

## Retail Sales Back to Pre-Crisis Mark

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- Despite the expectations of a decline in December, data on retail sales released today surprised negatively, pointing to a sharp drop of 3.7% MoM-sa (vs. consensus of -1.0%), the first since April's tumble, but enough to take the index back to the level of February 2020. The core index (which excludes vehicles and building) slumped by 6.1%. Despite the sharp drop at the end of the quarter, broad retail sales ended 2020 posting a quarterly gain of 2.8% QoQ-sa.
- This was a widespread drop, but in the data, we highlight Clothing (-13.3%) and Other Personal Articles (-12.3%), while Supermarkets, which in the past was the main driver of the core index, was virtually stable (-0.3%).
- In terms of outlook, we expect a deterioration in 1Q21 as the fiscal cliff materializes, with an impact especially on the income-led segments, which performed well last year amid a deterioration in the habitual wage bill (which excludes transferences). Regarding GDP, we are keeping our tracking for 4Q20 GDP at 2.7% QoQ-sa. Based mainly on our proprietary coincident indicator (IGet), our tracking for broad retail sales in January 2021 is at -2.9% MoM-sa (-4.0% YoY).

Figure 1 – Retail Sales Breakdown

	Oct-20			Nov-20			Dec-20		
	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ
<b>Core Retail Sales</b>	<b>0.8</b>	<b>8.4</b>	<b>8.3</b>	<b>-0.1</b>	<b>3.5</b>	<b>3.9</b>	<b>-6.1</b>	<b>1.1</b>	<b>-0.2</b>
Fuels	1.1	-5.0	9.9	-0.3	-6.6	6.4	-1.5	-6.6	2.7
Hypermarkets, supermarkets	0.9	7.3	-2.8	-2.7	-1.8	-2.5	-0.3	3.4	-2.1
Fabrics, clothing and footwear	6.9	-2.3	76.2	4.7	-3.5	34.0	-13.3	-9.9	13.9
Furniture and home appliances	-1.9	21.9	13.1	-0.8	18.0	0.5	-3.7	2.9	-3.4
Pharmaceutical	2.3	14.0	8.4	2.6	11.8	6.6	-1.6	13.8	4.7
Books, papers and magazine	4.3	-34.5	10.1	4.1	-15.5	1.7	-2.7	-37.5	1.9
Office equipment and supplies	2.8	-10.3	12.8	0.3	-10.7	5.0	-6.8	-12.3	0.7
Others	1.8	18.4	23.6	1.4	16.2	9.0	-13.8	1.6	0.2
<b>Broad Retail Sales</b>	<b>1.8</b>	<b>6.1</b>	<b>13.9</b>	<b>0.3</b>	<b>4.1</b>	<b>7.4</b>	<b>-3.7</b>	<b>2.5</b>	<b>2.8</b>
Building material	-3.2	20.9	9.6	-2.2	16.9	1.6	-1.8	18.9	-3.4
Vehicles	4.6	-5.8	31.3	3.4	0.9	19.5	-2.6	1.8	12.4

Sources: IBGE, Santander.

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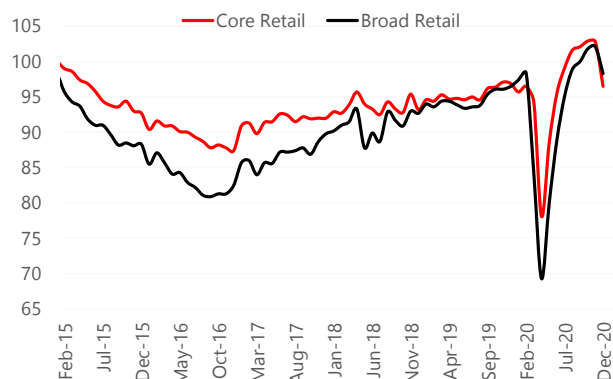
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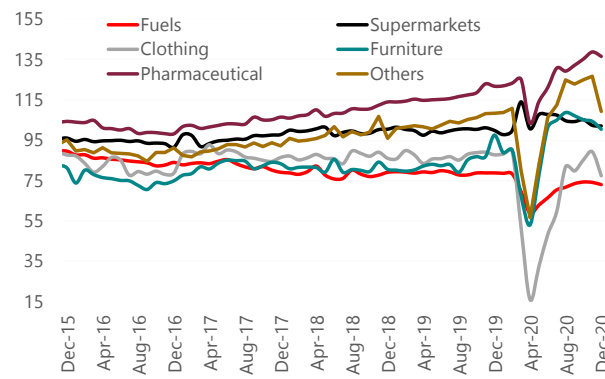
Retail activity data released today reinforced the signs of adjustment seen in November, and despite the expectations of a decline in December, the index surprised negatively, pointing to a steep drop of 3.7% MoM-sa (2.5% YoY), well below market consensus of -1.0%. This was the first decline since April's tumble, but was enough to take the index back levels seen in February (pre-crisis mark). Regarding the core index (which excludes building materials and vehicles), there was a sharp decrease of 6.1%, the worst in the historical series before 2020. A drop was expected, since the substantial increase seen in the previous months was a consequence of the massive (temporary) income transfers program. Indeed, we believe the reduced paycheck value from September onward, the decrease in consumer confidence, the poor employment outlook, and the beginning of the economy's reopening (shifting demand from goods toward services) were reasons to expect a cooling down in retail sales at some point.

