** Brazilian GDP was stable in 2Q21 (-0.1% QoQ-sa), in line with our expectations of a flattish figure and highlighting heterogeneity in the composition of economic activity. The tertiary sector contributed positively, on the heels of the faster-than-expected recovery of urban mobility and the new round of Emergency Aid stipends. Conversely, farm output partially gave back its positive 1Q21 GDP contribution, while industry weighed on activity, reflecting cost increases and the widespread shortage of inputs seen in manufacturing (which have been partially mitigated by mining and construction).

- **Assuming continued progress in the vaccination rollout, we envision a perennial mobility recovery ahead (with no setbacks) with a virtual return to "normal" levels at the end of 3Q21 (unchanged outlook since our last review).** 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 as the public health crisis is gradually overcome.

- **For 2022, we are reducing our GDP estimate to 1.7% (from 2.0%).** We expect good growth contributions from the lingering positive effects from the commodity cycle and an economy in full-operation mode, along with the expected real wage bill expansion (as the labor market recovers). These factors are expected to be shadowed by the delayed effects of a tighter monetary policy, worse financial conditions and a reduction in fiscal impulses.

- **As we previously expected, improving urban mobility has supported the recovery in employment.** We maintain our 2021 projections for employment and participation rate trajectories. For 2022, our scenario of a tighter monetary policy has led to an upward revision in our unemployment rate forecast: we now estimate an average joblessness of 14.1% in 2021 (unchanged) and 13.7% in 2022 (previously 13.5%).

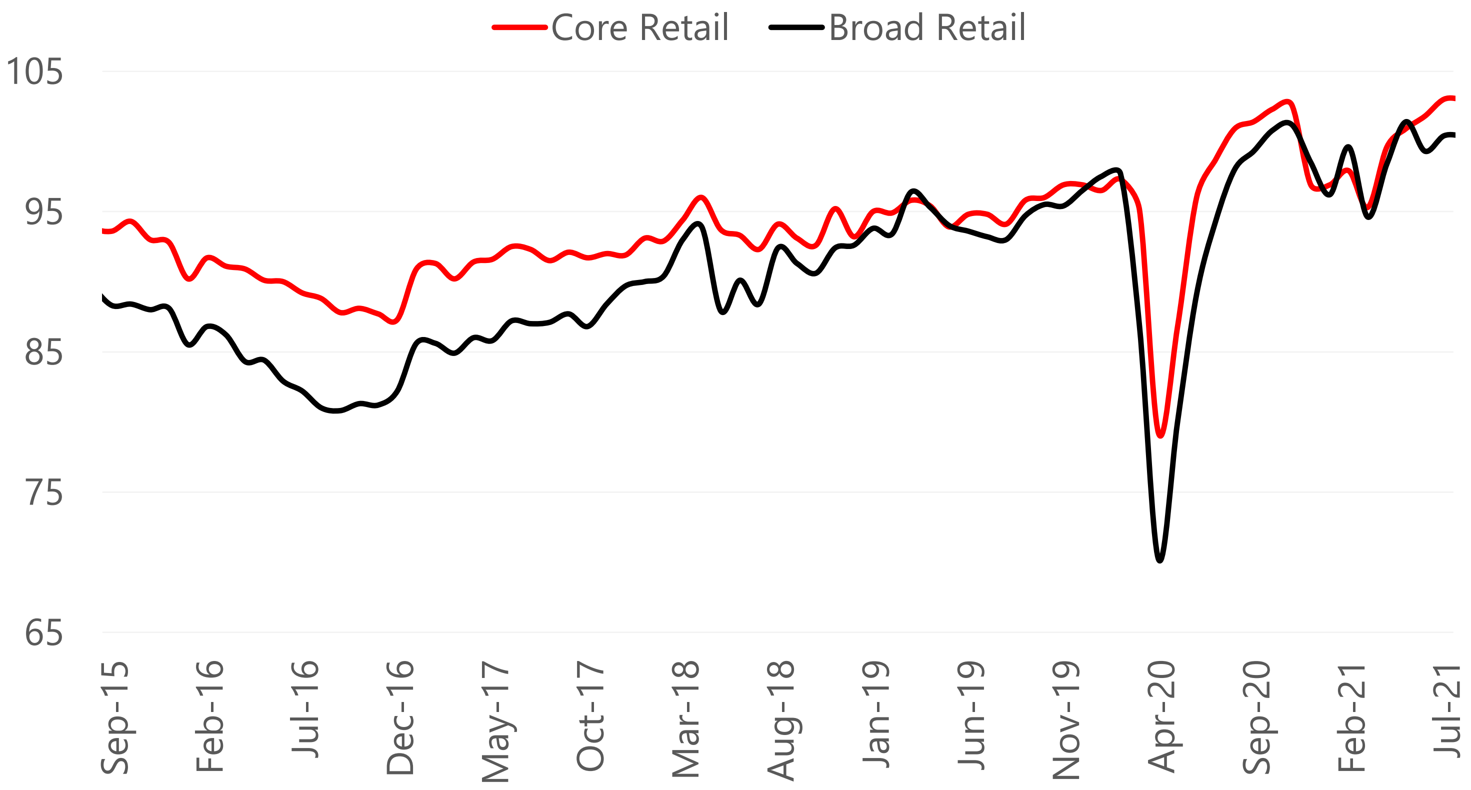
RETAIL SALES

01

Retail sales are expected to slow the recovery pace in 3Q21

- Following the healthy figures seen in 2Q21, on the heels of mobility recovery and the new round of emergency aid stipends, we expect a slowing in retail sales growth mainly due to a shift of consumer spending toward services as economy reopens, in line with the pre-pandemic pattern of consumption.

Retail Sales (sa, 2014=100)

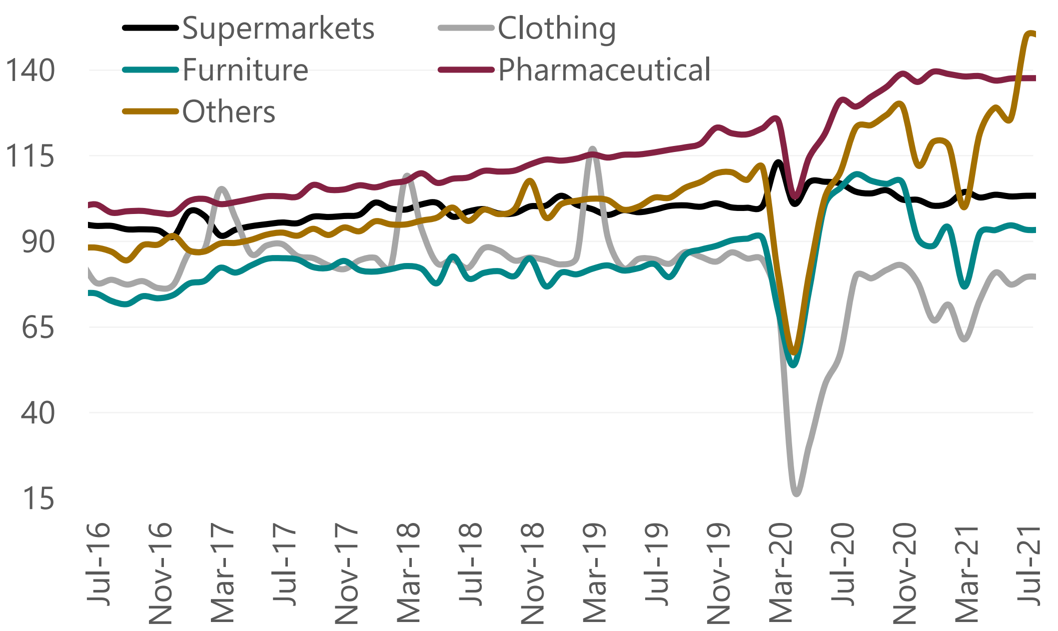


Sources: IBGE, Santander

Credit-led segments should keep supporting retail sales in 2H21

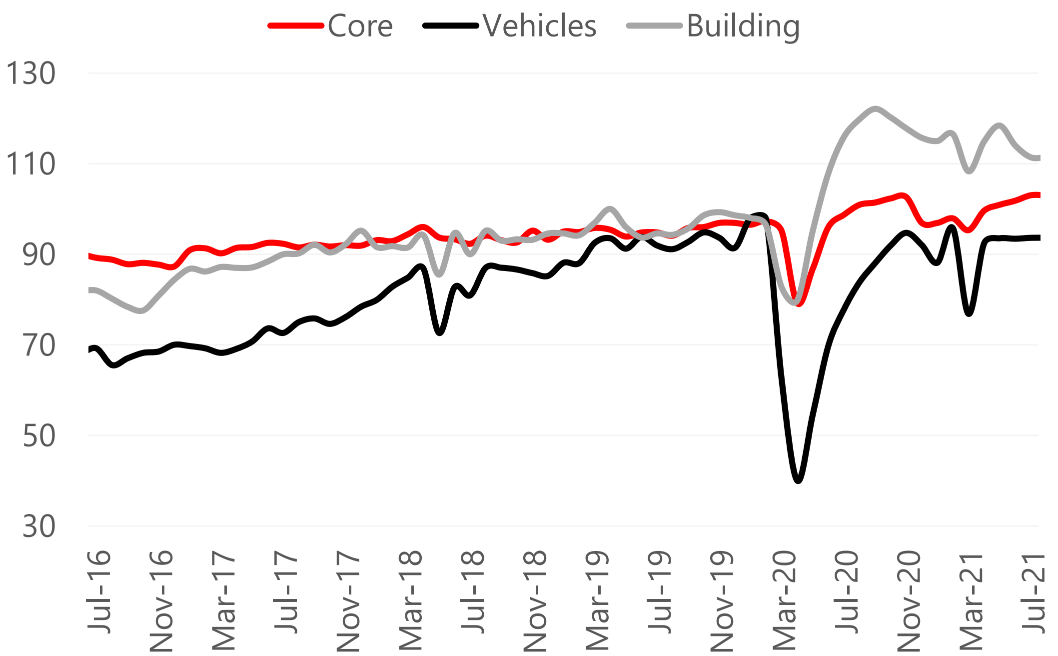
- Amid the bright outlook for household credit granting, credit-led segments (e.g, building materials and furniture) should keep supporting retail sales in 2H21. The exception to this rule should be vehicles; not due to a lack of demand but to supply shortage.

Core Retail Sales (sa, 2014=100)



Sources: IBGE, Santander

Broad Retail Sales (sa, 2014=100)

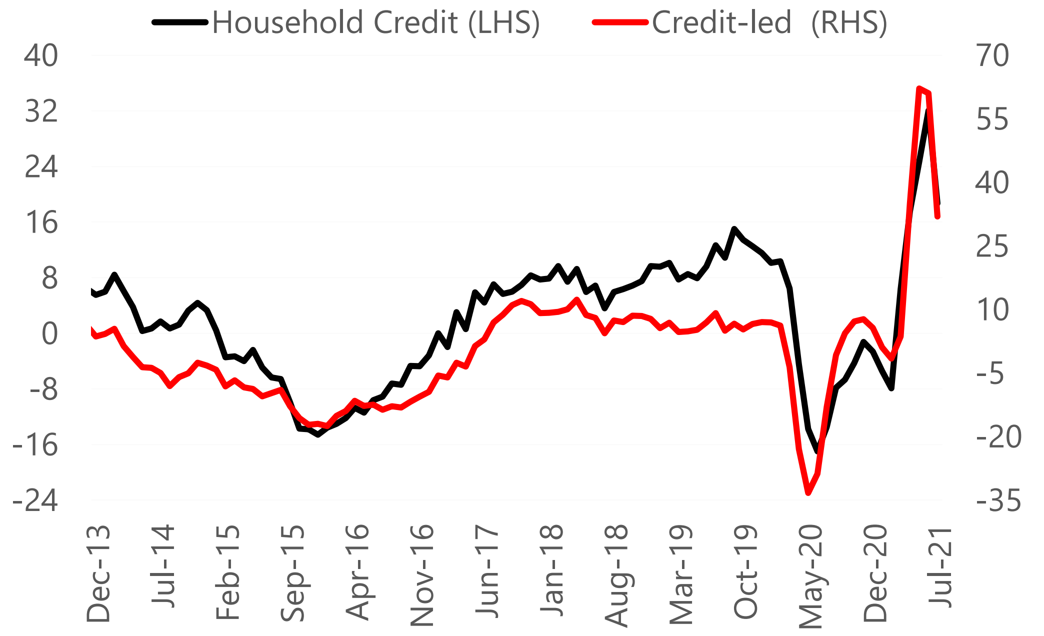


Sources: IBGE, Santander

Income-led segments sales should normalize as emergency aid is gradually withdrawn

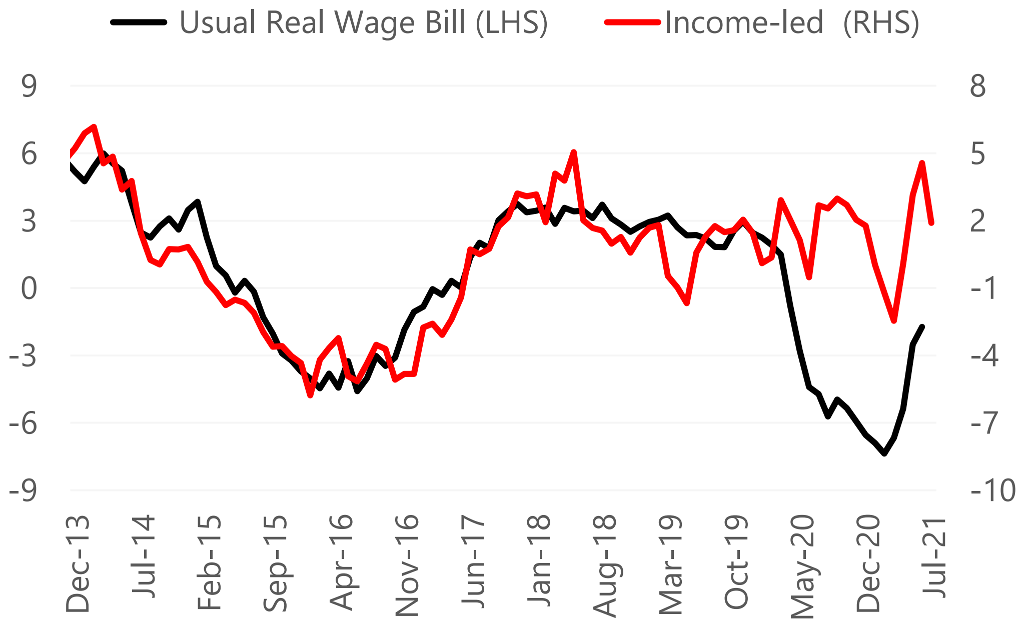
- After a long period presenting highly correlated times series, in 2020, following the pandemic upsurge, a wide gap between income-led segments sales and usual real wage bill was open, reflecting the deterioration in the labor market and the emergency aid stipends. We expect income-led segment sales to normalize as emergency aid is gradually withdrawn.

