

Court-ordered payments and the positive surprise in consumer spending early this year

- ▶ Monthly indicators published by the census bureau IBGE delivered positive surprises in January and February, indicating a strong performance in household spending in 1Q24. This study analyzes the contribution of the payment of “precatórios” (court-ordered bonds) to the stronger consumption data, whether through the regional breakdown of IBGE indicators’ growth or through our proprietary data such as the IDAT daily activity indicator, which includes the aggregate expenses of accounts that received these payments.
- ▶ At the end of last year, with the approval of constitutional amendment 113/21 (the so-called “PEC dos Precatórios”), the Federal Supreme Court (STF) authorized the payment of approximately BRL 90 billion (0.8% of GDP) in precatórios to households and businesses. These precatórios had been held back since 2022. Of this amount, approximately half was linked to preferred precatórios, which have a greater impact on household consumption, and were authorized for withdrawal from January to February.
- ▶ We found that: (i) spending with credit and debit cards by accounts that received precatórios in our proprietary IDAT databases is around 10% higher than for those that did not receive them; (ii) the states with households and businesses that received the highest precatório intakes are mainly in the North and Midwest regions, which led the largest increase in retail sales volumes at the beginning of the year; (iii) the collection of taxes linked to household consumption has increased, with data up to March suggesting that retail sales figures were not distorted at the beginning of the year and will remain strong in the short term. Finally, a simplified calculation indicates that the surprise in nominal values compared to consensus estimates for retail sales in January and February was around BRL 15 billion, suggesting that approximately 1/3 of the amounts transferred to households have already been used.
- ▶ We estimate that precatórios should have a positive impact of +0.3p.p. in GDP growth in 2024, depending on the households’ marginal propensity to consume. This effect should be temporary and concentrated in the first half of the year. Added to this fact we can mention the adjustment of social benefits linked to the minimum wage and the early payment of the year-end bonus for INSS beneficiaries and of regular precatórios for 2024, which should cause GDP growth to repeat the pattern of recent years — greater strength in the first half and deceleration in the second half.
- ▶ We recently revised our GDP growth forecast to 2.3% (from 2.0%) in 2024, in light of stronger data at the beginning of the year that seems to be related to payment of court orders (precatórios) and real minimum wage increase.

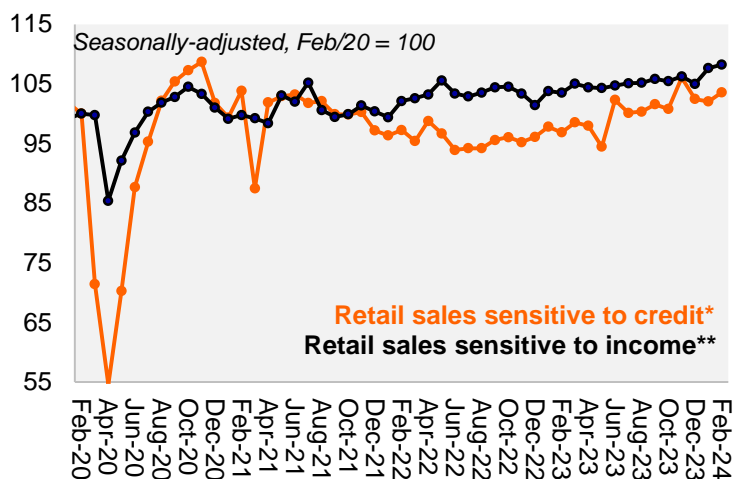
Positive surprises in early 2024, showing a substantial increase in consumer spending

Monthly indicators reported by IBGE, especially for retail and services provided to households, came as a positive surprise at the beginning of the year, showing a strong performance in household consumption in 1Q24.