**Figure 2.A – Retail Sales (sa, 2014=100)**



Sources: IBGE, Santander.

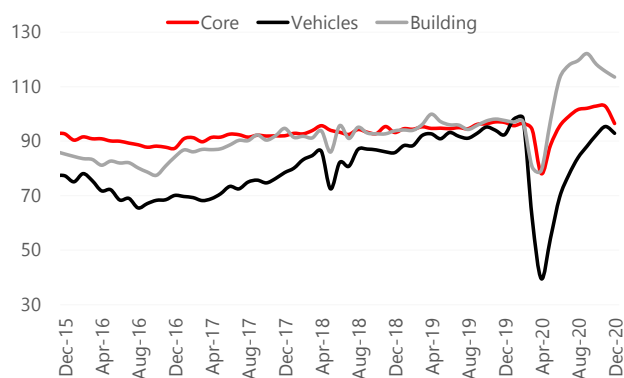
**Figure 2.B – Core Retail Sales (sa, 2011=100)**



Sources: IBGE, Santander.

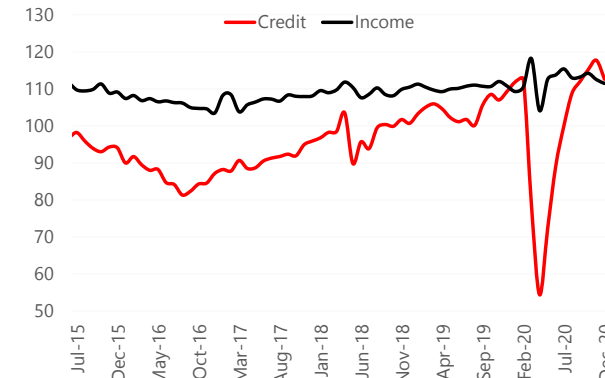
Among the categories, the drop was widespread: all the sectors posted sequential declines, with December's result stemming from Clothing (-13.3%) and Other Personal Articles (-13.8%), while Supermarkets, which in the past was the main driver of the core index, was virtually stable (-0.3%). Furniture and Building materials, after reaching all-time highs in recent months (on the heels of the improvement in the real estate market), each ended 4Q20 with a quarterly decrease of -3.4%, likely reflecting the reversion of household consumption toward the pre-pandemic pattern, with less time spent at home and with demand shifting from goods to services following the economy's reopening. Despite these decreases at the margin, Furniture (+11.4%) and Building (+16.8%) are still far above the pre-crisis mark.

**Figure 3.A – Broad Retail Sales (sa, 2014=100)**



Sources: IBGE, Santander.

**Figure 3.B – Sensitivity Analysis (sa, 2011=100)**



Sources: IBGE, Santander.



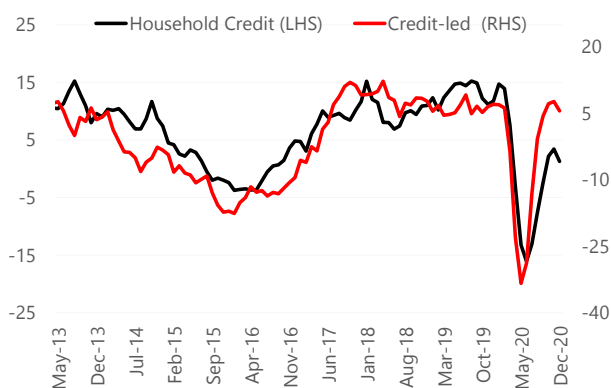
In a sensitivity analysis, the effect of income transfers is easier to see. Along with social distancing measures, the massive government transfers have resulted in a clear pattern for household spending in recent months. In retail, sales in the income-led segments (such as Supermarkets and Pharmaceuticals) fell significantly less than sales in the credit-led segments (e.g., Vehicles). In comparison with February (pre-crisis), the index in April (worst month of the crisis) for sales associated with credit concessions was -51.4%, vs. -5.4% for income-related sales. Now, with this sharp drop, the credit index was taken back to the pre-crisis mark (above 6.6% in November), while the income index is now running a slight 0.9% above it (above 2.1% in November). In terms of outlook, we expect sales in credit-led segments to benefit from lower interest rates in 2021, partially mitigating the effect of the fiscal cliff, while the reduction in disposable income should be a strong headwind for sales in income-led segments, in our view.

