BRAZIL MACRO October 29, 2021
MACRO COMPASS

EYEING THE DEBATE ON GOVERNMENT PROGRAMS

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- Local market participants continue to pay close attention to congressional discussions about Budget 2022 and, in particular, the amount of proposed stimulus via social programs and changes in the spending cap framework. The FX rate closed the rolling week ending October 28 at 5.65, with the BRL “up” by 0.2% against the USD. The Brazilian currency stood right in the middle of an FX performance ranking among a basket of 31 of the most liquid currencies in the world, after a massive sell-off in the previous week. In our opinion, the bulk of that movement could have reflected a weaker USD in recent days, with a little help from the additional tightening signaled by the Copom. The latter also influenced the nominal yield curve, which saw a substantial sell-off and bear-flattening as the term structure of DI futures seems to be inverting.
- In this week’s Copom policy meeting, the Brazilian Central Bank (BCB) sped up monetary policy tightening, raising the Selic rate by 150 bps, the largest hike since 2002. The Selic now sits at 7.75%, the highest level since September 2017. In the statement, the authority recognized the growing doubts about the fiscal framework and its impact on the anchoring of inflation expectations, pledging to move even further into “restrictive territory”. We now forecast a Selic rate of 11.5% at the end of the cycle in 1Q22.
- October’s IPCA-15 stood at 1.20% MoM (10.34% YoY), well above our estimate and the consensus (both at 1.00%). A major part of the surprise came from services, an inertial but cyclical group. We see this as yet another unfavorable reading and remain cautious about the inflation outlook. Our tracking for IPCA inflation now stands at 9.6% for 2021 (previously 9.1%), 5.2% for 2022 (previously 4.7%), and 3.5% for 2023 (previously 3.3%).
- The Lower House floor vote on the PEC of *Precatórios* was pushed back until next week. Federal tax collection continued to show positive results, led by the price shock (inflation, terms of trade). The central government posted a slight primary surplus in September, the best result since 2012. Regional governments’ surplus continues to surprise in the upside.
- The Brazil Central Bank released bank lending data for September, showing a still strong growth in balances. For households, non-earmarked loans posted an increase of 0.5% MoM-sa. For (non-financial) firms, the rise led by new earmarked loans. Looking ahead, we continue to foresee a slowdown in lending activity, on the heels of elevated consumer indebtedness and higher interest rates.
- Based on the IBGE’s National Household Survey (PNAD), we estimate the seasonally adjusted unemployment rate at 13.0% (July: 13.4%). Based on the September CAGED survey, we estimate that seasonally adjusted payroll growth slowed to +221.7k in September (August: +246.1k). In our view, the labor market continues to show a consistent recovery, reflecting rising urban mobility (and economic reopening). Yet the end of the BEm (government) program could be a headwind in coming months.
- Still on activity, we updated our real wage bill estimates due to the recent scenario changes. We estimate that the expected rise in the welfare program budget to BRL82 billion will be nearly offset by the negative effects of higher inflation and a tighter monetary policy. Maybe that reflects the usually low fiscal multipliers in times of fiscal worries and closing output gap. The first batch of activity data for September comes out in the coming week. On Thursday (November 4), IBGE is scheduled to release industrial production numbers, and we expect monthly growth of 0.7% MoM-sa, the first gain since May.

Most of the information in this report is up to the end of Thursday, October 28, 2021.

Figure 1. Brazil Macro Agenda for the Week of November 1-5, 2021

Indicators / Events	Source	Reference	Date	Santander Estimate	Prior
Trade Balance (USD billion)	SECINT	Oct/21	Mon, 01-Nov	--	4.3
National Holiday	**--**	**--**	**Tue, 02-Nov**	**--**	**--**
Vehicle Sales (thousands)	Fenabrave	Oct/21	Wed, 03-Nov	--	155.1
Copom minutes	**BCB**	**--**	**Wed, 03-Nov**	**--**	**--**
Industrial Production (% MoM)	**IBGE**	**Sep/21**	**Thu, 04-Nov**	**0.7**	**-0.7**
Industrial Production (% YoY)	**IBGE**	**Sep/21**	**Thu, 04-Nov**	**-2.5**	**-0.6**
Vehicle Production (thousands)	Anfavea	Oct/21	05 to 08-Nov	--	173.3

Source: Santander.

For details on Santander's economic forecasts for Brazil, please refer to our last scenario review[1].