Retail Sales and Credit (3mma, % YoY)



Sources: IBGE, Santander

Retail Sales and Income (3mma, % YoY)



Sources: IBGE, Santander

Retail sales breakdown

Retail Sales Breakdown										
		May-21			Jun-21			Jul-21		
Weights		% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ
66.9%	**Core Retail Sales**	**1.3**	**15.9**	**1.4**	**0.9**	**6.3**	**4.2**	**1.2**	**5.7**	**4.4**
8.3%	Fuels	6.5	19.5	-2.0	-0.8	11.8	2.7	-0.3	6.4	5.7
30.6%	Hypermarkets, supermarkets	0.8	-4.3	2.4	-0.5	-3.1	1.2	0.2	-1.7	0.6
6.2%	Fabrics, clothing and footwear	11.1	165.3	-0.6	-4.3	61.4	15.6	2.8	42.0	15.7
7.4%	Furniture and home appliances	1.0	22.7	-4.1	1.5	-5.4	8.1	-1.4	-12.0	6.9
5.1%	Pharmaceutical	-0.9	19.5	-0.4	0.4	13.2	-0.9	0.1	4.9	-0.7
0.9%	Books, papers and magazine	3.5	59.3	1.2	4.8	17.2	14.8	-5.2	-23.3	9.4
0.6%	Office equipment and supplies	3.1	32.7	-3.1	-3.5	3.7	3.1	0.6	-5.6	3.7
7.8%	Other	6.3	59.6	0.4	-2.5	22.7	11.7	19.1	36.8	19.3
100%	**Broad Retail Sales**	**3.0**	**26.2**	**0.0**	**-2.1**	**11.5**	**3.0**	**1.1**	**7.0**	**2.9**
8.9%	Building Materials	3.0	25.7	-1.6	-3.7	5.4	2.2	-2.3	-4.7	1.2
24.2%	Vehicles	1.2	72.3	-4.7	-0.1	32.9	7.2	0.2	17.9	5.9

Sources: IBGE, Santander

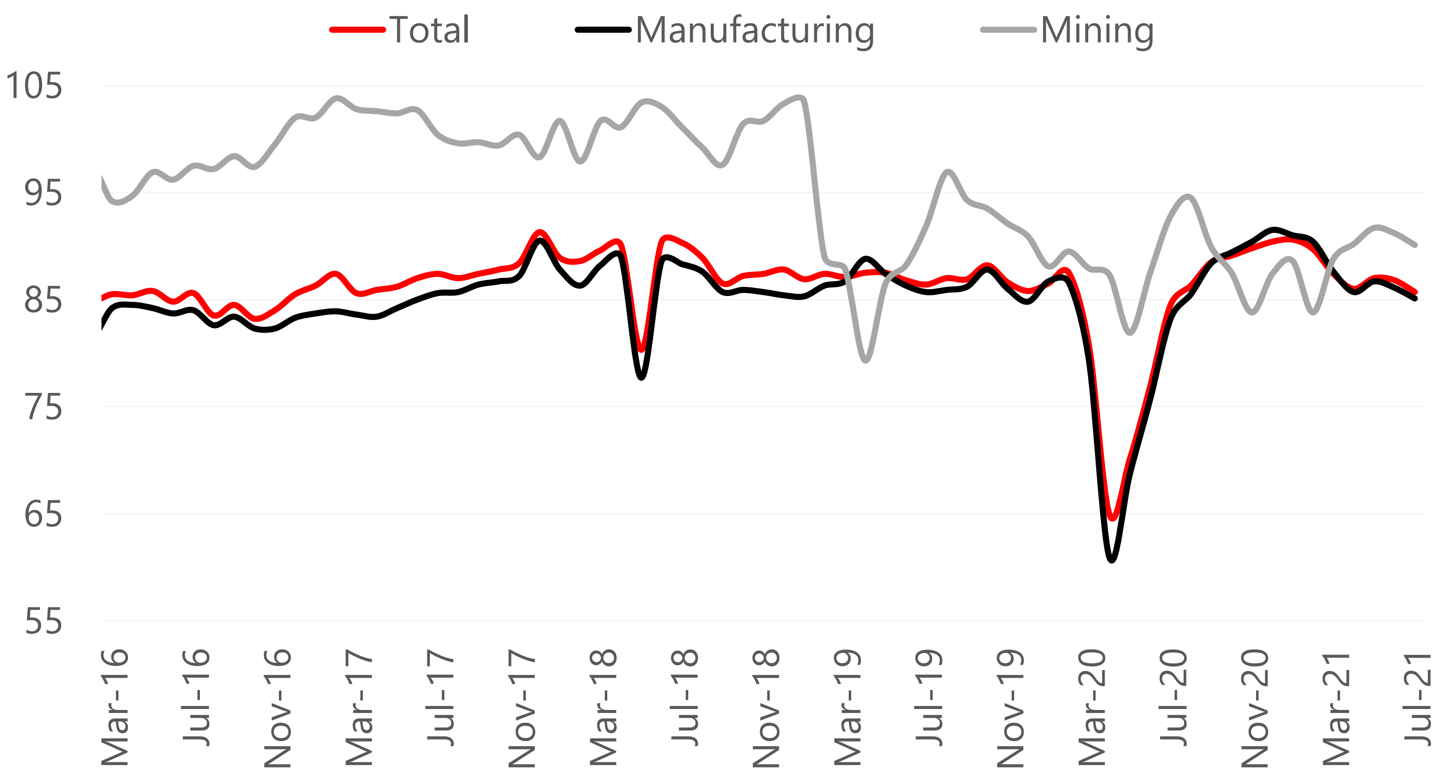
INDUSTRIAL PRODUCTION

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.

Industrial Production (sa, 2012=100)

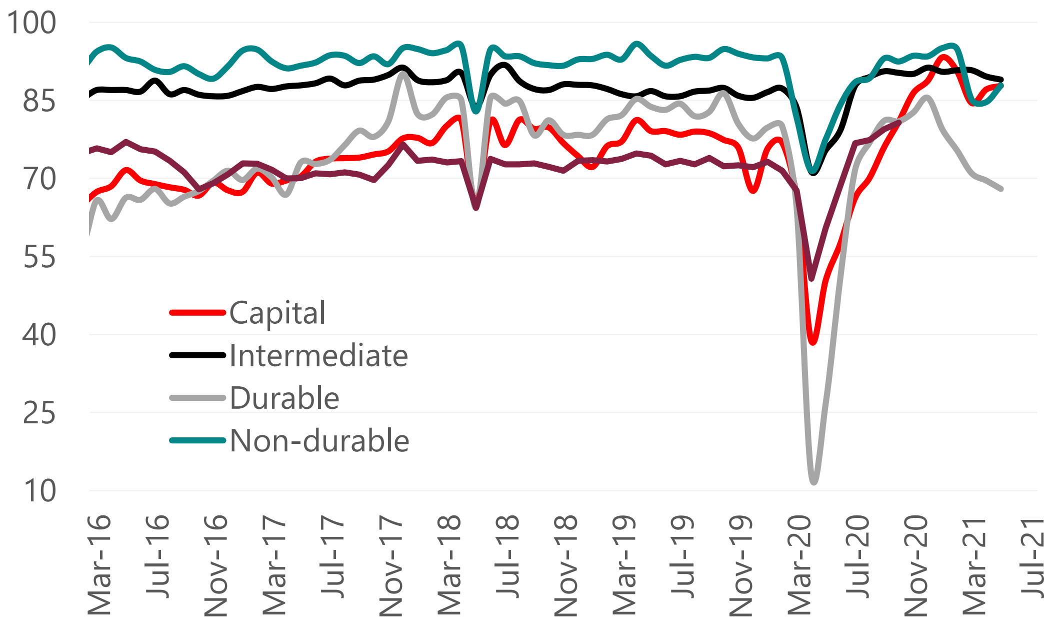


Sources: IBGE, Santander

Investments should slow down amid tighter financial conditions

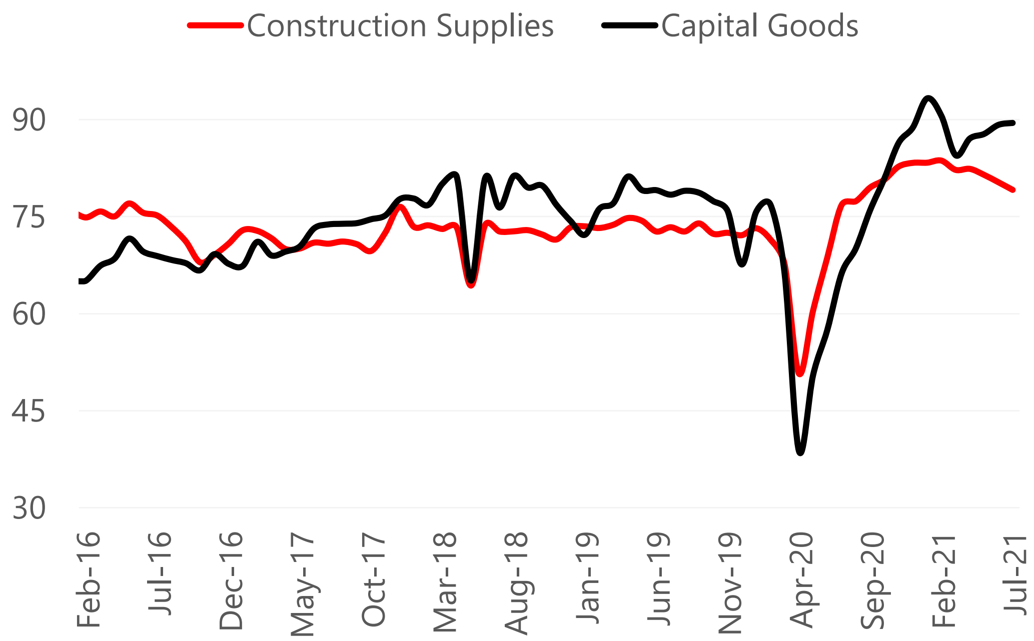
- After standing at high levels recently, we expect domestic capital goods production to soften ahead, amid tighter financial conditions and a softening in commodities prices. Nonetheless this more adverse outlook, regarding the full-year GDP of 2021, we still expect a solid contribution from investments.

