October 13, 2021

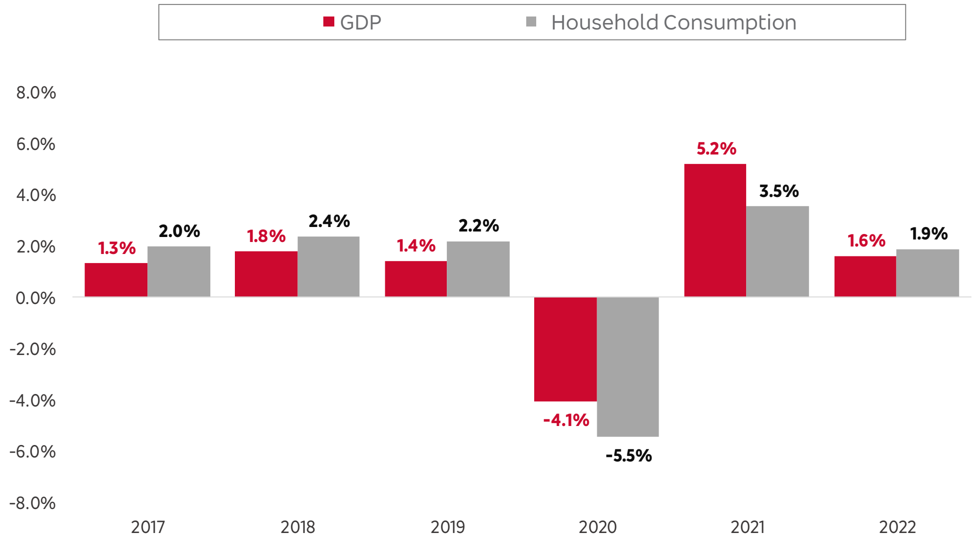
GDP growth drivers in 2022

Vitor Vidal
Fabiana D'Atri

We estimate a 1.6% GDP growth for 2022. The main drivers behind our forecast include consumption – supported by a gradual improvement in the job market and reopening of the economy –, as well as the expansion in the credit market and the global scenario's dynamics.

The main driver of economic growth for the next six quarters will be household consumption, rising 3.5% in 2021 and 1.9% in 2022. On the supply side, the dynamics of reopening the economy have picked up momentum. Manufacturing still struggles with a shortage of supplies and difficulty to normalize the global production chain, but the stabilization of this scenario should give some boost to the GDP through inventory replenishment. Household consumption, on the other hand, accounting for 62.7% of the GDP, was 3.0% below pre-pandemic levels in the second quarter. This was the main driver of economic activity between 2017 and 2019, with an average growth of 2.2%. Our hypothesis admits a gradual recovery in the consumption of services, especially those most impacted by the pandemic, to the same levels seen in 2019, contributing with 1.2 percentage points to the 2022 GDP.