[1] **Santander Brazil - Macroeconomic Scenario:** ***"Signs of Normality in Public Health, Evidence of Risks in Fiscal Policy"* –** October 21, 2021- Available on: https://bit.ly/Std-scenreview-oct21

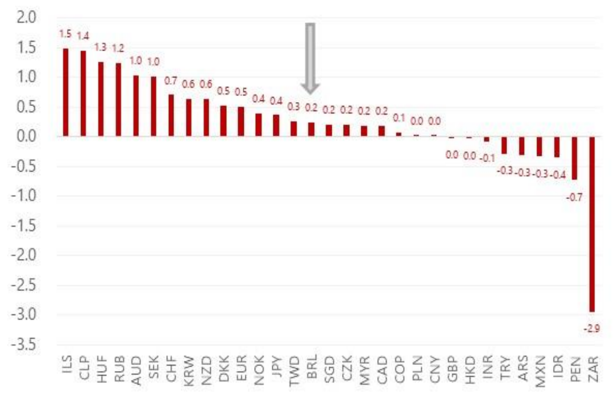
LOCAL MARKETS—FX

The FX rate closed the rolling week ending October 28 at 5.65, with the BRL “up” by 0.2% against the USD. The Brazilian currency stood right in the middle of an FX performance ranking among a basket of 31 of the most liquid currencies in the world, after a massive sell-off in the previous week. In our opinion, the bulk of that small movement could have reflected a weaker USD in recent days as well as signs of an even tighter monetary policy by the BCB. At the local level, the discussions about fiscal policy (government programs to include in Budget 2022) continue to dominate the scene (see details in the “Fiscal Policy” section), with a House floor vote on the key piece of legislation (PEC of *precatórios*) being pushed back to next Wednesday. As the market continues to see great uncertainty about the credibility of Brazil’s main fiscal anchor (the constitutional spending cap), the only domestic element favoring the exchange rate is the outlook for interest rates. In our view, the BCB message from this week’s Copom meeting (see the “Monetary Policy” section) was consistent with a significant increase in the expected budget of rate hikes, and that could have somewhat slowed the speed of the sell-off in the Brazilian currency. In any case, given where budget discussions are heading, we continue to see risks skewed to the upside for the short-term trends in the FX rate. In times of fiscal tensions, we have observed a tendency for the impact of the “second moment” (i.e., higher volatility and risk) to dominate the effects of “first moment” (i.e., higher expected interest-rate returns). At the same time, we expect BCB interventions to remain focused on easing eventual signs of (temporary) dysfunctionality, but not to avoid an eventual repricing of the FX, led by new fundamentals.

LOCAL MARKETS—Rates

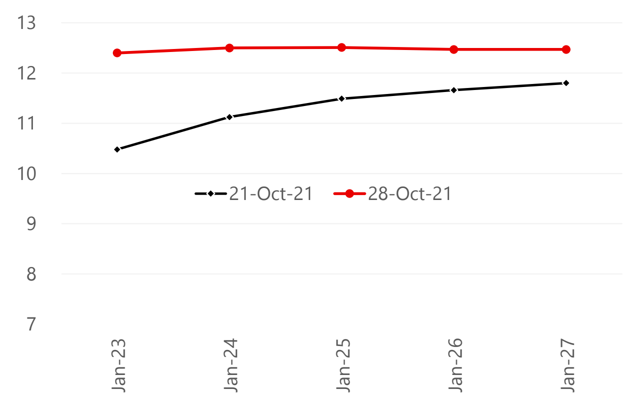
The nominal yield curve saw another substantial sell-off and bear-flattening, with the term structure of DI futures showing preliminary signs of an inversion. Since last Thursday (October 21), the front end of the curve (Jan-23 DI future) rose 192 bps to 12.40%, while the back end of the curve (Jan-27 future) rose 67 bps to 12.47%. As a result, the curve’s steepness in this segment fell 125 bps to 7 bps (i.e., almost inverting in this segment). At the same time, the 2025 vs. 2027 steepness has actually inverted. At the front end, the upward surprise in inflation data (see details in the “Inflation” section) and the monetary policy decision (see details in the “Monetary Policy” section) were, in our view, the main reasons for the short yields to sell off. At the back end, the main driver was the continued rise in the idiosyncratic risk, with the perception of uncertainty about the fiscal consolidation process becoming even more pronounced and reinforcing the process of risk-premium building at this segment.

Figure 2 – FX Performance for the Rolling Week



Sources: Bloomberg, Santander.
Note: As of the close on Thursday, October 28, 2021.

Figure 3 – Brazilian Domestic Yield Curve (% p.a.)



Sources: Bloomberg, Santander.
Note: As of the close Thursday, October 28, 2021.