Industrial Production (sa, 2012=100)



Sources: IBGE, Santander

Related to Investments (sa, 2012=100)

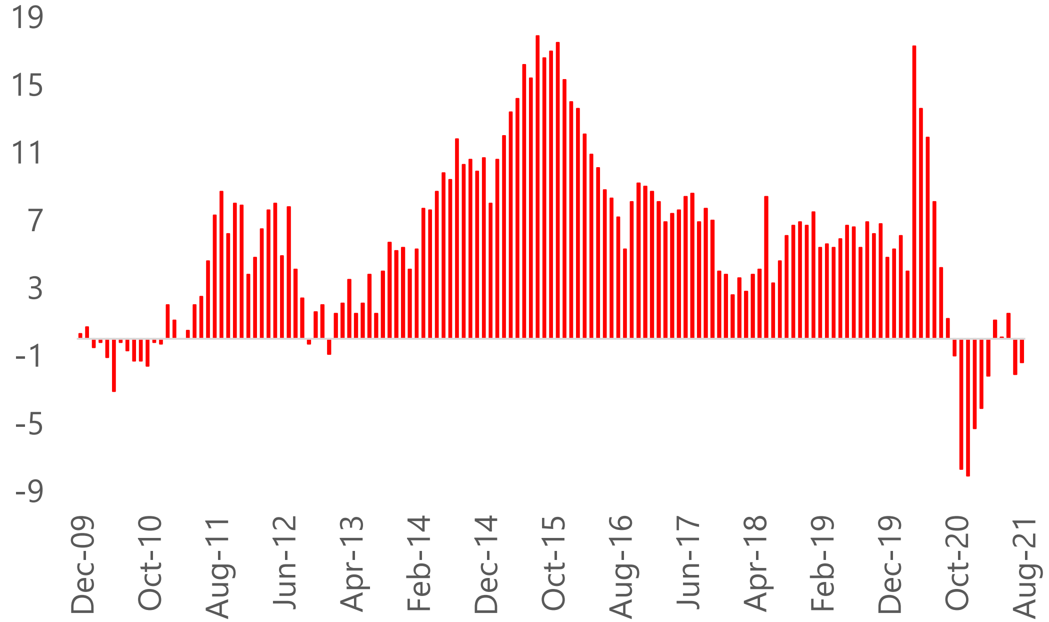


Sources: IBGE, Santander

Inventories still stand at historically low levels

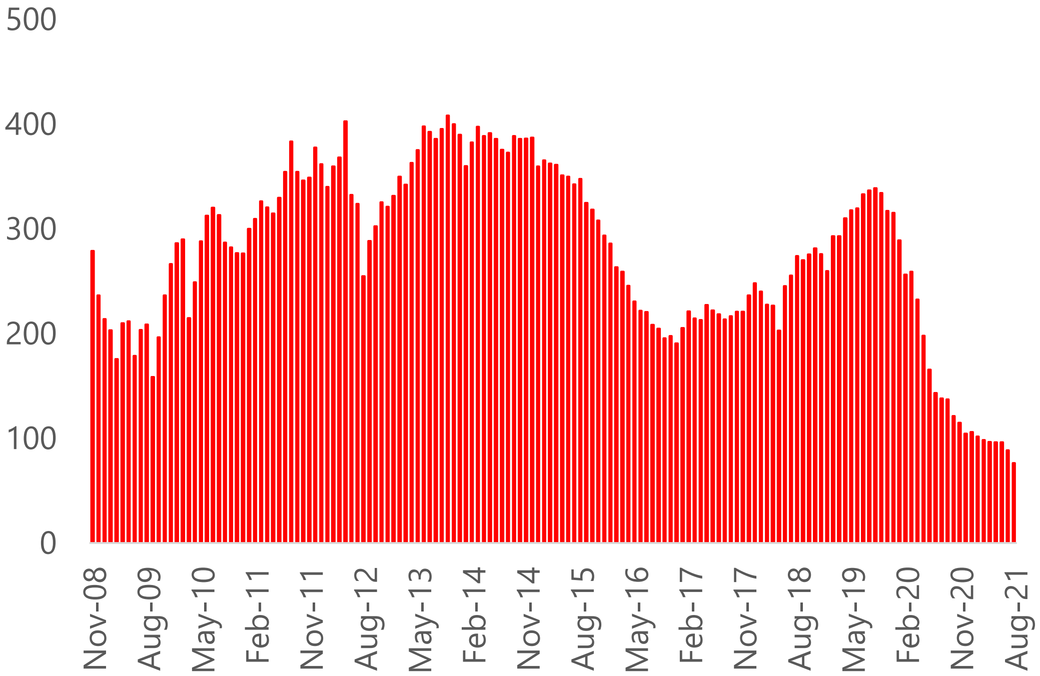
- We understand this is a widespread pattern present among the manufacturing sectors (not exclusive from auto vehicle sector). The low level of inventories leaves room for production growth but conditioned to the overcoming of the shortage in inputs issue and of the sanitary crisis.

Inventories Perception (sa, points)



Sources: FGV, Santander

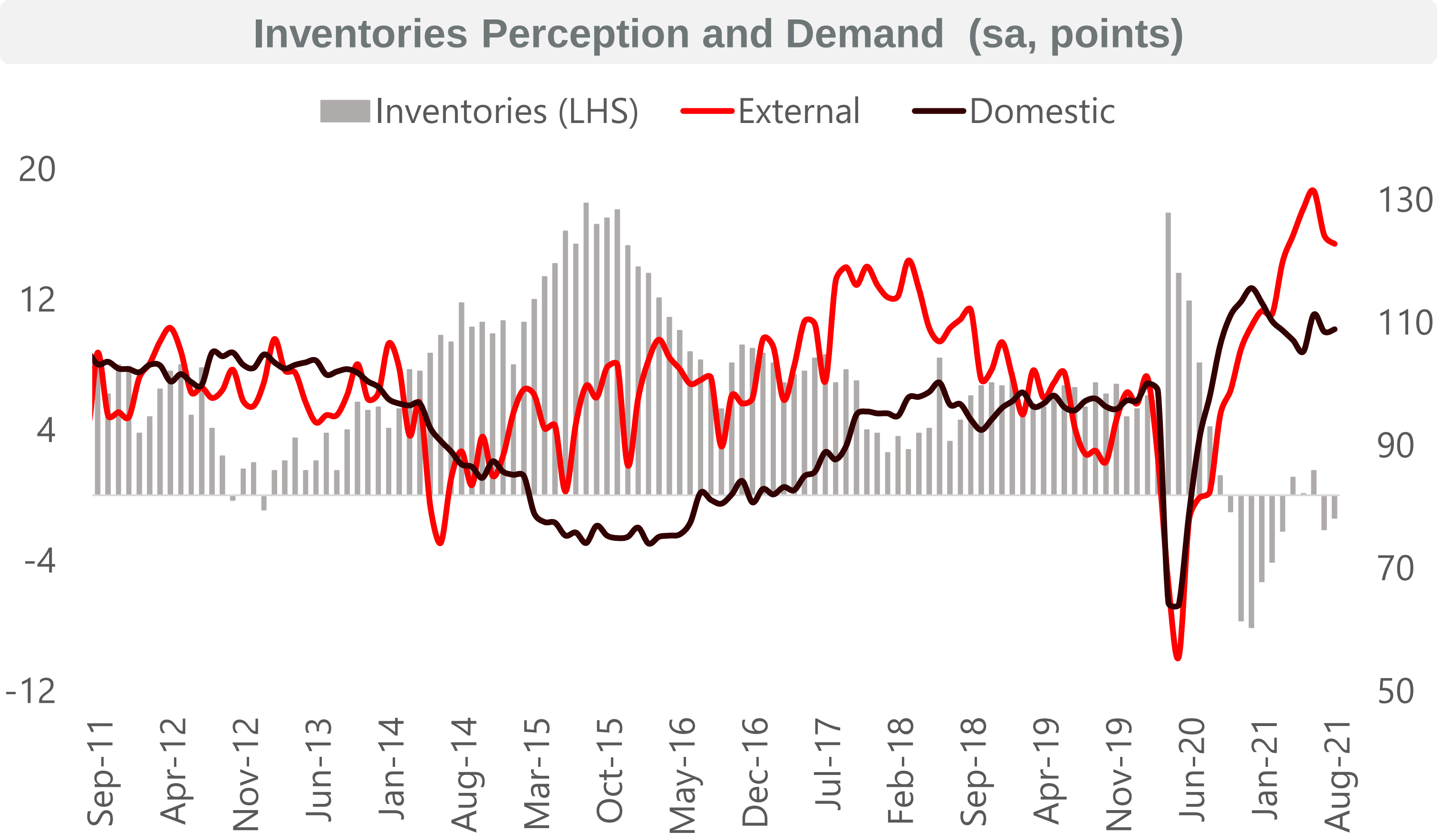
Auto Inventories (sa, Units in Thousands)



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		
	May-21	Jun-21	Jul-21	May-21	Jun-21	Jul-21	May-21	Jun-21	Jul-21
Total Industry	1.2	-0.2	-1.3	24.1	12.0	1.1	-3.8	-3.0	-1.4
Mining	**1.7**	**-0.5**	**-1.2**	**11.6**	**4.2**	**-2.7**	**4.2**	**4.6**	**3.9**
Manufacturing	**1.2**	**-0.7**	**-1.2**	**25.9**	**13.1**	**1.8**	**-4.7**	**-3.9**	**-2.2**
Capital Goods	0.8	1.6	0.3	73.4	54.3	33.1	-4.9	-1.6	1.6
Intermediate Goods	-0.7	-0.7	-0.6	18.1	10.8	0.2	-1.2	-1.9	-2.2
Consumer goods	1.6	-1.3	-0.4	28.1	6.6	-3.6	-11.6	-8.1	-3.9
Durable	-2.3	-1.0	-2.7	150.9	31.3	-10.3	-13.2	-9.3	-7.0
Non-Durable	3.8	-1.7	0.2	14.1	2.1	-2.0	-9.1	-5.9	-1.5
Construction Supplies	**-1.1**	**-1.4**	**-1.5**	**34.2**	**17.1**	**3.0**	**-1.7**	**-2.0**	**-3.0**

Sources: IBGE, Santander

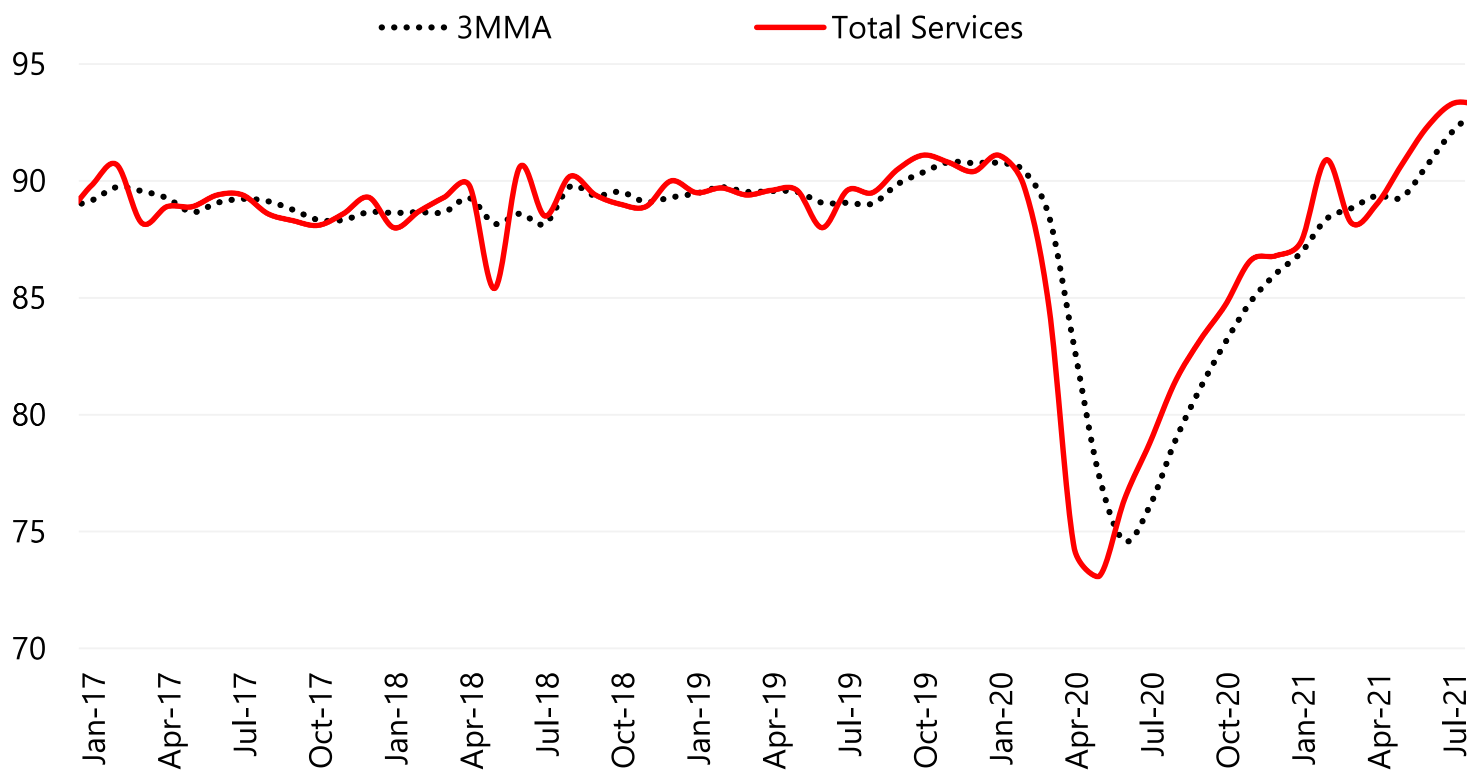
SERVICES

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 showed solid growth in 2Q21, mainly driven by mobility-related segments such as Services to Families (e.g, food services, accommodation) and Transports (notably Air Transports). The headline index fully gave back March's losses and now runs considerably above the pre-pandemic mark.