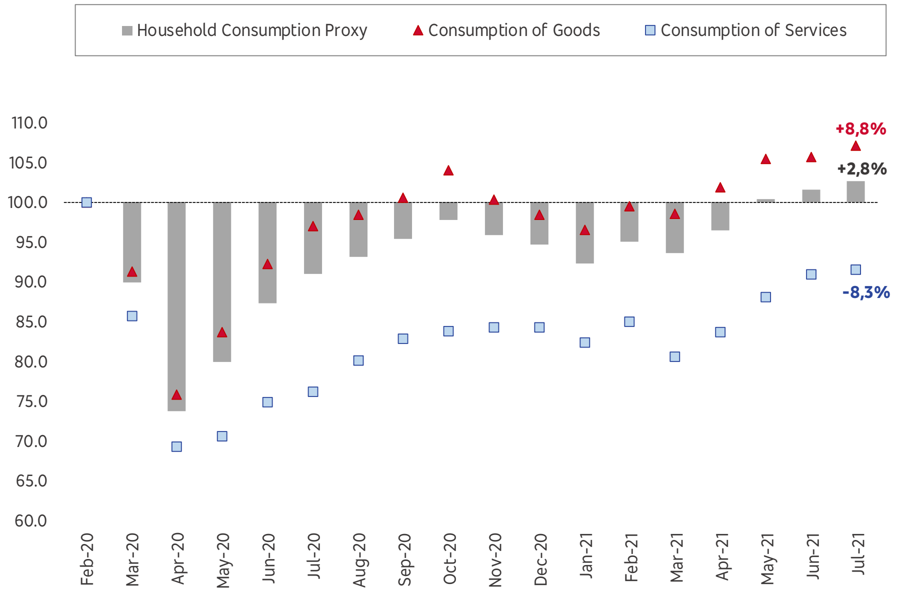
Chart 1: GDP and consumption YoY change



Source: IBGE, Bradesco

Our monthly proxy for household consumption is based on data from the retail and service surveys[1]. According to the proxy, service consumption is still 8.3% below pre-pandemic levels, while the consumption of goods is 8.8% above this threshold. In any case, we can see that there has already been a recovery to pre-pandemic levels in this metric. The proxy indicated that, by the end of 2Q21, we were already 2.9% above the level recorded in 4Q19, while GDP consumption was 3.0% below that mark.

Chart 2: Proxy for Household Consumption and Breakdown



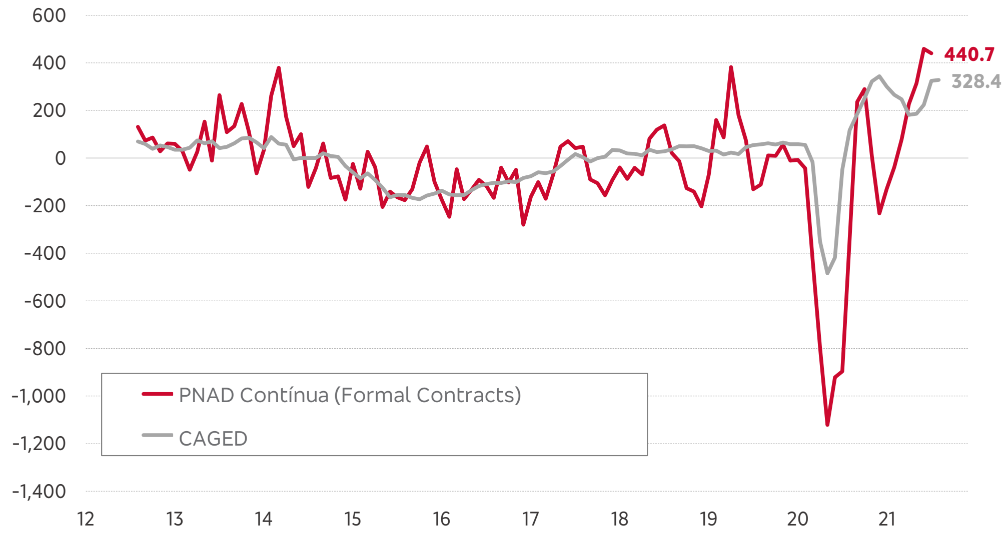
Source: IBGE, Bradesco

The biggest difference between these two figures is in the incorporation of informality data, especially in the service sector. The Household Survey (PNAD) is the statistic that shows these dynamics based on sorting by type of economic activity. Therefore, the evolution of household consumption will also depend on the job market converging towards pre-pandemic levels. The key variable in this case is the rate of recovery of the wage bill, particularly within the sectors most affected by the pandemic and with a high level of informality, such as hotels, bars and restaurants.

Gauging the job market's dynamics has been somewhat challenging, since the PNAD's statistics were affected by the pandemic, and the formal job market data (CAGED) methodology has been revised. In any case, there is some level of convergence between formal employment statistics in recent months, suggesting a more consistent improvement. The rate of informal jobs, on the other hand, should pick up the pace as the economy reopens.

[1] The indicator uses the segregation of the PMC and PMS, based on the weights associated to Household Consumption. This weight is obtained based on the IBGE's Supply and Use Tables (TRU) since 2010. This subject was recently discussed in a box of the Central Bank of Brazil's Quarterly Inflation Report (Sep/21). In the last TRU available (2018), monthly commerce and service surveys featured a CNAE correspondence of 62.3% of the Added Value of household consumption.