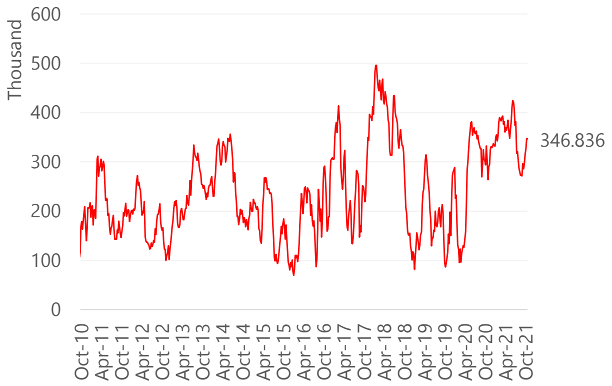
COMMODITIES

Natural gas prices continue to slowly normalize, as Russian authorities ordered suppliers to fill EU storage facilities starting November 8. The main Russian supplier will focus on filling its gas storage facilities in EU once it completes the process for its domestic storage. At 77%, European storage is lower than in recent years (90% on average for the last five years). Elsewhere, China's thermal coal prices are 40% down from their peak 10 days ago. The country is reportedly discussing capping the price of the fossil fuel as it aims to "guide the long-term stability of coal prices in a reasonable range." While the prices of these two commodities are still high, their recent slump has helped crude oil prices cool down a bit, as some industries can shift between fuels.

EIA[2] reports an increase in U.S. crude stockpiles. The EIA reported on Wednesday (October 27) that U.S. crude inventories increased by 4,268k barrels for the week ended October 22, vs. the expectation of a 1,526k-barrel increase. In our view, the production policy of OPEC+ will be the main factor influencing oil prices in the coming months. An OPEC+ meeting is set for next week, November 4.

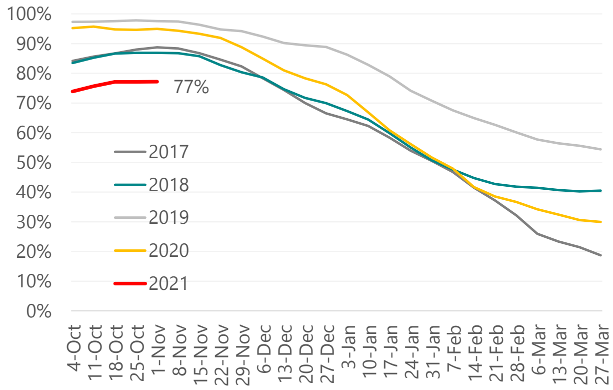
CFTC[3] reports the fourth straight weekly gain in speculative long positions in WTI crude oil. Money managers raised their net long WTI crude futures and options positions in the week to October 19, the CFTC reported on Friday (October 22). The positions in futures and options rose by 20,231 contracts to 346,836.

Figure 4 – CFTC NYMEX Crude Oil Managed Money Net Total (Number of contracts)



Sources: COT, Santander.

Figure 5 – European Gas Storage Utilization (%)



Sources: USDA, Santander.

[2] Energy Information Administration.
[3] U.S. Commodity Futures Trading Commission.

MONETARY POLICY

The BCB has sped up the pace of policy tightening, raising the Selic rate by 150 bps, the largest hike since 2002, to 7.75%, the highest level since September 2017. The decision was in line with analysts' expectations, despite a greater than usual dispersion of estimates.

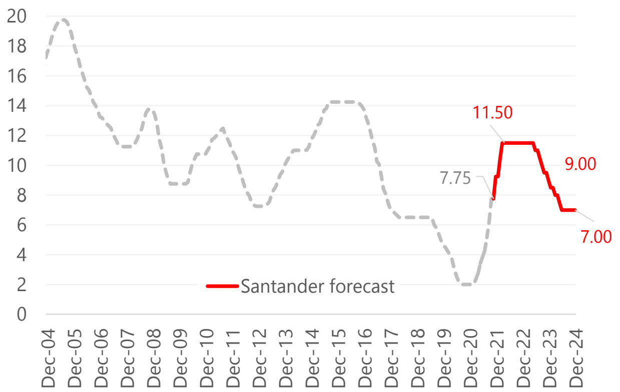
In the statement, the authority recognized the increased doubts about the fiscal framework and its impact on the anchoring of inflation expectations, which raise "the upward asymmetry in the balance of risks", meaning a "higher probability of inflation paths above the (…) the baseline scenario." The Copom has signaled another hike of the same magnitude (150 bps) for the next meeting and pledged tightening monetary policy "even further into the restrictive territory." Clearly, this means not only a faster speed of hikes, but also a greater budget of tightening.