Core retail sales advanced 2.8% mom/sa in January and 1.0% mom/sa in February, beating analysts’ estimates (+0.2% and -1.5%, respectively). Spending on income-sensitive goods (see chart below) was a positive highlight, rising on average 2.8% in the first two months of 2024 compared to last December. Breaking down by segments, Supermarkets and hypermarkets, Fabric and apparel, and Pharmaceuticals and Other personal care products

delivered the sharpest gains in sales. The category of credit-sensitive goods rose 0.3% between January and February compared to December 2023, driven by Vehicles and Office supplies. We estimate that core retail should have grown by 3.4% in 1Q24.

Income-sensitive retail showed significant growth in the first two months of the year



* Includes: furniture and appliances; auto and parts; construction material; equipment and material for office.
 ** Includes: fuel; supermarkets; apparel, footwear; pharmaceuticals; books/magazines and other personal goods.

Source: IBGE, Itaú

After two relevant months of gains in November and December last year, services provided to households expanded again in February (+0.4% mom/sa). According to our calculations, the segment should have ended the quarter with a positive reading as well (+1.8%).

In this study, we analyzed the hypothesis that the greater-than-expected increase in consumption is associated with the payment of precatórios that had been held back and have been authorized at the turn of 2023 to 2024.

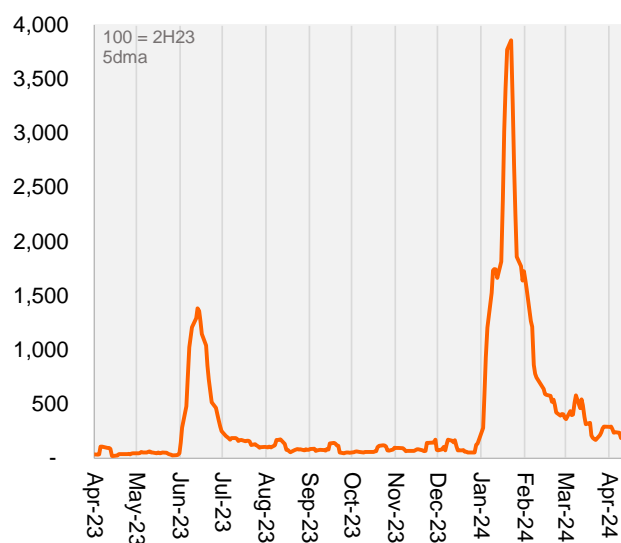
Precatorios were paid at the beginning of the year

Precatorios are payments above 60 minimum monthly wages ordered by the Judiciary Branch that are due once the government is definitely considered the losing party in a legal dispute. The payment of precatórios (STF) had been limited since 2022 by constitutional amendment 113/21 (“PEC dos Precatorios”), but last December, the Federal Supreme Court recognized that the limitation was unconstitutional. In addition to precatórios, there are also small amount requests (RPV), which refer to payment orders of less than 60 minimum wages. We will not address them in this study as they have not undergone any relevant changes in their payment mechanics in recent years.

The STF order prompted the payment of approximately BRL 90 billion to businesses and households, starting in January 2024. The payments are made by the Federal Regional Courts (TRFs), which require some additional time until they can finally make the sums available. Based on the information provided by the TRFs, the credits in favor of the beneficiaries were deposited between January and February.

We also observed in our proprietary data a relevant and above-usual increase in judicial transfers above 60 minimum wages into the accounts of individual Itaú customers starting in late January (see chart), despite the total volume traded in the bank being small compared to the total amount paid.

Increase in court transfers above 60 minimum wages starting in late January



Source: Itaú

Of the BRL 90 billion made available by the federal government, approximately half are preferred precatórios.

The type of precatório should be considered when analyzing the impact on household consumption. Preferred precatórios (lawsuits involving disputes about wages, pensions, retirement, and indemnification for death or disability) are unseizable, tend to have a smaller volume traded on the secondary market and, therefore, can have a greater impact in terms of consumption. Common precatórios (lawsuits involving other disputes such as those relating to expropriations and taxes) can be seized (i.e., they may not be paid but used for a debt rebate) and tend to be received more frequently by businesses, making the assessment of their impact on spending and GDP more complex.