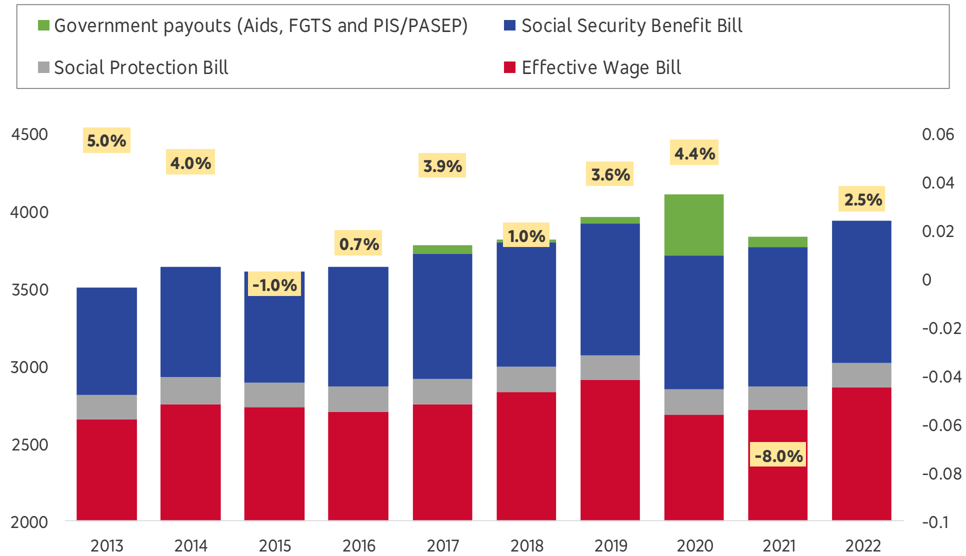
Chart 3: PNAD vs. CAGED
Net job creation, seasonally adjusted, quarterly moving average



Source: IBGE, Brazilian Ministry of the Economy, Bradesco

Considering the improvement in the job market, we forecast a 2.5% increase in the broad wage bill for 2022, following an 8.0% drop this year. The steep drop seen in 2021 is mostly related to three aspects: i) reduction of emergency aid totaling BRL 395 billion in 2020 to BRL 68 billion in 2021; ii) strong acceleration of inflation, which eroded some of the purchasing power of households; and iii) effects of the pandemic on the economy.

Chart 4: Broad Wage Bill
BRL billion, constant, accumulated in the last 12 months.



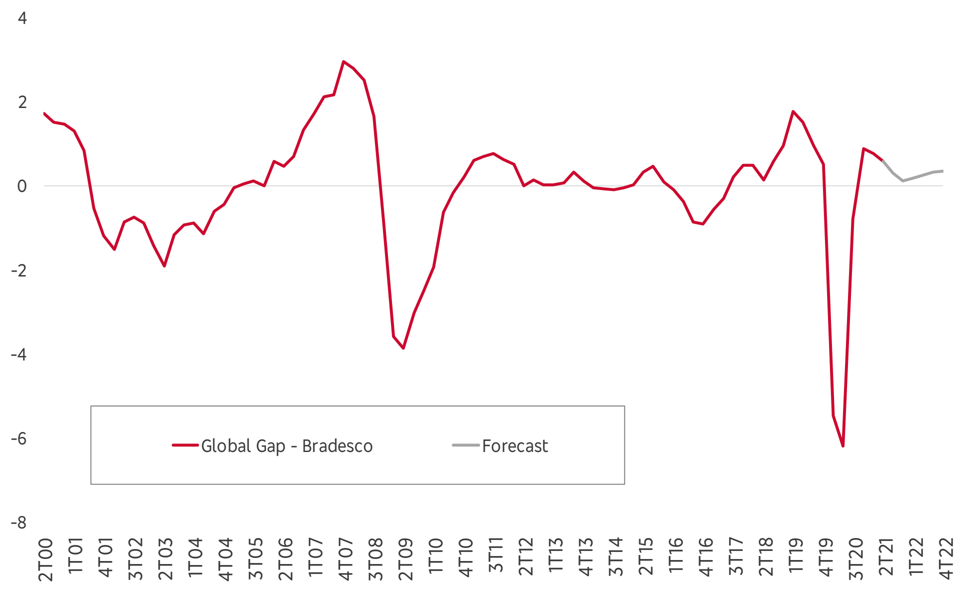
Source: IBGE, BCB, Brazilian Ministries of the Economy and Citizenship & Social Security, CEF, National Treasury, Bradesco

For 2022, three other factors indicate a normalization of the broad wage bill: i) increase in employed population to 95 million by late 2022 (up from 91 million in 2021), driving the unemployment rate from 13.0% to 11.9% in 2022; ii) expectation of inflation slowdown – we estimate an IPCA of 9.1% in 2021 and 3.8% in 2022; and iii) nominal adjustment of 9.6% to the minimum wage. Disposable income for consumption can also be benefitted by the use of savings accumulated during the pandemic.