Judging from the BCB models and balance of risks analysis, we think the flight plan today could be taking the Selic rate towards an interval of 11.0-11.5%. According to the BCB's own inflation models, with the FX rate starting at 5.60 (and moving along with PPP afterward), a path of Selic rate hikes (as projected by market economists) to 8.75% for YE2021 and 9.75% for most of 2022 (landing at 9.50% by YE2022), and then falling to 7.00% for YE2023,[4] would produce the following IPCA inflation path: 9.5% for 2021 (previously: 8.5%; mid target: 3.75%; upper target: 5.50%), 4.1% for 2022 (previously: 3.7%; mid target: 3.50%) and 3.1% for 2023 (previously: 3.2%; mid target: 3.25%). Based on the standard BCB model elasticities, we calculate that in order to reduce inflation (forecast) by about 0.6 pp in an interval of over a year (i.e., to bring the 2022 inflation estimate to the mid-target) would take an additional adjustment of about 150 bps in comparison with the simulated scenario. That number does not account for the balance of risks.

As per our forecast, we keep our expectation for a 150-bp move in December, but now look for hikes of 125 bps and 100 bps for February and March 2022, with the Selic rate at 11.5% at the end of Q1 (and staying there until mid-2023). Last week, we penciled in a terminal rate of 10.5%, also for 1Q22. We recognize the high uncertainty, especially as per the terminal Selic level, which may hinge on the evolution of the fiscal policy framework and the trends in inflation expectations, particularly for 2023. The latter will become the main policy horizon as of 1Q22. In any case, for now we think the risks are still a little skewed to the upside, as per our Selic rate call. See details in the link[5].

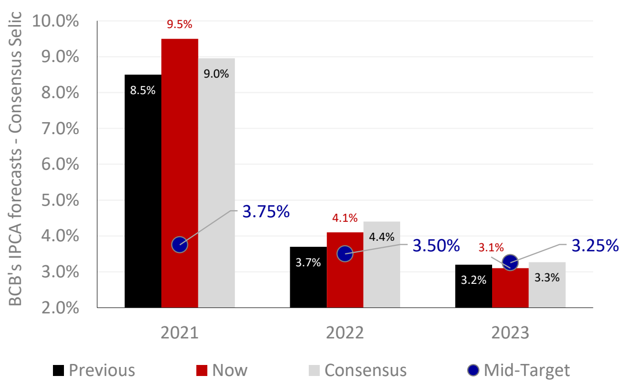
On Wednesday (November 3), the BCB will publish the minutes of this Copom policy meeting, meaning another opportunity for the BCB to ratify its scenario assessment and the flight plan.

Figure 6 – Selic Path (monthly average, % p.a.)



Sources: Brazilian Central Bank, Santander.

Figure 7 – BCB's Inflation Simulations



Sources: Brazilian Central Bank, Santander.
Note: Simulations assume Selic from the Focus survey and USD/BRL starting at 5.60 and evolving according to purchase power parity.

[4] According to the Focus survey, the trajectory of the Selic rate projected by analysts include another hike of 125bps in December 2021, and with a couple of 50-bp moves in February and March 2022.
[5]**Santander Brazil - *"The Greatest Hike Since 2002, with No Overreaction"* –** October 25, 2021 – Available on: https://bit.ly/Std-COPOM-oct21

INFLATION

October's IPCA-15 registered a 1.20% MoM change (10.34% YoY), well above our estimate and the consensus forecast (both at 1.00%). The headline accelerated to 14.1% 3MMA-saar (from 13.1%), highlighting that the upward pressure remained strong at the margin.

A major part of the surprise came from services, an inertial and core-related group. Services contributed +13 bps to the headline forecast error, and the deviation was spread between its main four groups: services related to economic activity, inertial services, services related to wages, and volatile services. We highlight the +3 bps deviation of food-service, which is an item where we see upside risks—as it suffered a major cost-shock that might be passed-through to consumers with the economy reopening—exerting a heavy weight on the core services measure. Indeed, the core services gauge remained under considerable upward pressure at the margin, with the trend stable at 7.5% 3MMA-saar, contrary to our expectation of relief for this reading. Food-at-home was another upside surprise (contributing +6 bps to the headline forecast error), which pushed it to accelerate to 23% 3MMA-saar, signaling that the deceleration of the YoY measure might be slower than we anticipated.

Broad qualitative measures deteriorated further at the margin, but the EX3 core at least saw relief at the margin, and the diffusion index also cooled down a bit. The average of the main five core measures followed by the Brazil Central Bank rose to 9.3% 3MMA-saar (from 8.8% before); it has been hovering above the target (and distancing further from it) for 13 months now. In our view, this is evidence of spreading of the primary shocks (commodities, FX, supply chain disruption, etc.) to general prices, and such persistence at these high levels is risky. The EX3 core gauge, on the other hand, cooled down from 8.1% to 7.5% 3MMA-saar; although this is a good sign, we were expecting more substantial relief (our monthly forecast was 0.49% MoM vs. 0.69% realized). Still on the "less negative" news side, the diffusion index fell considerably, from 69.8% (seasonally adjusted) to 59.3%, which could be a sign of a cooling down of the inflation-spreading process, in our view.