More recently, in March 2024, the federal government also decided to bring forward the payment of approximately BRL 30 billion in regular precatórios planned for this year's budget. According to the schedule to be followed by TRFs, early precatórios were made available in the accounts during March. These precatórios tend to have less significant effects on household income, as they simply involve changing the time when the amounts will be received, having the potential to only change the time period of consumption.

Positive surprises in January and February data may be associated with precatórios

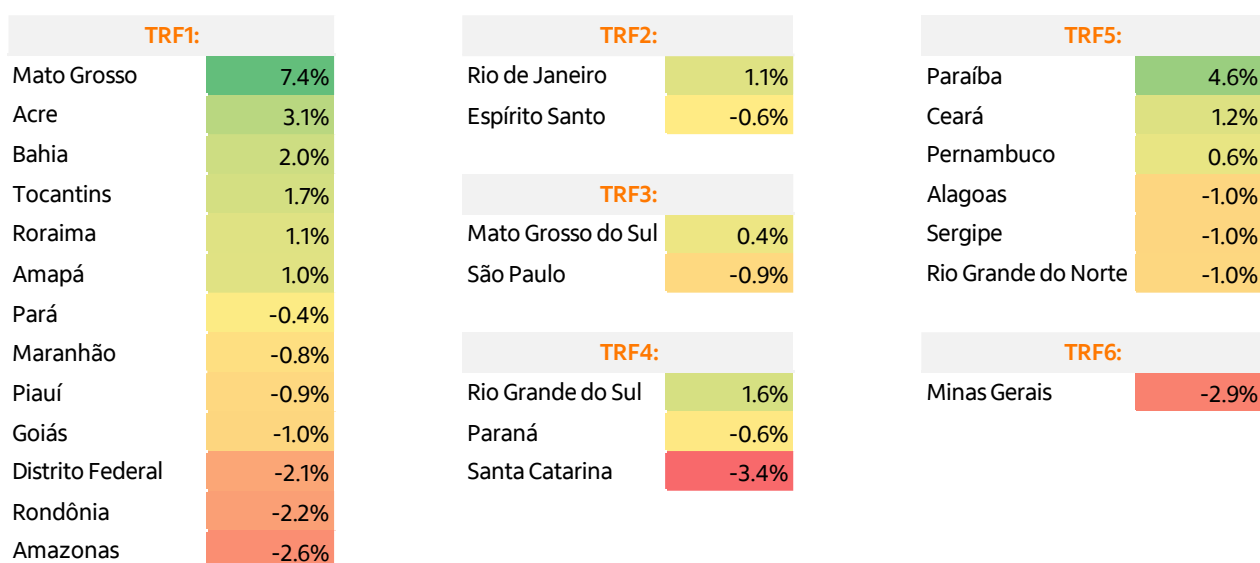
The regional breakdown of growth and the average consumption of households that are Itaú customers and received precatórios suggest that they played a relevant role in the positive surprises with economic activities.

Precatórios were not received uniformly across Brazilian regions (see table). One third was made available by the Federal Regional Court of the 1st region, which represents all the states in the North region of the country, a large part of the Midwest, and some states in the Northeast. TRF1 was followed by two other courts, that of the 2nd Region (Rio de Janeiro and Espírito Santo) and that of the 3rd region (São Paulo and Mato Grosso do Sul).

Precatórios (>BRL60 minimum wage) made available by the federal government in December/23			
States	Regional court	Date of payment	Value (BRL)
(DF, GO, TO, MT, BA, PI, MA, PA, AM, AC, RR, RO, AP)	TRF1	January	30
(RJ e ES)	TRF2	Mid January	20
(SP e MS)	TRF3	Until the end of February	20
(RS, PR e SC)	TRF4	Mid January	13
(PE, CE, AL, SE, RN e PB)	TRF5	January	3.7
(MG)	TRF6	January	2
Total amount			88.7

The Brazilian states with the highest amounts of precatórios received were also those with growth above the country's average in the monthly retail surveys (PMC) of January and February (3.3% in the first two months of 2024 compared to last December). Specifically, the Northern states, which received the largest share of precatórios, were precisely the main positive highlights in the month-over-month change in sales volumes (see table below).