In turn, household and corporate loans will continue to support the economy. Unlike other crises, the years 2020 and 2021 showed a rising credit volume. In fact, a significantly expansionary monetary policy, along with anti-cyclical concession policies, allowed loans to absorb most of the negative impacts of businesses and consumers throughout the pandemic. After the end of this cycle of upturns, and with an average SELIC rate of 8.50%, we estimate a 9.6% growth in loans in 2022. From a corporate perspective, indebtedness is at historically low levels, and the need for investments left behind by the pandemic leads to some growth in demand. From a household perspective, low default rates and the job market's recovery, especially among formal jobs, will be another source of demand for loans.

The global economy, in turn, will have a weaker, albeit still relevant, boost for Brazil. We forecast a global economy growth of 6.1% in 2021 and 4.3% in 2022. The gap between global growth and Brazil's economic growth will be one of the largest outside of crisis periods. Therefore, the 1.6% growth seems to take into account the effect of the global GDP on Brazil. Supporting this thesis, we can see that the gap among the top 11 most relevant economies for Brazil[2] will remain positive in 2022. Most of this contribution comes from exports and a greater demand for the agricultural crops and extractive industry. We estimate that this global gap will have an impact of at least 0.2 percentage point over Brazil's GDP in 2022.

Chart 5: Output gap of relevant countries for Brazilian economy (in p.p.)



Source: FUNCEX, Bloomberg, Bradesco

[2] The top 11 most relevant economies are considered those with greatest stake in Brazil's total trade over the last five years, according to FUNCEX: China, United States, Argentina, Germany, Netherlands, Japan, Mexico, South Korea, Chile, Spain, and India accounted for more than 84% of Brazil's total trade.

2022 should represent a return to growth conditions seen between 2017 and 2019. Despite the potential volatility in asset prices, the full economic reopening amidst an improving job market, inflation slowdown, global economy growing above the historical average, and real interest rates at levels that do not restrict loans, should enable a growth rate similar to that period.

There are some risks to be monitored in the next few quarters, especially the water shortage crisis. According to our estimates, this event could potentially take away 0.5 to 0.7 percentage point from the GDP. However, we do not consider this hypothesis in our scenario. The second risk stems from a combination of global factors, leading to a severe worsening of financial conditions. This scenario, although possible, does not seem significantly probable.

Analyzing all drivers and the balance of risks of 2022, the growth expected for the economy next year represents a return to the same conditions seen in late 2019. The average economic growth between 2017 and 2019 was 0.45% per quarter, and this rate should close at 0.60% this year. For 2022, we forecast an average growth of 0.30%, which is already below pre-pandemic rates. The monetary policy in contractionary territory explains part of this scenario. Structural issues that impact productivity are still the main bottlenecks preventing a stronger and a more stable economic growth.

Table 1: GDP Forecasts – Supply and Demand Sides (2021 and 2022)

	2021 (%)	2022 (%)
Agriculture & Livestock	**2.7%**	**2.3%**
Industry GDP	**5.9%**	**1.2%**
Extractive	3.2%	0.8%
Manufacturing	7.7%	1.3%
Construction	5.3%	1.5%
Utiliies	2.6%	1.3%
Services GDP	**4.5%**	**1.6%**
Commerce	6.7%	1.6%
Transport	9.9%	2.2%
Information & Communication	6.7%	1.5%
Financial Services	3.1%	2.3%
Other Services	6.2%	2.2%
Real Estate Activities	2.7%	2.1%
Public Administration	1.0%	0.6%
GDP	**5.2%**	**1.6%**
Household Consumption	3.5%	1.9%
Government Consumption	1.0%	0.6%
Investments (FBCF)	11.5%	1.9%
Exports	5.6%	2.3%
Imports	9.9%	2.4%

Source: IBGE, Bradesco

Technical Staff

Director of Economic Research and Studies	Fernando Honorato Barbosa
Economists	Ana Beatriz Moreira dos Santos / Constantin Jancsó / Ederson Luiz Schumanski / Fabiana D'Atri/ Felipe Wajskop França / Myriã Tatiany Neves Bast / Priscila Pacheco Trigo / Renan Bassoli Diniz / Thiago Coraucci de Angelis / Vitor Vidal Costa Velho
Interns	Bruna Andreata Valentino / Gabriel Sartor Ganzarolli / Henrique Monteiro de Souza Rangel / Lorena Pires Sene / Lucas Daniel Duarte / Rafaela de Sousa Silva

economiaemdia.com.br