All in all, we see this as another unfavorable reading, and we remain cautious on the inflation outlook. We continue to see the balance of risks tilted to the upside (especially with the recent rise of domestic risk and with new global shocks occurring constantly). We were cautiously expecting September's IPCA and October's IPCA-15 to be the YoY peaks for each series, but this did not happen—although we still believe there is not much room for further acceleration in YoY terms, as base effects start to play an important role now.

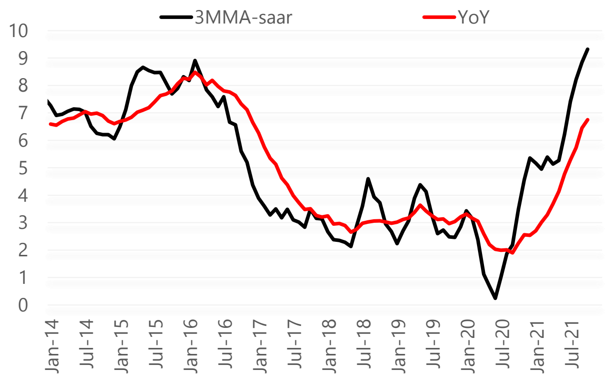
We have revised our high-frequency tracking to 9.6% (from 9.1%) for IPCA 2021, to 5.2% (from 5.0%) for IPCA 2022, and to 3.5% for 2023 (from 3.25%). It is worth remembering that the BCB's target is 3.75% for 2021, 3.50% for 2022, and 3.25% for 2023 (±1.50% tolerance interval for each year), and our forecasts are above the targets for all horizons. See details in the link[6].

Figure 8 – October's IPCA-15 Details (%)

	MoM			YoY	
	Oct-21	Santander	Contrib.	Sep-21	Oct-21
IPCA-15	1.20	1.00	0.20	10.1	10.3
Administered	1.42	1.39	0.01	14.8	16.1
Free	1.12	0.85	0.20	8.4	8.4
Food-at-home	1.54	1.15	0.06	15.5	13.9
Industrial goods	0.98	0.95	0.01	10.3	10.4
Services	1.03	0.66	0.13	4.5	4.9
EX3 Core	0.69	0.49	0.07	6.5	6.5

Sources: Brazilian Central Bank, Santander.

Figure 9 – Core Inflation Average (IPCA-15, %)



Sources: Brazilian Central Bank, Santander.

[6] **Santander Brazil - *"October's IPCA-15: Postponing the Peak of YoY Inflation, Again"* –** October 26, 2021 – Available on: http://bit.ly/Std-IPCA15-oct21

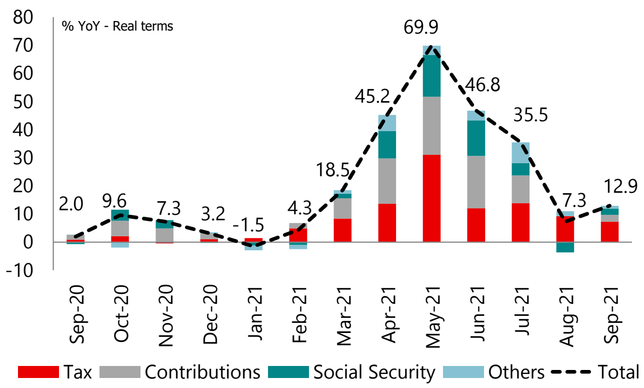
FISCAL POLICY AND LEGISLATION

The vote on the Lower House floor regarding the PEC of *Precatórios* (PEC 23/21) was postponed until next week. The PEC (constitutional amendment, in the Portuguese acronym) limits yearly court-ordered debt payments within the spending cap and changes the indexing rule for the spending cap in order to make room for a revamped welfare program (named *Auxilio Brasil*) and other expenditures. In our view, the current proposal opens a budget margin of BRL110 billion for 2022. Apparently, the government's congressional leadership did not gather enough votes (308 votes out of 513) to approve the proposal this week. There is still a debate regarding the court-ordered budget related to the educational fund (Fundef), as part of the Congress wants to use the full value (BRL16 billion) to pay a bonus to teachers. The PEC allows part of Fundef debt owed by the central government to states to be cancelled out, with the states' debt owed to the federal government. Another group of MPs is sensitive to the market sell-off, seeing risks in changing in the spending cap rule at this juncture. We believe the congressional debate will continue next week, with risks of new delays in approving the legislation. It is worth remembering that the Emergency Aid program ends at the end of the current month, which we think will probably increase the sense of urgency among lawmakers.