**Figure 4 – Recovery Breakdown**

	Dec-20	MoM %	YoY %	Feb-20 % Chg	2020%
<b>Core Retail Sales</b>		<b>-6.1</b>	<b>1.1</b>	<b>0.0</b>	<b>1.2</b>
Fuels		-1.5	-6.6	-6.8	-9.7
Hypermarkets, supermarkets		-0.3	3.4	2.3	4.8
Fabrics, clothing and footwear		-13.3	-9.9	-13.5	-22.7
Furniture and home appliances		-3.7	2.9	11.4	10.6
Pharmaceutical		-1.6	13.8	10.8	8.3
Books, papers and magazine		-2.7	-37.5	-34.2	-30.6
Office equipment and supplies		-6.8	-12.3	-8.7	-16.2
Others		-13.8	1.6	-1.4	2.5
<b>Broad Retail Sales</b>		<b>-3.7</b>	<b>2.5</b>	<b>-0.1</b>	<b>-1.5</b>
Building material		-1.8	18.9	16.8	10.8
Vehicles		-2.6	1.8	-5.7	-13.7

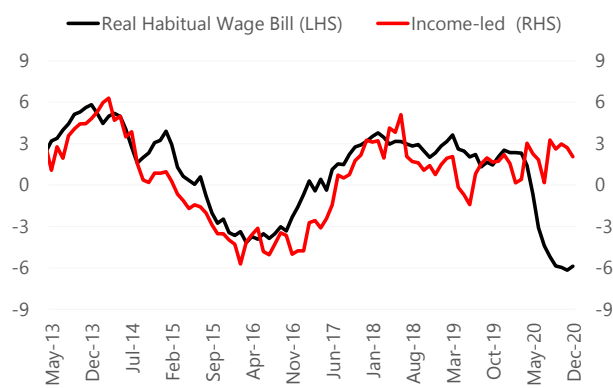
Sources: IBGE, Santander.

**Figure 5.A – Retail and Credit (3mma YoY%)**



Sources: IBGE, Santander.

**Figure 5.B – Retail and Real Wage Bill (3mma YoY%)**



Sources: IBGE, Santander.

After a favorable start to the sequence of fourth quarter releases, the sharp drop in December had a substantial impact on quarterly gains, with broad retail sales posting a gain of 2.8% QoQ-sa (well below the carryover of 4.5% calculated with November's figure). On Friday (February 12), the BCB will release the IBC-Br for December, capping the batch of the economic indexes releases for 2020, and we are updating our projection from 0.8% MoM-sa to 0.6% MoM-sa. Regarding GDP, we are keeping our tracking for 4Q20 at 2.7% QoQ-sa. In terms of outlook, we expect a retail sales deterioration in 1Q21 as the fiscal cliff materializes, with an impact especially on the income-led segments, which performed well last year amid a deterioration in the habitual wage bill (which excludes transferences). Based mainly on our proprietary coincident indicator (IGet), our tracking for retail sales in January 2021 is at -2.9% MoM-sa (-4.0% YoY).



Figure 6 – “Heatmap” Showing Retail Sales by Component

Retail Sales (% 3MMA sa)												
	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
<b>Core Retail Sales</b>	-0.24	-0.21	-0.90	-6.14	-2.98	0.46	8.01	4.63	2.23	1.25	0.39	-1.82
Fuels	-0.08	-0.21	-3.95	-8.70	-7.45	-1.57	6.11	4.40	3.36	1.81	1.09	-0.23
Hypermarkets, supermarkets	-0.86	-0.47	4.77	0.93	2.54	-1.95	2.15	-0.96	-1.09	-0.73	-0.73	-0.71
Fabrics, clothing and footwear	-0.26	0.15	-13.63	-31.49	-36.41	-3.30	45.13	35.38	16.60	11.61	3.00	-0.94
Furniture and home appliances	0.70	1.21	-10.95	-14.54	-5.94	17.22	22.40	10.95	1.84	0.06	-1.37	-2.11
Pharmaceutical	0.94	0.08	0.93	-4.99	-2.59	-1.17	8.06	4.12	2.88	1.15	2.39	1.08
Office equipment and supplies	0.87	7.11	-13.34	-26.76	-33.90	-2.56	34.43	14.02	1.60	-4.95	5.32	1.79
Books, papers and magazine	-2.29	-3.12	-6.64	-14.01	-11.19	0.70	15.60	8.71	2.96	0.81	1.16	-1.28
Others	0.81	0.83	-8.72	-17.43	-11.36	12.14	22.74	13.99	4.80	3.50	0.48	-3.63
<b>Broad Retail Sales</b>	0.45	0.79	-4.21	-10.04	-7.30	2.01	10.83	7.16	3.92	2.28	1.06	-0.56
Building material	-0.14	-0.31	-5.83	-6.44	0.08	12.59	13.29	6.73	2.60	0.11	-1.08	-2.42
Vehicles	1.03	1.58	-10.55	-22.67	-22.11	4.82	23.35	14.70	8.14	5.89	4.35	1.70

Sources: IBGE, Santander.



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