Difference between each state's growth and national average in the 1st bimester vs. Dec/2023

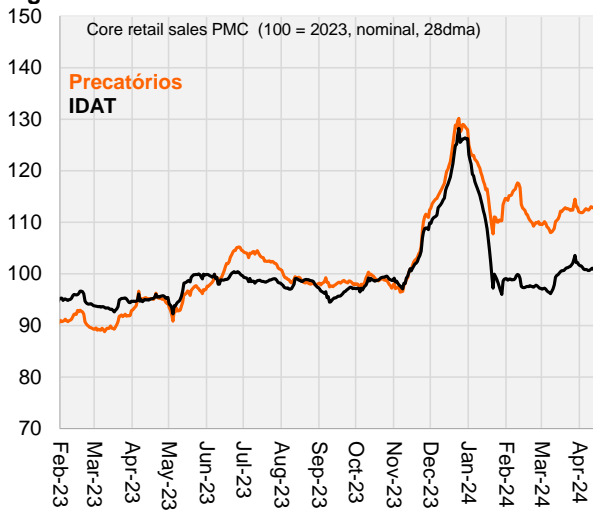


Source: IBGE, Itaú

Additionally, our proprietary data shows that people who received precatórios are consuming around 10% more than those who did not receive them. The chart below compares our IDAT-Activity cards¹ (black line) with the average spending of Banco Itaú account holders who were beneficiaries of precatórios (orange line). In fact, consumer spending increased in core goods as well as services, and has continued until April (last data available on the 13th). We point out that the result should be viewed with caution when extrapolated, given that the graph only shows the behavior of a small portion of the beneficiaries and consumption. Account holders who received precatórios represent only 0.1% of IDAT card spending (therefore, their change in pattern is not covered by the aggregate indicator) and, as mentioned above, a small volume of transfers went through Itaú.

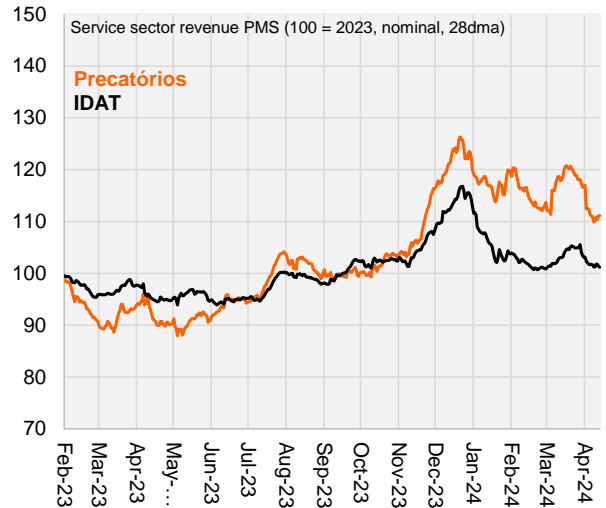
¹ Spending on credit and debit cards only.

Above-average spending by precatório beneficiaries on goods...



