

Sharp Decline at the Start of 1Q21

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- According to data released today, broad retail sales decreased 2.1% MoM-sa in January (market median consensus: +0.2%), on a depressed base of comparison, following December's sharp fall (-3.1%). Regarding core retail sales (excluding auto and construction materials), the index was down 0.2% MoM-sa (market median: 0.0%).
- This decline was widespread across segments. Sales retreated in six of the ten segments that form broad retail sales. January's figure stemmed mainly from Clothing (down 8.2%), Furniture (down 5.9%), and Vehicles (down 3.6%).
- Going forward, we expect a quarterly deterioration of the tertiary sector in 1Q21, as the fiscal cliff materializes and given the setback in the economy's reopening process following the pandemic's resurgence. Our current estimate for 1Q21 GDP is -0.4% QoQ-sa.

Figure 1 – Retail Sales Breakdown

	Nov-20			Dec-20			Jan-21		
	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ
Core Retail Sales	-0.1	3.5	4.0	-6.2	1.3	-0.1	-0.2	-0.3	-3.6
Fuels	-0.3	-6.6	6.3	-1.5	-6.5	2.7	-0.1	-8.2	0.3
Hypermarkets, supermarkets	-2.9	-1.8	-2.7	-0.3	3.4	-2.3	-1.6	1.4	-3.2
Fabrics, clothing and footwear	4.6	-3.5	33.5	-13.2	-9.1	13.5	-8.2	-21.1	-3.9
Furniture and home appliances	-2.4	18.0	-3.3	-3.6	2.6	-6.8	-5.9	-5.4	-9.8
Pharmaceutical	2.6	11.8	6.7	-1.3	14.1	4.9	2.6	13.0	5.0
Books, papers and magazine	4.1	-15.5	1.9	-2.7	-37.5	2.0	-26.5	-53.2	-1.7
Office equipment and supplies	0.4	-10.7	4.9	-6.4	-11.7	0.9	2.2	-13.0	-1.2
Other	1.5	16.2	9.3	-13.4	1.6	0.7	8.3	9.8	-4.4
Broad Retail Sales	0.5	4.1	7.3	-3.1	2.8	3.0	-2.1	-2.9	-0.9
Building Materials	-2.1	16.9	1.9	-1.6	19.2	-3.1	0.3	12.3	-4.4
Vehicles	3.2	0.9	18.8	-3.3	2.3	11.6	-3.6	-15.4	4.3

Sources: IBGE, Santander.

Retail activity surprised negatively for the second month in a row. Broad retail sales decreased 2.1% MoM-sa in January (market median: +0.2%), the second sharp consecutive decline following December's steep drop (-3.1%), accumulating a contraction of ~5% in December and January. Regarding core retail sales (which excludes auto and building materials), the index was down 0.2% MoM-sa (market median), after the steep decline of 6.2% seen in the previous month.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

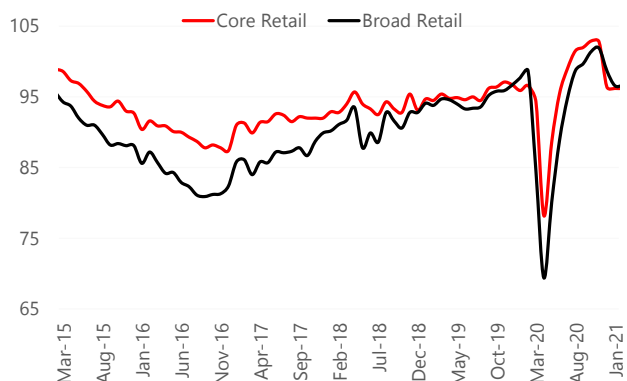
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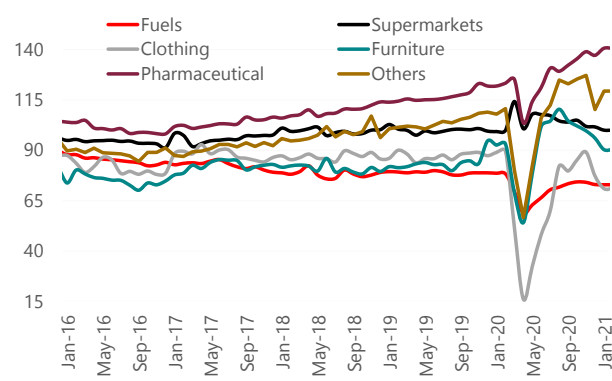
The previous path of recovery of retail sales was not sustainable, in our view. Despite the slightly positive monthly expectations for January, we think there were reasons to expect a cooling down in retail sales, as the substantial increase seen in 2H20 was a consequence of the massive (temporary) income 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.