Total Services (sa, 2014=100)

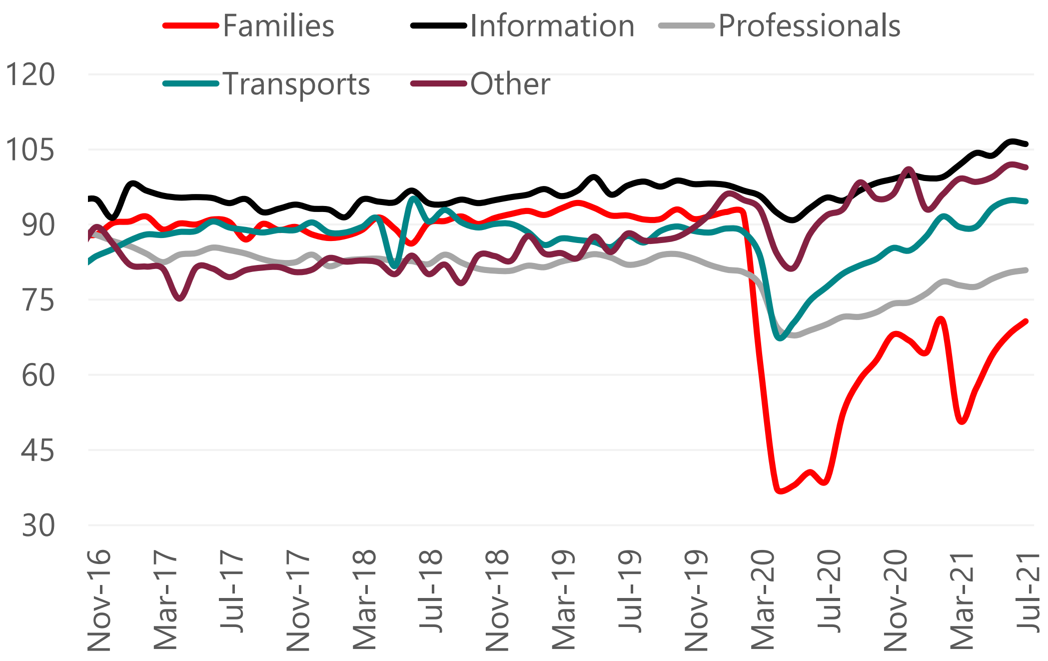


Sources: IBGE, Santander

Solid growth and resilience amid the reopening of the economy

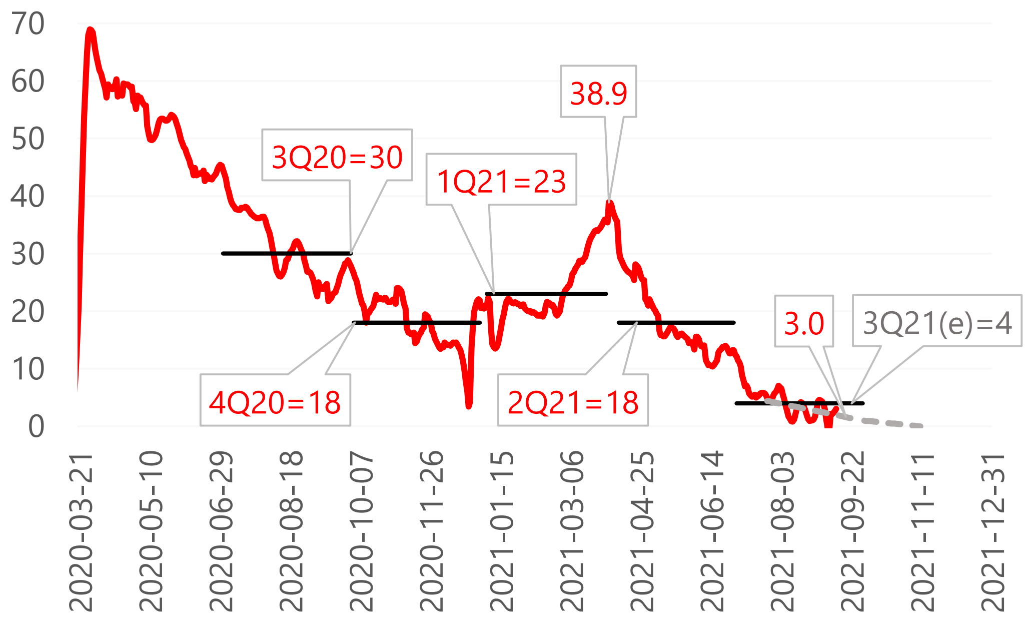
- Looking at the details, most of the subsectors has already recovered from the pandemic's impact, with only Services to Families and segments of Transports still presenting some idleness regarding the pre-pandemic mark. We expect these segments to be the main driver of services in 2S21, as the economy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

Total Services Breakdown (sa, 2014=100)



Sources: IBGE, Santander

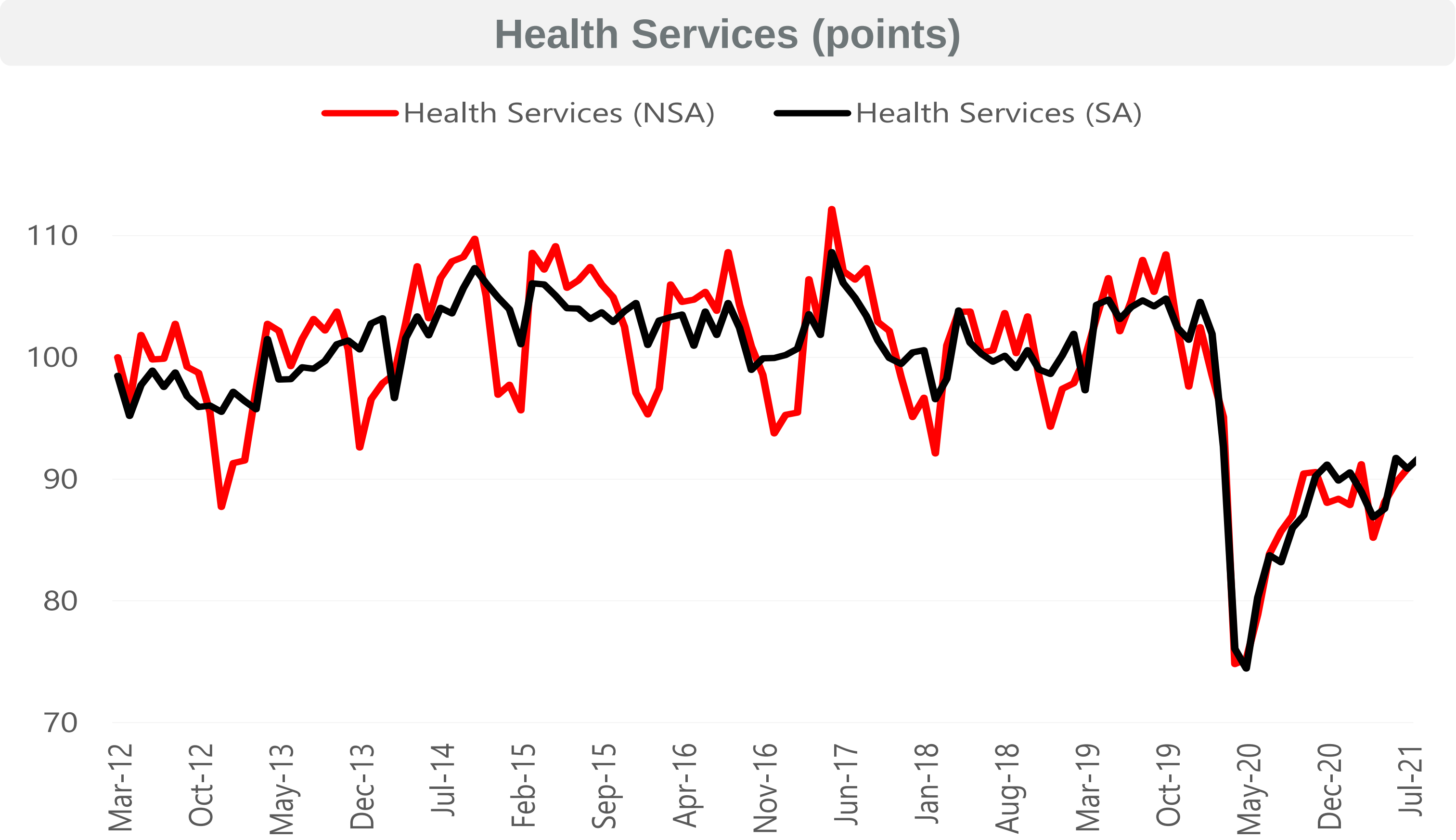
Google Mobility* (Jan/20=0) – 28dmma



Sources: Google, Santander
* Lockdown index: Data until September 11.

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 ~12% below the 2019 average.



Sources: Datasus, Santander. Our seasonal adjustment procedure.

Services sector breakdown

Services Breakdown										
		% MoM			% YoY			% QoQ		
	Weights	May-21	Jun-21	Jul-21	May-21	Jun-21	Jul-21	May-21	Jun-21	Jul-21
Total Services	100%	1.9	1.8	1.1	23.3	21.2	17.8	1.1	2.1	3.1
Families	**8%**	**11.9**	**6.4**	**3.8**	**76.8**	**73.0**	**76.3**	**-14.7**	**1.6**	**13.2**
Accommodation and Food	7%	13.0	6.7	4.4	87.9	82.4	86.3	-15.8	1.8	14.5
Other Services to Families	1%	7.4	2.9	0.9	35.8	34.7	33.8	3.7	6.9	9.8
Information	**31%**	**-0.5**	**2.6**	**-0.4**	**14.1**	**13.9**	**11.2**	**3.8**	**4.6**	**3.5**
Technology	26%	-1.0	1.4	0.4	12.5	10.8	10.0	3.7	3.8	2.5
Telecommunication	19%	0.1	-0.5	1.0	1.9	0.7	2.0	0.2	0.2	0.6
Information Technology	7%	-0.9	1.4	1.2	31.5	26.6	23.4	8.3	8.3	5.0
Audiovisual	5%	1.7	18.8	-11.6	31.5	46.6	22.5	5.9	15.0	12.9
Professional/Adm	**23%**	**2.1**	**1.5**	**0.6**	**16.3**	**16.7**	**14.1**	**2.4**	**1.9**	**2.7**
Professional	7%	3.5	1.3	4.4	25.7	21.5	22.7	4.1	3.9	5.9
Administrative	16%	2.5	1.2	-0.6	12.7	14.8	10.7	1.6	1.1	1.8
Transportation	**31%**	**4.2**	**1.6**	**-0.2**	**32.6**	**27.7**	**20.9**	**3.1**	**3.3**	**4.5**
Ground Transportation	18%	4.1	0.9	-0.2	32.8	29.2	21.5	3.6	2.1	3.0
Water Transportation	2%	-3.6	0.3	4.4	14.0	15.3	21.2	7.8	6.6	3.1
Air Transport	3%	73.9	18.9	-7.8	217.5	161.5	95.7	-14.1	7.3	49.2
Storage and Mail	9%	5.0	-3.5	-0.2	23.0	14.4	10.1	3.3	2.1	1.4
Other Services	**7%**	**1.0**	**2.4**	**-0.5**	**22.2**	**15.5**	**10.8**	**2.4**	**4.1**	**3.1**

Sources: IBGE, Santander

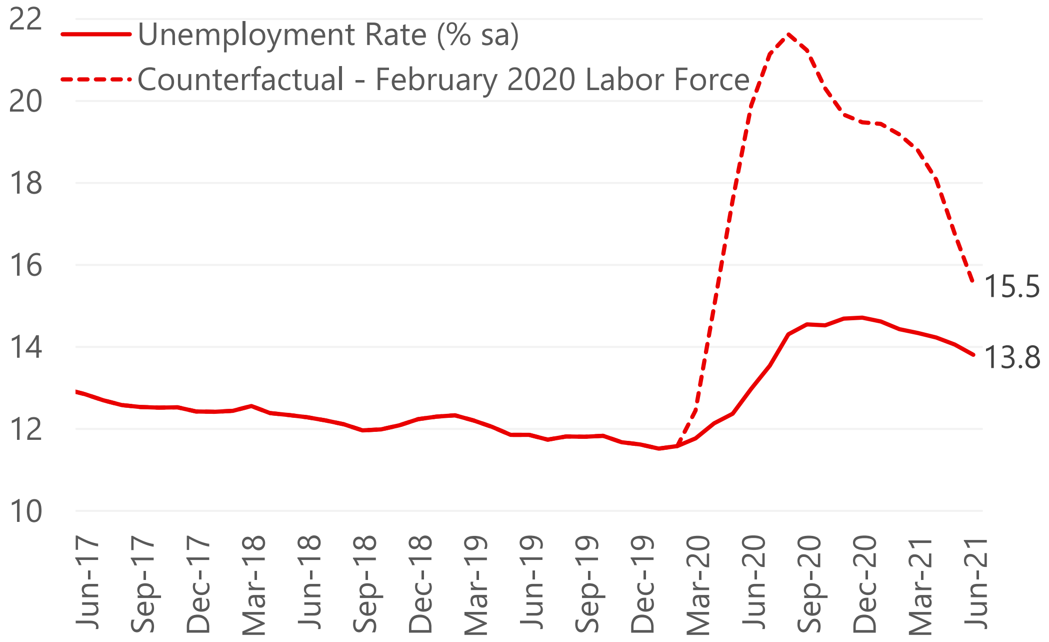
LABOR MARKET

04

Labor force normalization continues on the heels of higher urban mobility

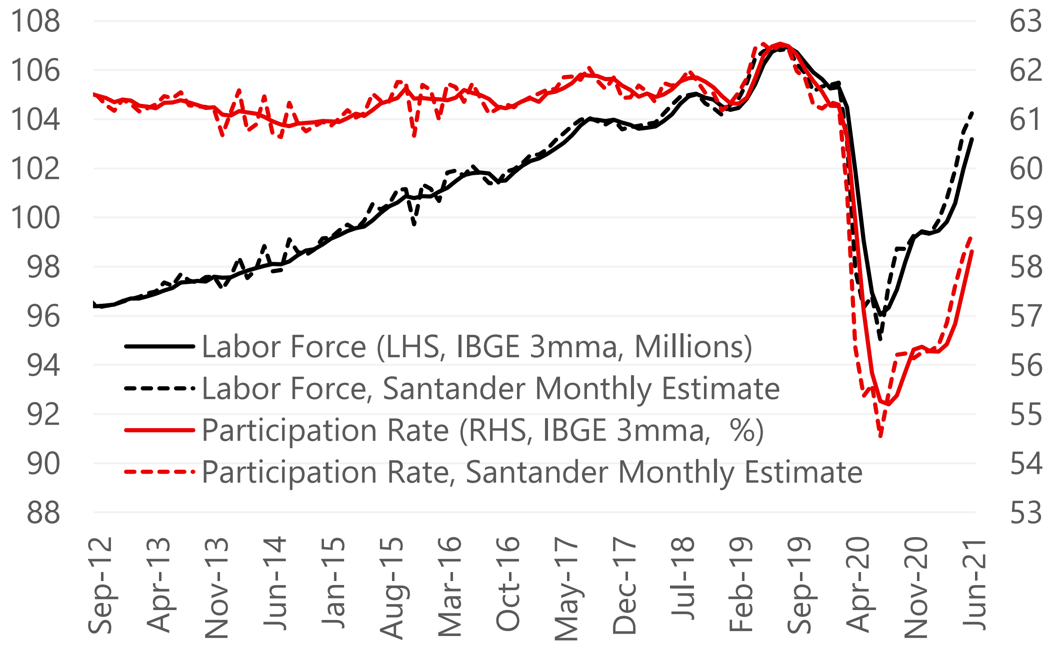
- Since April, PNAD data has shown a better outlook for labor force normalization, benefited by higher levels of urban mobility. We expect this behavior to continue in the coming months, as there should be no new setbacks in the reopening.