In September, federal tax collection continued to expand, affected by the price shock. On October 27, according to data published by the Brazilian Internal Revenue Service (IRS), tax collection reached BRL149.1 billion (or +12.9% YoY real), close to our forecast (BRL147.5 billion). The September result was the best result for the month in the historical series. In YTD real terms, the rise is 22.3% YoY, and 10.3% YoY compared to 2019. This year values are at an all-time high, "helped" by extraordinary revenues (BRL31 billion), mostly related to M&A and corporate restructuring. The impact of inflation and terms of trade on revenue continues, and more recently the increase in royalty revenue (mainly from oil exploration) is also having an impact. In the coming months, we expect positive results. For 2021, we forecast a ~17% YoY real rise.

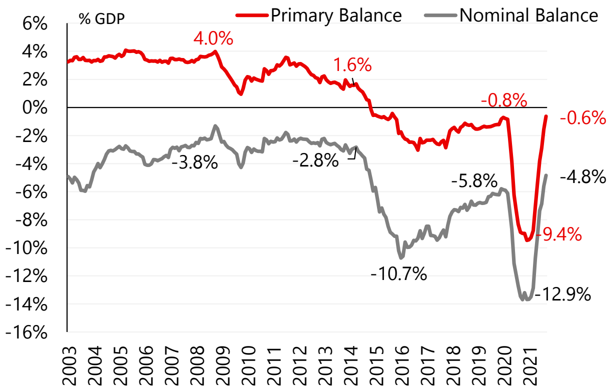
According to National Treasury data published on October 28, the central government registered a primary surplus of BRL0.3 billion in September, better than our forecast (-BRL4.4 billion) and the market median expectation (-BRL6.1 billion). September's result was the best for the month since 2012, "helped" by the result of federal tax collection. In the 12-month reading, the deficit reached BRL154.2 billion, or 1.8% of GDP, falling from the BRL236.2 billion, or 2.7% of GDP, registered in August. For 2021, we estimate a federal primary deficit of ~BRL110 billion (1.3% of GDP), with a positive bias related to higher oil prices and higher inflation numbers. **In September, the public sector posted a primary surplus of BRL12.9 billion, driven by a positive regional government result and revenue result**. According to BCB data published on October 29, in YDT terms the public sector registered a primary surplus of BRL14.2 billion (0.2% of GDP) in September, compared to BRL635 billion (11.7% of GDP) deficit in 2020. The surplus of regional governments continues to register positive primary results, reaching an all-time high in real terms. Gross debt reached 83.0% of GDP in September, a rise of 0.3 pp from the August reading—on the heels of the increase in nominal interest payments (+0.5 pp). We project the consolidated public sector deficit to likely reach ~BRL45 billion in 2021 (0.5% of GDP)—with a positive bias due to regional government results and higher oil prices.

Figure 10 – Federal Tax Collection



Sources: Federal Revenue of Brazil, Santander.

Figure 11 – Public Sector (12m % GDP)



Sources: BCB, Santander.

CREDIT

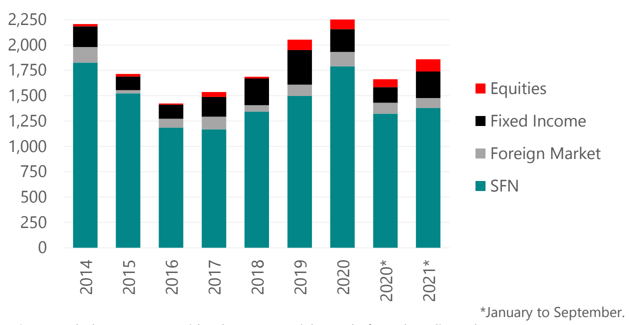
In September total outstanding loans in the National Financial System (SFN) posted inflation-adjusted growth of 5.2% YoY to BRL4.4 trillion, up 8.3% YoY for households and up 1.3% YoY for non-financial corporations. The growth rate of total outstanding loans has increased a bit from 15.9% to 16.0%, in nominal terms. In addition, credit to corporations fell to 11.6% from 12.3% (in nominal terms), while the volume of credit to households continued to accelerate, rising to 19.4% from 19.0%, in nominal terms.

New loans adjusted for inflation and seasonality (BCB methodology) recorded an increase of 1.9% in September. For households, the non-earmarked segment posted an increase of 0.5% MoM-sa. This result is mainly composed of credit card purchases and vehicle purchases. In the earmarked segment, rural credit and real estate financing decreased (-9.1% and -6.4%, respectively). For companies, there was an increase of 5.1% MoM-sa in September in the non-earmarked segment. The earmarked segment registered a significant increase of 7.2% MoM-sa after last month's fall (-48.6%). This result is manly driven by Others (+122.8%). To date, the Pronampe program has provided more than BRL22 billion to more than 240,000 micro and small companies.