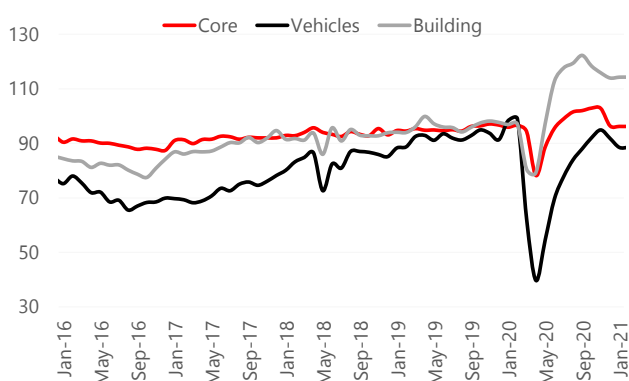
Figure 2.B – Core Retail Sales (sa, 2011=100)



Sources: IBGE, Santander.

Among the categories, the drop was widespread. Sales retreated in six of the ten segments that form broad retail sales. January's negative figure stemmed mainly from Clothing (down 8.2%), Furniture (down 5.9%), and Vehicles (down 3.6%). Other Personal Articles contributed positively (up 8.3%), almost fully giving back the sharp previous decline. Furniture and Building Materials are pointing to a downward trend. After reaching all-time highs in recent months (on the heels of the improvement in the real estate market), we think these categories are 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. In comparison with the pre-pandemic period (February 2020), only four of the segments are still above that reading.

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



Sources: IBGE, Santander.

Figure 3.B – Recovery Breakdown

	Jan-21	MoM %	YoY %	Feb-20 % *
Core Retail Sales		-0.2	-0.3	-0.4
Fuels		-0.1	-8.2	-6.9
Hypermarkets, supermarkets		-1.6	1.4	0.1
Fabrics and clothing		-8.2	-21.1	-20.8
Furniture and home appliances		-5.9	-5.4	-3.0
Pharmaceutical		2.6	13.0	14.0
Books, papers and magazine		-26.5	-53.2	-51.6
Office equipment and supplies		2.2	-13.0	-6.4
Other		8.3	9.8	7.9
Broad Retail Sales		-2.1	-2.9	-2.1
Building material		0.3	12.3	17.7
Vehicles		-3.6	-15.4	-10.6

Sources: IBGE, Santander.
* Variation relative to February 2020

Weak start for broad retail sales in 1Q21 likely to contribute to a decline in GDP this period, in our view. After showing solid growth in 4Q20, broad retail sales began the quarter with a weak figure, in line with our scenario of deterioration of the tertiary sector as the fiscal cliff materializes and given the setback in the economy's reopening following the pandemic's resurgence. The first month's result implies a carryover of -4.0% for 1Q21, reinforcing the likelihood of a sequential decline in GDP for 1Q21. Our estimate is -0.4% QoQ-sa.



Figure 4 – “Heatmap” Showing Retail Sales by Component

Retail Sales (% 3MMA sa)												
	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21
Core Retail Sales	-0.17	-0.83	-6.17	-2.97	0.46	7.93	4.56	2.20	1.29	0.42	-1.82	-2.22
Fuels	-0.21	-3.95	-8.70	-7.45	-1.57	6.11	4.40	3.31	1.81	1.09	-0.18	-0.63
Hypermarkets, supermarkets	-0.30	4.92	0.45	2.54	-2.01	2.06	-1.02	-1.16	-0.73	-0.86	-0.77	-1.59
Fabrics, clothing and footwear	0.30	-13.39	-31.61	-36.38	-3.49	45.29	35.37	16.56	11.41	2.83	-0.94	-5.64
Furniture and home appliances	3.62	-9.16	-15.11	-6.75	16.31	21.48	11.16	0.88	-0.75	-3.37	-2.81	-3.93
Pharmaceutical	0.05	0.90	-4.94	-2.58	-1.17	7.99	4.10	2.89	1.20	2.44	1.21	1.26
Office equipment and supplies	7.09	-13.38	-26.80	-33.86	-2.87	34.48	13.92	1.71	-4.95	5.43	1.79	-8.37
Books, papers and magazine	-3.07	-6.64	-14.13	-11.24	0.76	15.60	8.66	2.87	0.77	1.21	-1.06	-1.34
Others	0.71	-8.92	-17.20	-11.34	12.15	22.72	14.00	4.86	3.58	0.62	-3.41	-1.63
Broad Retail Sales	0.96	-4.16	-10.07	-7.36	1.88	10.65	7.05	3.82	2.25	1.07	-0.33	-1.59
Building material	-0.38	-5.90	-6.41	0.04	12.57	13.27	6.77	2.72	0.19	-0.97	-2.33	-1.18
Vehicles	1.87	-10.08	-22.58	-22.15	4.73	23.26	14.56	7.96	5.69	4.17	1.38	-1.26

Sources: IBGE, Santander.



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