Counterfactual Exercise



Sources: IBGE, Santander.

Participation Rate and Labor Force (sa)



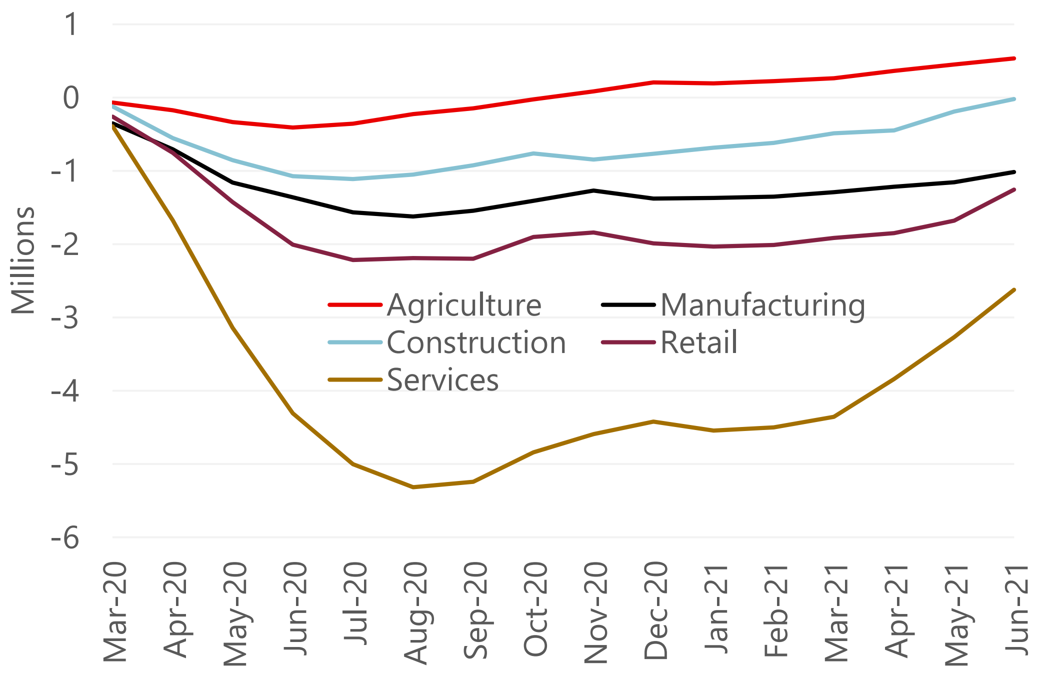
Sources: IBGE, Santander.

Santander

Services sector is still the laggard

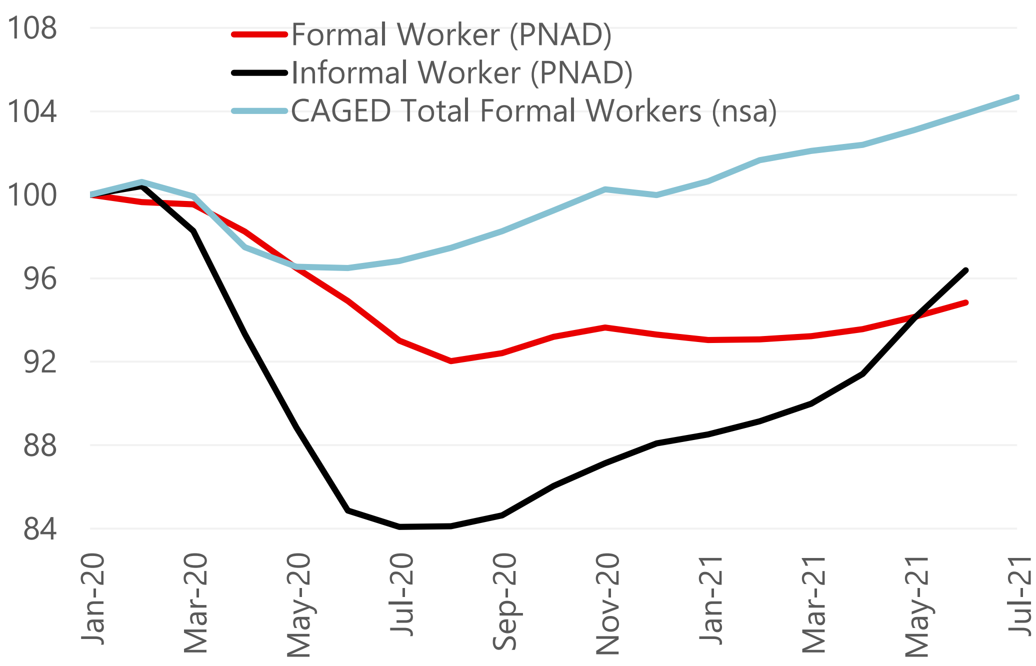
- Most of the job losses during the pandemic are in the services sector. We expect a partial recovery of employment in the services sector, concentrated in 2H21, as urban mobility maintains higher levels and benefits informal workers.

Post-Pandemic Accumulated Job Losses (sa)



Sources: IBGE, Santander.

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

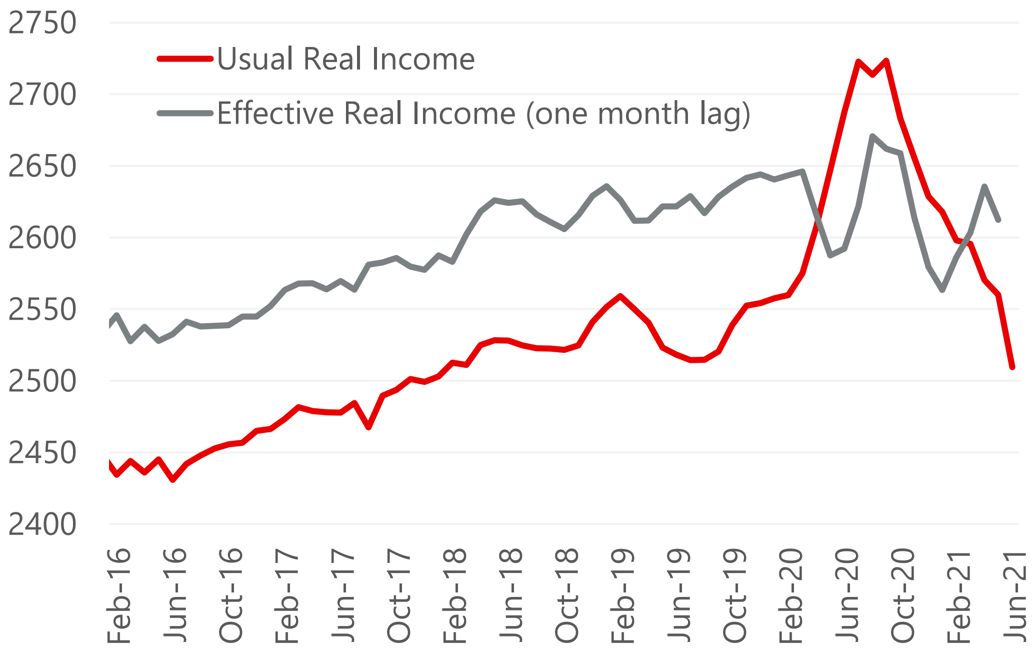


Sources: IBGE, Santander.

Real wage bill still in depressed levels

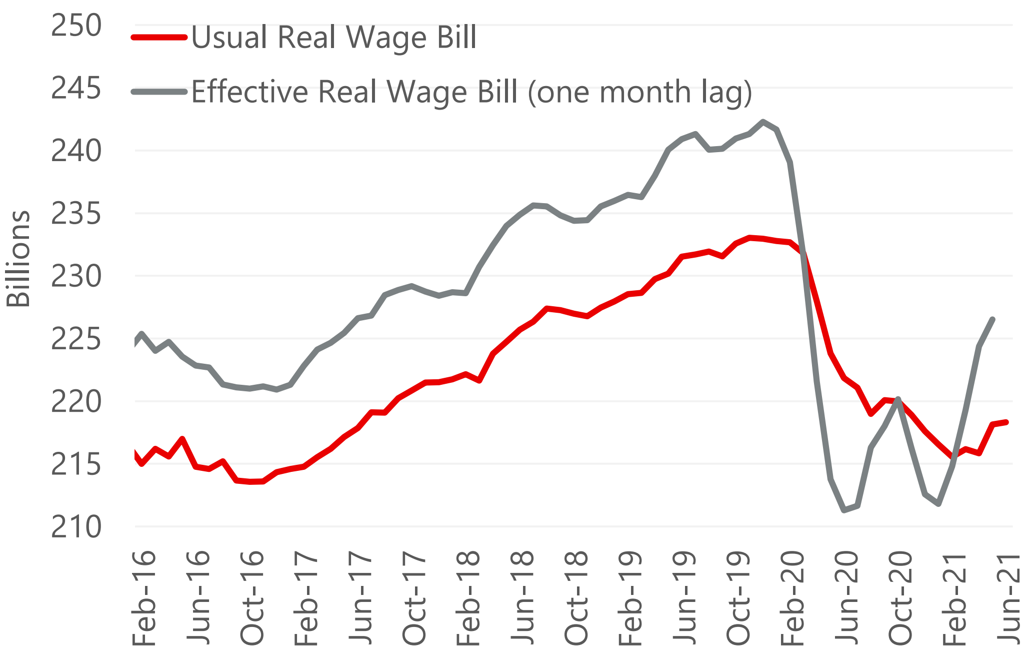
- Real wage bill is still in a precarious situation. There has been a decoupling between the usual and effective real wage bills due to the composition effect, as job losses were concentrated among employees with lower wages. Both indicators remain far from pre-pandemic levels.

Average Real Income (BRL, sa)



Sources: IBGE, Santander.

Real Wage Bill (BRL, sa)

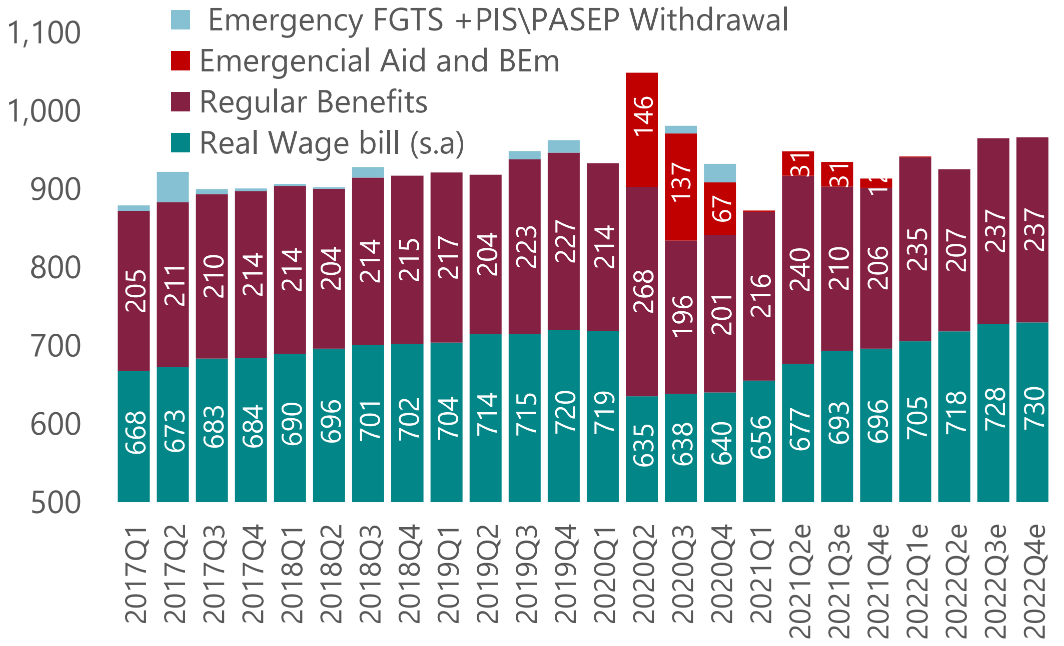


Sources: IBGE, Santander.

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

- We expect the “Expanded” Real Wage Bill to have a 5.6% drop in 2021, driven mainly by the lower disbursements in the Emergency Aid program. In 2022, inflation should play an important part in the Real Wage Bill growth. We expect a BRL 55bn social program for 2022, which should also help to increase the Real Wage Bill growth.