Considering total corporate financing YTD through September 2021 (new loans in the SFN, debt and equity issues in the capital markets) vs. the year-ago period, issuances in the capital markets were 67.56% higher, while SFN concessions were up 5.46%. As a result, total corporate financing was up 13.16% compared to the year-ago period.

Still regarding non-earmarked loans, the seasonally adjusted default rate (% of 90-day past-due loans) was at 4.3% and 1.6%, respectively, for households and corporations. Importantly, the household debt-service ratio continued to rise, reaching 59.2% in July; without real estate financing, the household debt-service ratio is 36.5%. In addition, the debt-to-income ratio rose to 30.1% in July; without real estate financing, the debt-to-income ratio is 27.6%. We see these figures as a risk for delinquencies as the economy recovers. See details in the link[7].

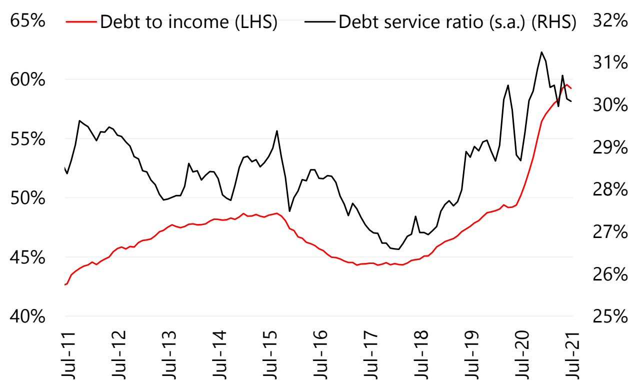
Figure 12 – Total Corporate Financing (BRL billion, Inflation adjusted)



SFN - exclude *conta garantida*, *cheque especial* (overdraft) and credit card.
Foreign Market - bonus, MTNs and securities.
Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs e FIDCs.
Equity - IPO and follow-on.

Sources: Brazilian Central Bank, Anbima, Santander.

Figure 13 – Household Debt-to-Income and Debt Service Ratio (%)



Sources: Brazilian Central Bank, Santander.

[7] **Santander Brazil - *"Credit to Companies Grew Due to Others"* –** October 25, 2021 – Available on: http://bit.ly/Std-Credit-102521

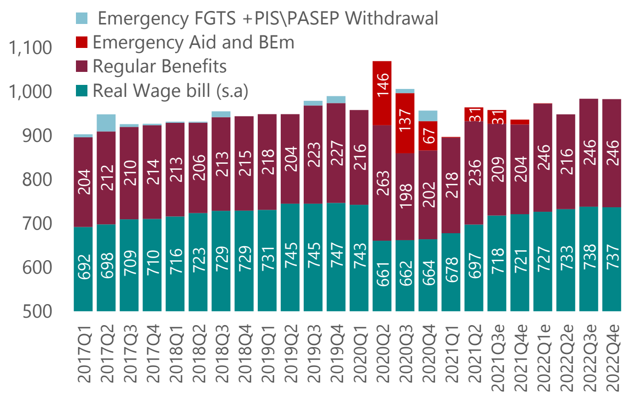
LABOR MARKET

We updated our real wage bill estimates due to the recent scenario changes. In light of the government's intention to increase the value for the *Auxílio Brasil* in 2022 (to a BRL400 monthly benefit) and the resulting changes in our inflation and interest rate scenarios (due to uncertainties regarding the fiscal rules), we updated our estimates of the "expanded" real wage bill, which includes social benefits, as was explored in our report dated October 18, 2021. See details in the link[8].

We now see the Selic rate reaching 11.50% at the end of 1Q22 (from 9.00% in our last simulation), and higher IPCA inflation tracking for both 2021 and 2022 (9.6% and 5.2%, respectively, from 9.0% and 4.7% in the last simulation). As a consequence, we downgraded our labor-income estimates due to both a lower employment level (as monetary policy will be more restrictive) and lower real average labor income (on the heels of higher inflation). For the Selic rate, we estimate that each 100-bp increase in the Selic implies a 0.4 p.p. negative impact on employment growth. For the IPCA, we estimate that each 100-bp increase in inflation reduces the real wage bill by around 0.6 p.p. Therefore, we reduced our 2022 aggregate real wages growth estimate to 4.2% (previously 5.4%). The revamped welfare program named *Auxílio Brasil* will be effective from November onward, replacing the Emergency Aid stipend, scheduled to end this month. The permanent benefit will amount to BRL235 per month (readjusted by inflation since 2018), and we estimate it will be probably paid to 17 million families, compared to 14.7 million included in the *Bolsa Familia program*. The source of funding for the program is still unclear, especially for 2022. The value of BRL400 benefit per month for the new welfare program totals BRL82 billion budget (BRL35 billion budgeted for *Bolsa Familia*, with a new expenditure of BRL47 billion). In our last estimate for the expanded real wage bill, we were considering a budget of BRL61 billion, with a benefit of BRL300 per month. In our view, for every BRL10 billion of fiscal transfers, the real wage bill grows by 0.2% in the year. In order to achieve this goal, PEC of *Precatórios* (a constitutional amendment) will likely create the legal vehicle for the new welfare program. The current version will open a space of BRL15 billion in 2021 and BRL110 billion for 2022. This value for 2022 is composed of : (i) compression in the court-ordered budget, opening a BRL50 billion fiscal margin; (ii) a change in the index used to readjust the spending cap rule since 2016 (changing the year-on-year IPCA inflation window from June to December), which would imply an extra BRL60 billion.