Source: Itaú

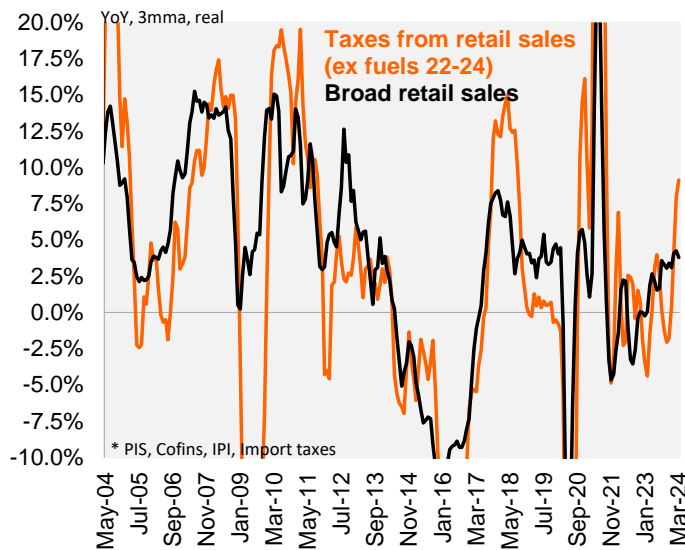
...and services



Source: Itaú

In addition to the above, the collection of federal taxes linked to household consumption remained strong in March, suggesting that retail could keep on surprising the market. Revenues from taxes more frequently levied on retail sales (PIS-Cofins, IPI, and II), excluding the effects of fuel exemptions, increased 9.1% yoy in 1Q24. Part of the increase might be linked to measures taken by the internal revenue service last year to reduce tax compensation. However, when taken together with the other data, the stronger tax collection reaffirms a positive performance by the sector in 1Q24.

Strong start of the year for retail revenues



Source: National Treasury, IBGE, Itaú

Finally, a simplified calculation showed that the surprise in nominal values compared to the consensus for retail sales in January and February was around BRL 15 billion, suggesting that approximately 1/3 of the amounts transferred to households have already been used. Using the latest data available from the Annual Retail Survey (PAC), we found a proxy for the nominal monthly value spent on core retail. Considering the deviation between the actual data and market projections, we estimate that the error in the projections in January and February (minus the standard deviation) was BRL 7.5 billion per month.

Precatorios boost 2024 GDP growth forecast

We estimate an impact of 0.3 p.p. in this year's GDP growth. The effects of the extraordinary payments made available by the federal government at the end of last year and credited to the accounts in the first two months of this year will depend on the beneficiaries' marginal propensity to consume.

The literature is not consensual but suggests low marginal propensity to consume in the face of transitory income shocks. Studies carried out in the United States² estimate a marginal propensity to consume of 21-35%, concentrated in the short term (between 1 and 3 months). Furthermore, the propensity to spend depends on (i) the state of the economy: the higher the unemployment rate, the higher the consumption; and (ii) the size of the shock: the greater the increase in income, the lower the share of spending on goods and services³.

As for Brazil, an analysis performed by the Central Bank (BCB) using withdrawals from inactive FGTS accounts in 2017 showed an increase in consumption of 6-9% in up to six months. Nevertheless, this study has a downward bias in estimating the marginal propensity to consume as it only considers indebted households and credit card expenses.

Therefore, considering only the payment of preferred precatorios authorized in January and February (approximately BRL 45 billion) and a marginal propensity to consume close to 30%, we raised our growth projection in the first half of this year to an average of 0.65% per quarter from 0.55% previously. We believe that most of the effect of precatorios on consumption should be concentrated in the first three months of the year. However, together with the adjustment of social benefits linked to the minimum wage and the early payment of the year-end bonus for INSS beneficiaries and of regular precatorios for 2024, precatorios should cause GDP growth to repeat the pattern of recent years, that is, greater strength in the first half and deceleration in the second half.

We recently revised our GDP growth forecast to 2.3% (from 2.0%) in 2024, in light of stronger data at the beginning of the year that seems to be related to payment of court orders (precatórios) and real minimum wage increase. The stronger performance in the first half followed by a slowdown in the second part of the year leaves a less favorable statistical carryover into 2025. See more details about our scenario review [here](#).

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² For a review, see Sokolova, A. "Marginal Propensity to Consume and Unemployment: a Meta-analysis" Review of Economic Dynamics. 2023.

³ We point out that despite being high, the amount paid in precatorios was concentrated in a low number of households, with a high average amount, which could minimize its impact.

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