“Expanded” Real Wage Bill (BRL billion)



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

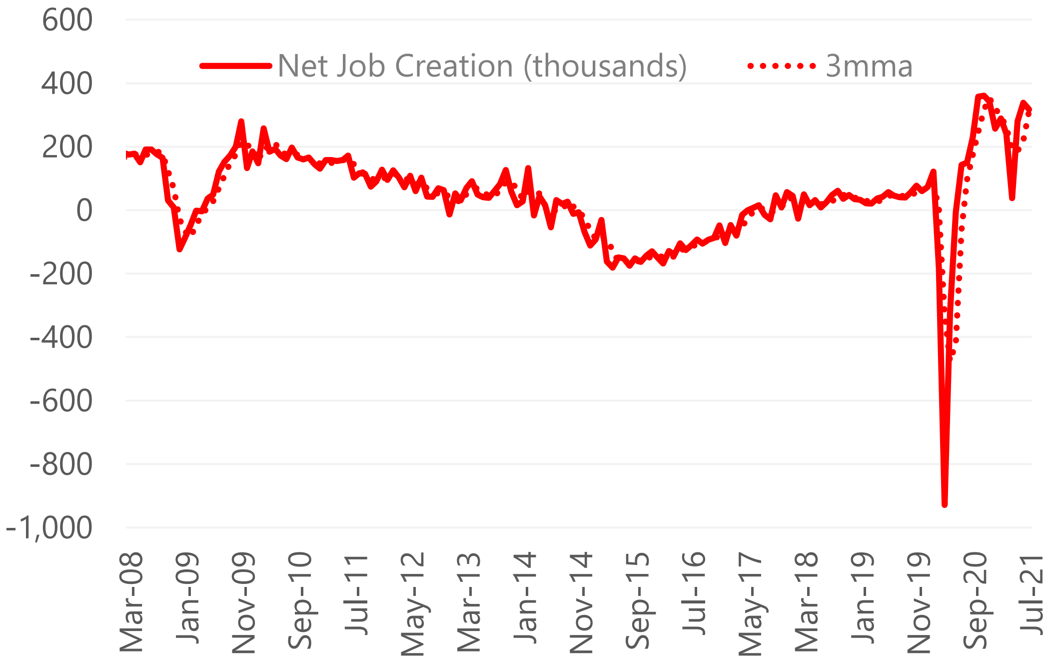
	2020	2021(E)	2022(E) - Simulation IPCA 3.0%	IPCA +4.3%	IPCA +5.0%
Real Wage Bill (No Fiscal Stimulus)	-7.9%	+3.5%	+6.7%	+5.8%	+5.4%
Real Wage Bill (Fiscal Stimulus + Auxilio Brasil BRL35bn)	+3.7%	-5.7%	+3.5%	+2.7%	+2.3%
Real Wage Bill (Fiscal Stimulus + Auxilio Brasil BRL55bn)			+4.1%	+3.2%	+2.8%

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

CAGED has shown strong results in the past few months

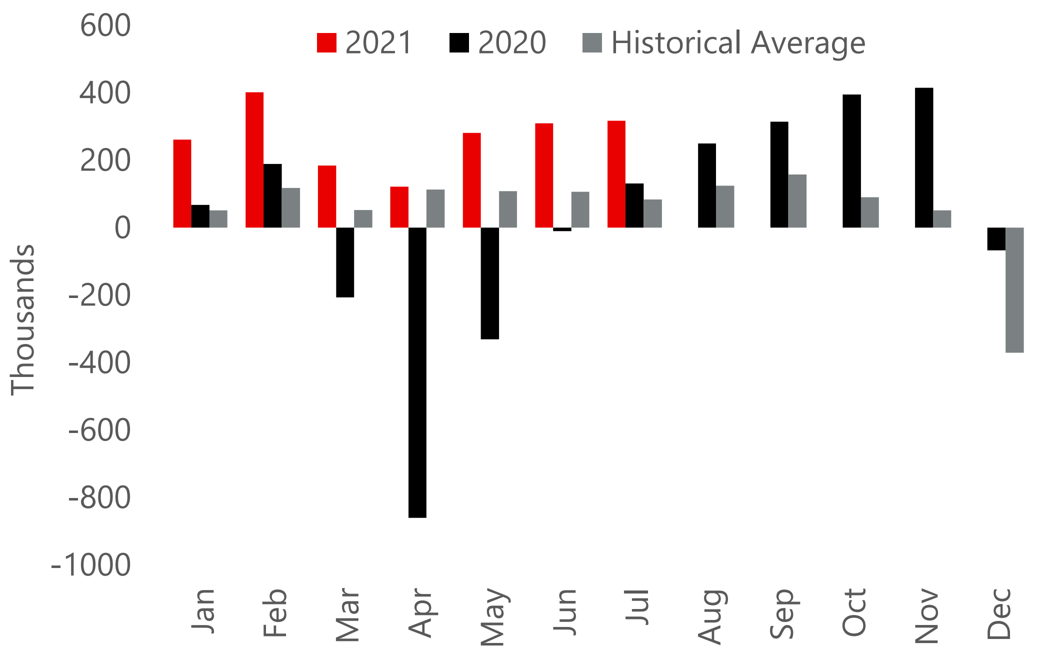
- Since January 2021, CAGED recovery seems to be more aligned with most economic activity statistics, after possible underreporting issues in 2H20. The higher mobility levels since May, as well as the new round of the government's job protection program (BEm), have led to another acceleration in net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

CAGED Net Job Creation (sa)



Sources: Ministry of Economy, Santander.

Net Job Creation and Historical Average

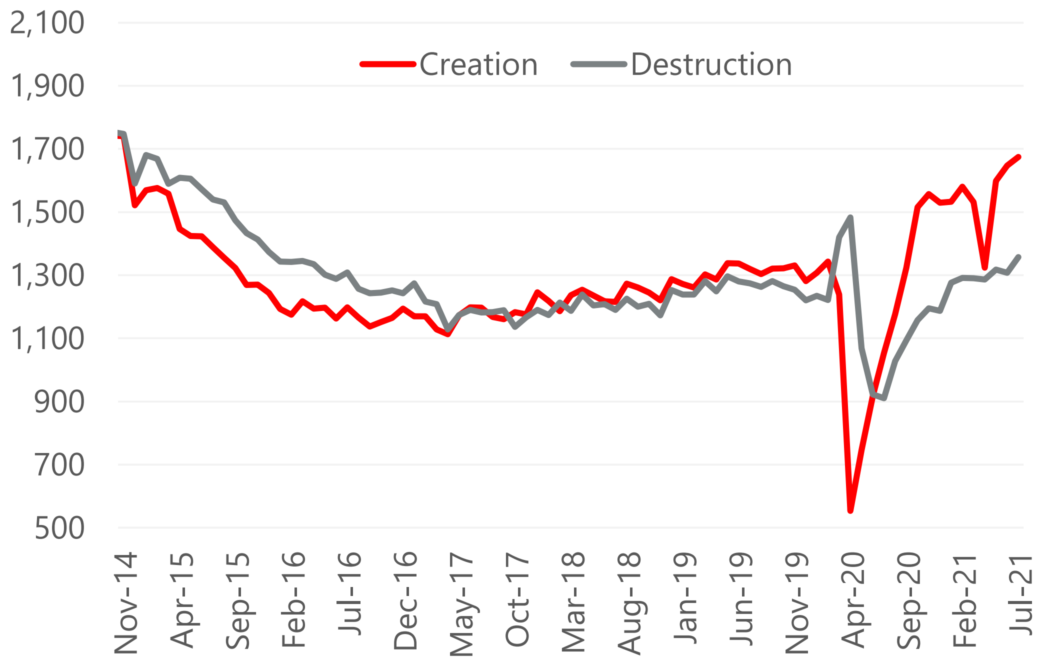


Sources: Ministry of Economy, Santander.

CAGED: Signs of underreporting have significantly decreased

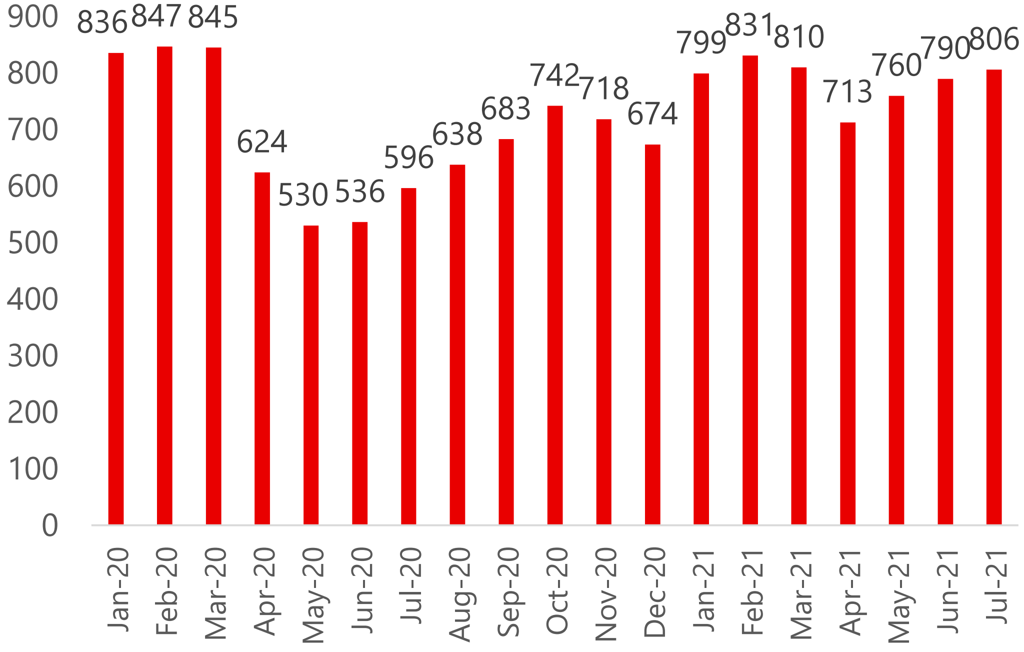
- In our view, the strong figures of CAGED in 2H20 are related to underreporting in layoffs. This problem looks smaller since January, as job destruction is closer to the pre-pandemic levels, as well as the number of reporting establishments.

CAGED: Creation and Destruction (sa)



Sources: Ministry of Economy, Santander.

CAGED: Number of Reporting Establishments

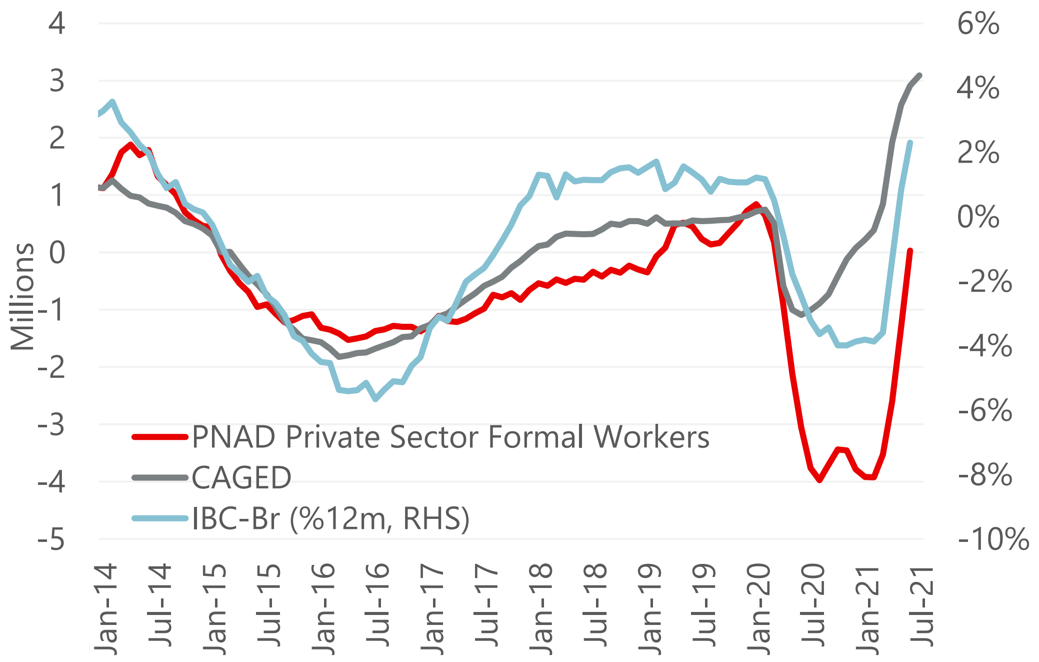


Sources: Ministry of Economy, Santander.