When we consider the government transfers, 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.

Figure 14 – "Expanded" Real Wage Bill (BRL billion)



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

Figure 15 – Selic Rate and the Real Wage Bill

	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, and Santander.

[8]**Santander Brazil - *"Real Wage Bill – Outlook and Simulations"* –** October 18, 2021 – Available on: https://bit.ly/Std-special-101821

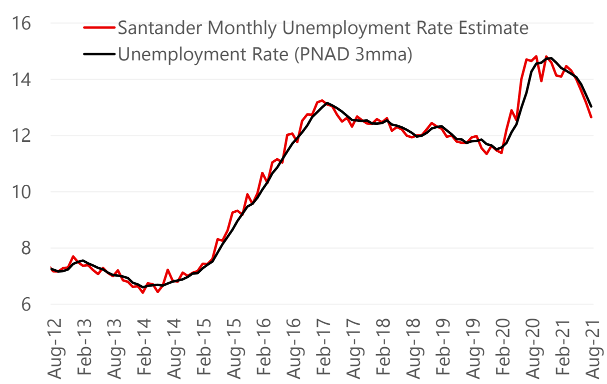
ECONOMIC ACTIVITY

The latest batch of labor market data showed a continuing recovery, but we believe some deceleration may take place in the coming months. According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 13.2% in the three months to August, slightly below both our estimate and market consensus (13.3% and 13.4%, respectively). We estimate the seasonally adjusted unemployment rate at 13.0%, down from July's 13.4%. This result stemmed from increases of 1.0% MoM sa and 0.6% MoM sa in the employed population and the labor force, respectively. With this, the labor force has virtually returned to pre-crisis levels (400k below February 2020). The effective real wage bill posted a 0.6% MoM sa decrease in July (data lagged one month relative to other PNAD series), placing the series 5.5% below the pre-crisis mark (February 2020). According to September's CAGED survey, net formal job creation stood at +313.9k, (vs. consensus +360k, Santander estimate +370k). We estimate that seasonally adjusted, net formal job creation decelerated to +221.7k in September, from +246.1k in August. Despite the additional deceleration at the margin, the CAGED survey continued to show robust job creation in September, due to the maintenance of high urban mobility. The current batch of labor market data indicates a continuing recovery, led by sectors that are more dependent on social interaction. The behavior of formal employment in the PNAD survey should be monitored, in our view, as IBGE's effort to increase the survey response rate is positively affecting the results. However, we believe the end of the government's job-supporting program (BEm) in August 2021 could act as a headwind in the coming months for both the CAGED and the PNAD, which may soften the job market recovery pace. See details in the link[9].

According to FGV, mixed signals in the economic confidence data for October. The consumer confidence index expanded 1.3%, following two declines in a row (down 0.5% and 7.9% in August and September, respectively). Despite the sequential growth, the index still shows a wide gap in comparison to the pre-pandemic mark (down 13.1% since February 2020). Conversely, industrial confidence retreated 1.1%, the third decline in a row (down 1.3% and 0.6% in August and September, respectively), with the index still running about 3.7% above the pre-pandemic mark.

Next week, the first batch of activity data for September is due to be released. On Thursday (November 4), IBGE will release industrial production for the month, and we expect monthly growth of 0.7% MoM-sa, the first positive figure since May. If this result is confirmed, September's figure would imply a 0.2% carryover for 4Q21.

Figure 16 – Unemployment Rate (% sa)



Sources: IBGE, Santander.

Figure 17 – Net Formal Job Creation (sa)

Sources: Ministry of Labor, Santander.

[9] **Santander Brazil Labor Market - *"Recovery Continues, with Possible Deceleration Ahead"* –** October 27, 2021 – Available on: https://bit.ly/Std-labor-102721

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