CAGED and PNAD results for the formal labor market are closer

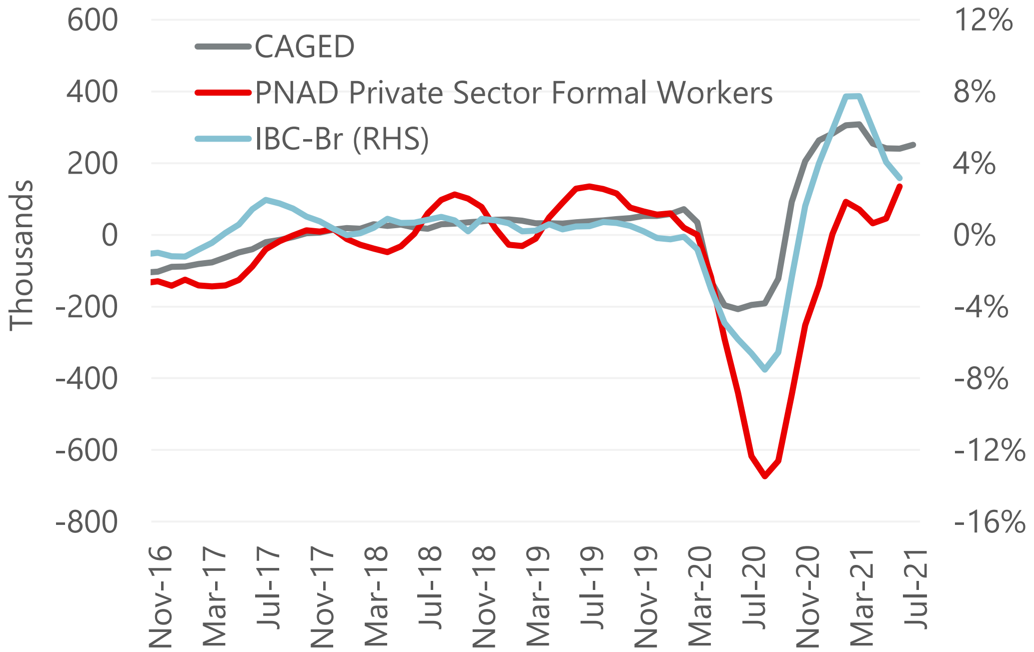
- The 12m accumulated formal job creation data looks biased (overestimation in CAGED, underestimation in PNAD). However, the 6m accumulated data indicates that there was an actual improvement of the formal labor market at the margin, as shown by CAGED and also PNAD, more recently.

Net Job Creation and IBC-Br (nsa, 12m)



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

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

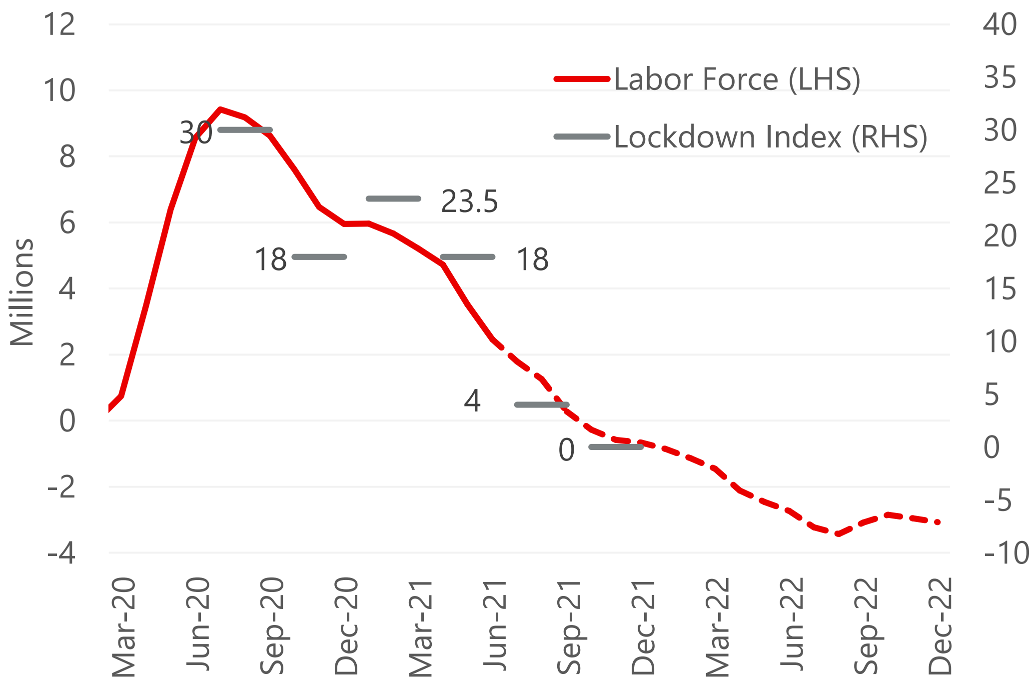


Sources: Ministry of Economy, BCB, IBGE, Santander.

Higher mobility to impact employment and the labor force

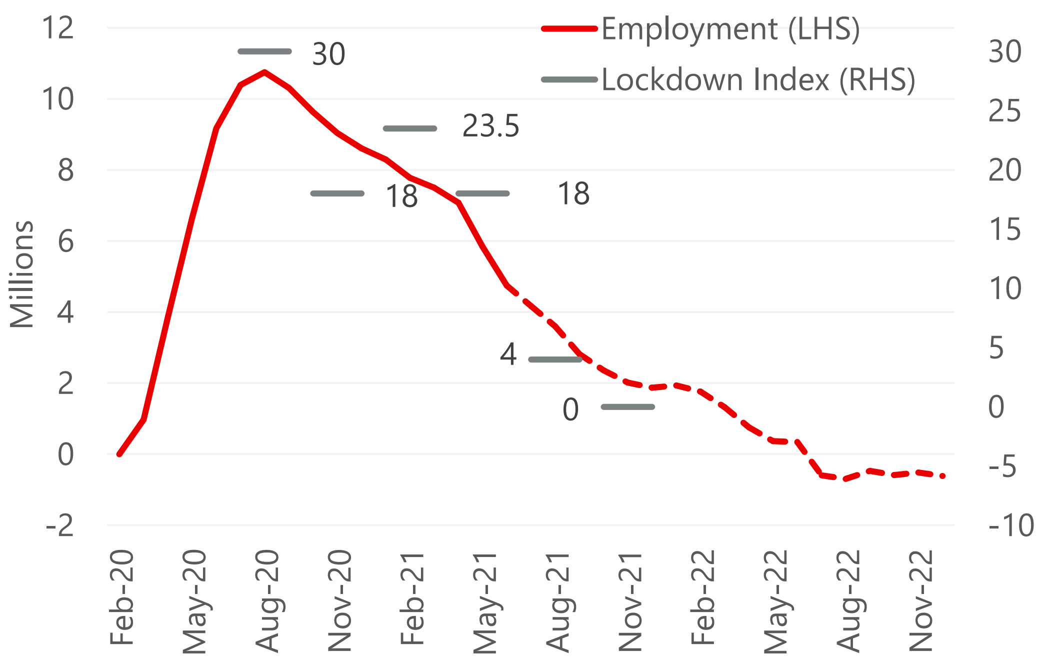
- As vaccination advances and mobility recovers, we should see higher levels in both the employment population and in the labor force.

Labor Force: Post-Pandemic Accumulated Drop



Sources: IBGE, Google, Santander.

Employment: Post-Pandemic Accumulated Drop

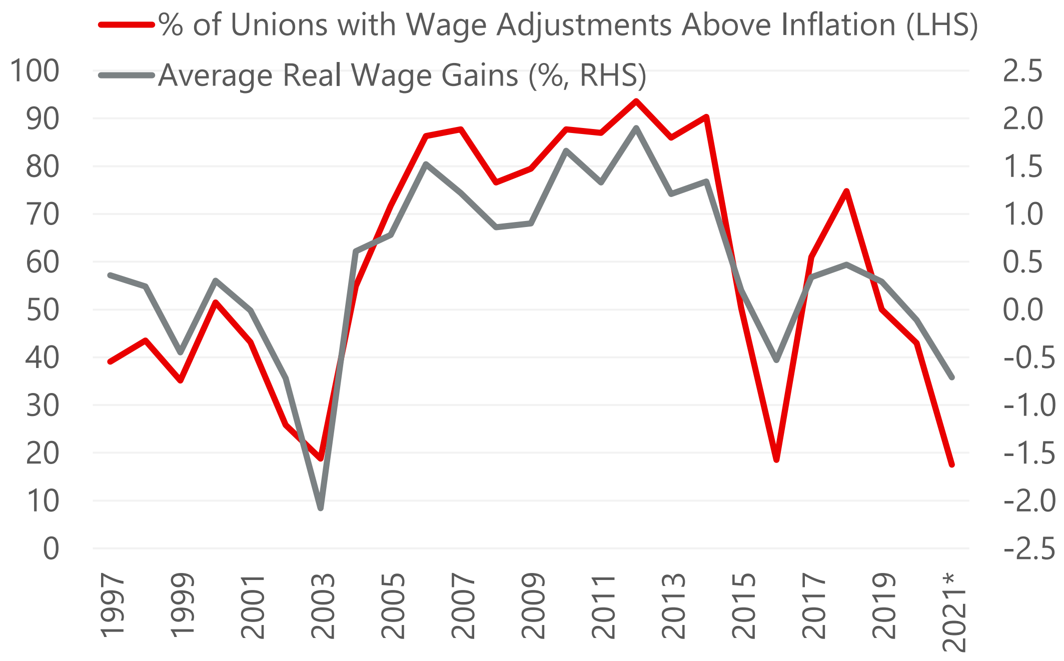


Sources: IBGE, Google, Santander.

No signs of a tight labor market from collective wage agreements

- As of July 2021, the share of wage agreements with gains above inflation is close to the all-time lows. Although most of the agreements occur in the 1st half of the year, some important unions negotiate wages on the 2nd half of the year, such as retail, mining and financial sector workers. Therefore, this picture still can change until the end of the year.

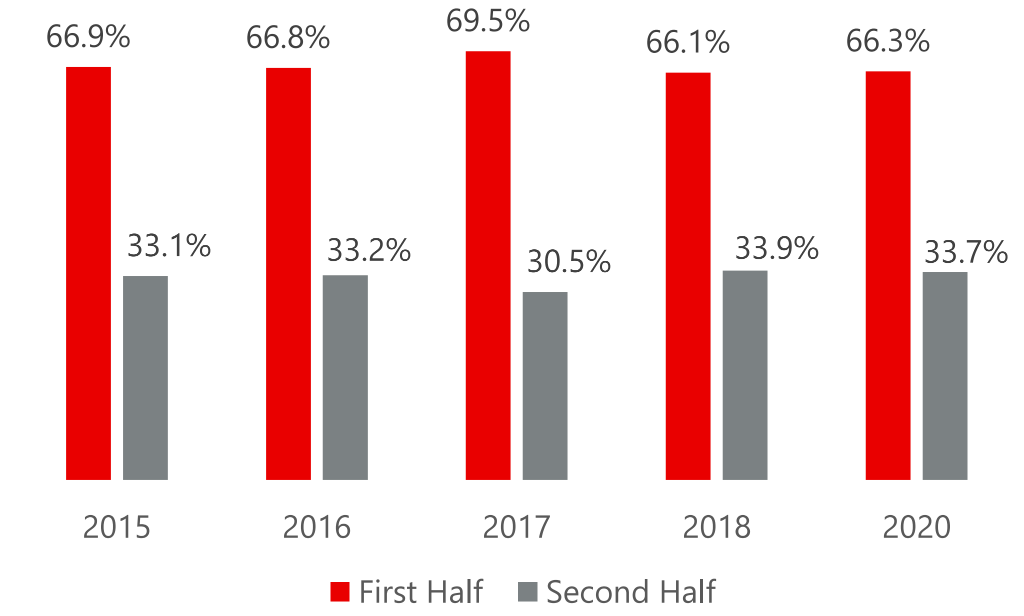
Collective Wage Agreements and Gains



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

*as of July 2021

Wage Agreements Distribution per Period*



Sources: DIEESE, Ministry of Labor, Santander.

*2019 data not available

June 2021 PNAD results

PNAD Breakdown	s.a.			% YoY			% Feb-20*		
	Apr-21	May-21	Jun-21	Apr-21	May-21	Jun-21	Apr-21	May-21	Jun-21
Unemployment rate (%)	14.2	14.1	13.8	2.1	1.7	0.8	2.6	2.5	2.2
Participation rate (%)	**56.8**	**57.6**	**58.3**	**-2.1**	**0.4**	**2.4**	**-4.4**	**-3.7**	**-3.0**
Labor force (millions)	**100.6**	**102.0**	**103.2**	**-1.3**	**2.9**	**6.3**	**-4.7**	**-3.3**	**-2.1**
Employment	86.3	87.7	88.9	-3.7	0.9	5.3	-6.8	-5.5	-4.2
Unemployment	14.3	14.3	14.3	15.2	16.4	12.9	2.1	2.1	2.1
Formalization Rate (%)	**57.5**	**57.0**	**56.6**	**-0.6**	**-1.9**	**-3.1**	**0.8**	**0.2**	**-0.2**
Formal Workers (millions)	49.6	49.9	50.3	-4.7	-2.4	-0.1	-3.2	-2.9	-2.6
Informal Workes (millions)	36.7	37.7	38.6	-2.3	5.7	13.5	-3.6	-2.5	-1.6
Average usual earnings	-	-	-	**-1.5**	**-3.2**	**-6.6**	-	-	-
Average effective earnings	-	-	-	**0.7**	**0.8**	-	-	-	-
Usual wage bill	-	-	-	**-5.4**	**-2.5**	**-1.7**	-	-	-
Effective wage bill	-	-	-	**1.4**	**6.1**	-	-	-	-

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

Sources: IBGE, Santander.

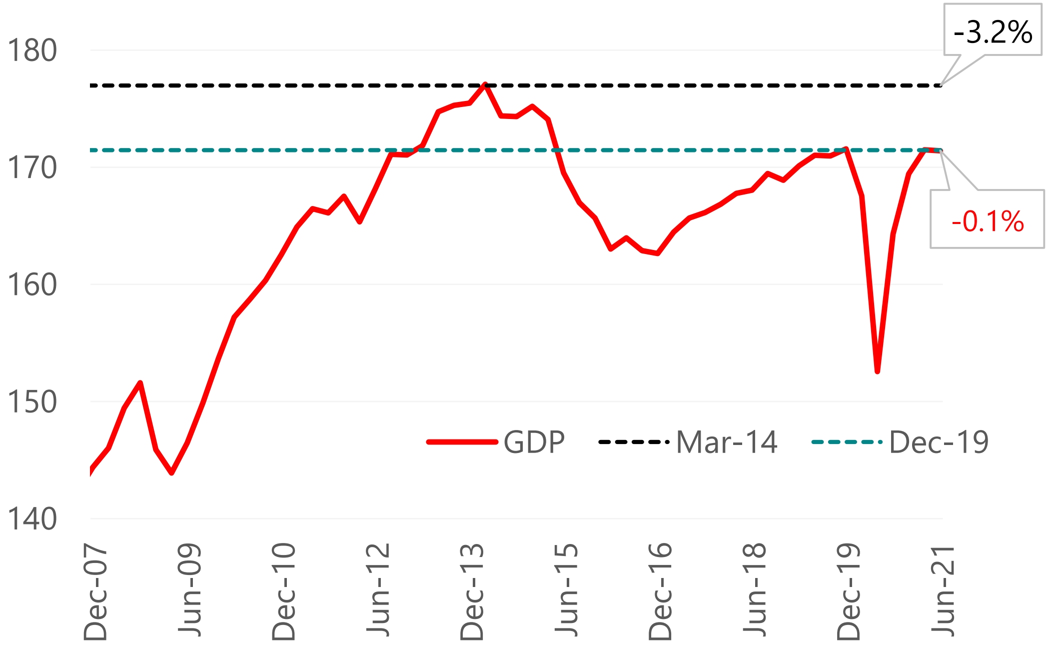
GDP

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

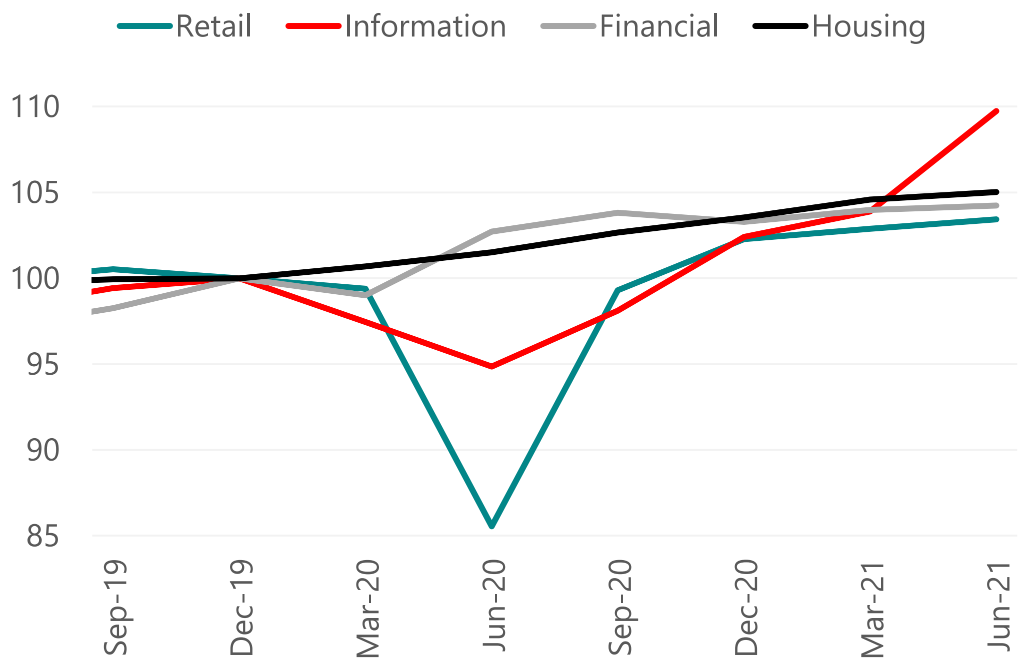
** *GDP* is 0.1% and 3.2% below the highlighted marks, respectively.

	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 nearly 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.

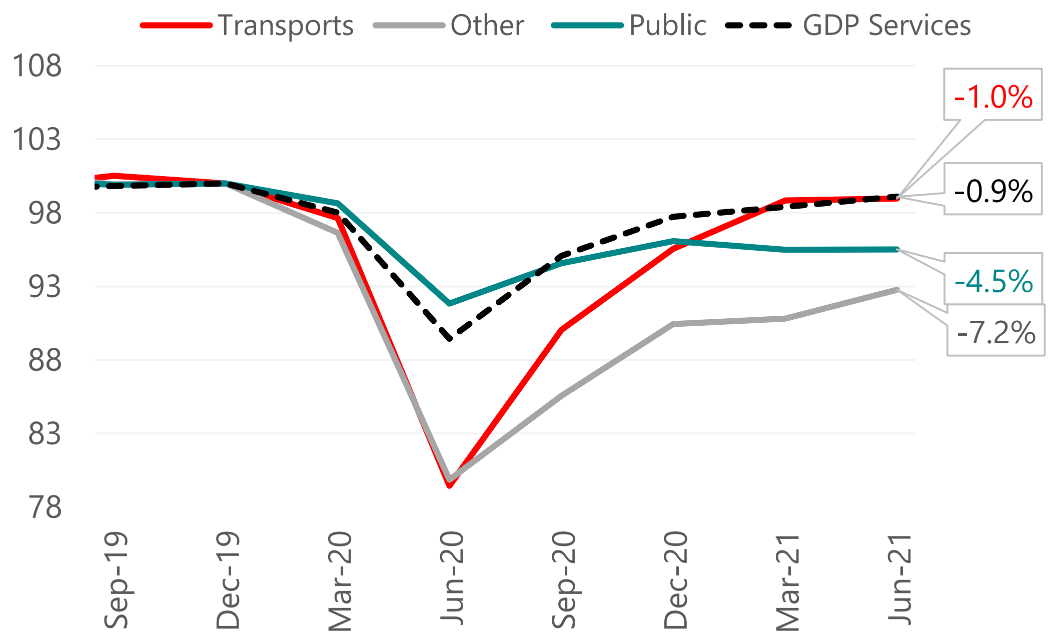
Above the pre-crisis mark (4Q19=100)*



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).

BASELINE SCENARIO

06

GDP: Key hypotheses, basic description and risks

- We assume increased mobility along with progress in the vaccination campaign to prompt a safer resumption of economic growth in 2H21, with no major setbacks (e.g., new lockdowns). 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 as the public health crisis is gradually overcome.

- For 2022, we are reducing our GDP estimate to 1.7% (from 2.0%). We expect good growth contributions to come from the lingering positive effects from the commodity cycle and an economy in full-operation mode (over a basis of comparison still somehow affected by social distancing measures in 2021). Moreover, the expected real wage bill expansion (as the labor market recovers) should contribute to support activity in 2022. These factors are expected to be somehow shadowed by the delayed effects of a tighter monetary policy, worse financial conditions (owing to policy uncertainty) and a reduction in fiscal impulses.

- **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:** an additional increase of infections despite a more disseminated vaccine rollout and delays in the vaccination campaign would likely impair the economy's reopening process. 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. A stronger inflationary shock making the BCB's policy stance even tighter.

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	5.2%	0.7%	
4Q21	2.3%	0.2%	5.1%
1Q22	2.2%	0.4%	
2Q22	1.8%	0.4%	
3Q22	1.3%	0.3%	
4Q22	1.4%	0.3%	1.7%

Sources: IBGE, Santander

GDP Breakdown						
	2017	2018	2019	2020	2021e	2022e
GDP	1.3	1.8	1.4	-4.1	5.1	1.7
Agriculture	14.2	1.3	0.6	2.0	2.3	2.0
Industry	-0.5	0.7	0.4	-3.5	5.4	1.6
Services	0.8	2.1	1.7	-4.5	4.4	1.9
Household	2.0	2.4	2.2	-5.5	4.0	2.0
Government	-0.7	0.8	-0.4	-4.7	1.7	1.2
Investments	-2.6	5.2	3.4	-0.8	12.2	2.4
Exports	4.9	4.1	-2.4	-1.8	9.4	1.5
Imports	6.7	7.7	1.1	-10.0	9.9	6.7

Sources: IBGE, Santander

Labor market: unemployment rate reducing slowly

- The vaccine rollout and the increase in urban mobility led to a faster recovery in the labor force and employment, in our view. These recent developments are aligned with our scenario.

- **Upside risks:** Positive surprises from economic activity indicators may lead to a faster than expected recovery in employment.

- **Downside risks:** A resurgence in Covid infections leading to a resumption of restrictive measures could postpone the current recovery trend in both employment and the labor force.

- We maintain our trajectories for employment and participation rate for 2021. For 2022, our tighter monetary policy scenario has led to an upward revision in the unemployment rate forecast. We estimate an average unemployment rate of 14.1% in 2021 (unchanged) and 13.7% in 2022 (previously 13.5%).

	2019	2020	2021e	2022e	2023e
Unemployment Rate *					
Average	11.9	13.2	14.1	13.7	12.9
End of Period (s.a.)	11.7	14.8	13.8	13.4	12.6
Unemployed Population **					
Average	12.6	13.2	14.5	14.8	14.1
End of Period	12.3	14.8	14.6	14.6	13.9

* in %

** in Millions

Sources: IBGE, Santander.

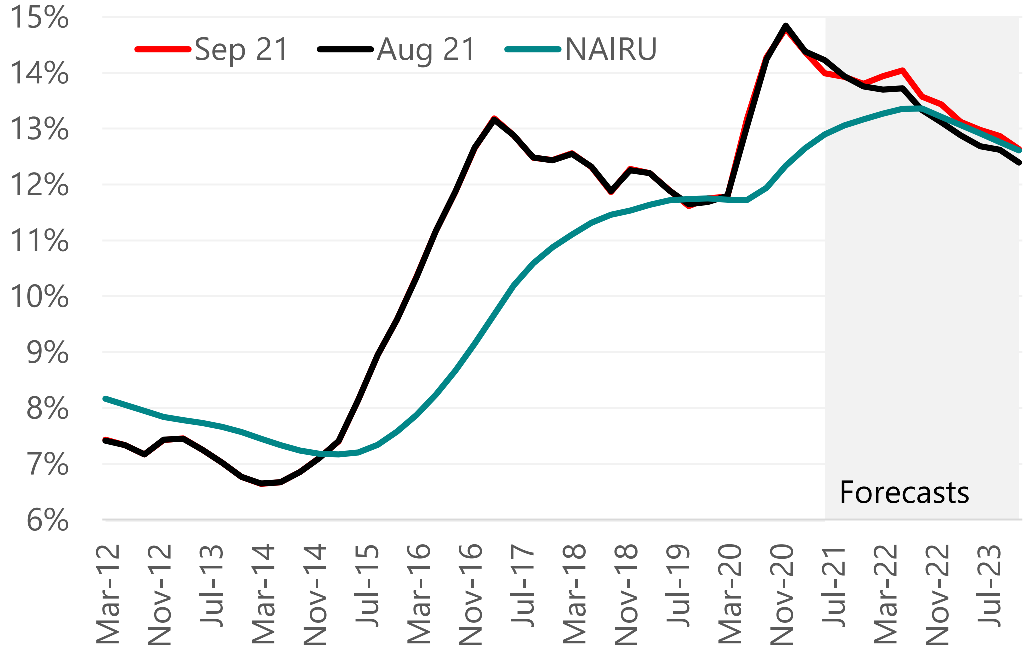
Labor market to recover gradually throughout 2021, 2022 and 2023

- We kept our trajectories for employment unchanged for 2021. For 2022, our tighter monetary policy scenario has led to an upward revision in the unemployment rate forecast. We expect the employment gap to close by end-2022.

		Aug -21	Sep -21
Unemployment Rate (avg)	2021	14.1	14.1
	2022	13.5	13.5
	2023	12.7	12.7
Unemployment Rate (YE, sa)	2021	13.7	13.7
	2022	13.1	13.1
	2023	12.2	12.3
Unemployed (YE, Millions sa)	2021	14.6	14.6
	2022	14.2	14.2
	2023	13.4	13.5

Sources: IBGE, Santander.

New Unemployment Rate Trajectory (SA)



Sources: IBGE, Santander.

Macro scenario: projections

- For our latest Scenario Review 'THE INFLATION FACTOR…AGAIN' (sent on September 16, 2021). **Click on the link:** https://bit.ly/Std-scenreview-set21

Macroeconomic variables		Previous		Current
GDP (%)	2021E	5.1	→	5.1
	2022E	2.0	↓	1.7
	2023E	1.5	↓	1.0
IPCA (%)	2021E	7.3	↑	8.5
	2022E	4.1	↑	4.3
	2023E	3.3	→	3.3
Selic Rate (% end of period)	2021E	7.50	↑	8.25
	2022E	7.50	↑	8.50
	2023E	7.00	→	7.00
FX Rate - USDBRL (end of period)	2021E	5.05	↑	5.25
	2022E	5.55	→	5.55
	2023E	5.20	→	5.20
Current Account Balance (% of GDP)	2021E	0.0	↑	0.1
	2022E	-0.5	↓	-0.6
	2023E	-1.7	→	-1.7
Primary Fiscal Balance (% of GDP)	2021E	-1.6	↑	-1.3
	2022E	-1.2	↑	-1.0
	2023E	-0.9	↑	-0.8
Gross Public Debt (% of GDP)	2021E	81.6	↓	79.7
	2022E	83.5	↓	82.2
	2023E	86.2	↓	85.6

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

Thank you.

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

Simple Personal Fair

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