

A Strong February Precedes a Worrisome March

Lucas Maynard*
 lucas.maynard.da.silva@santander.com.br
 +5511 3553 7495

- According to data released today, broad retail sales surprised positively, increasing **4.1% MoM-sa in February (market median consensus: +1.8%)**, after two declines in a row. Regarding core retail sales (excluding auto and construction materials), the index was up 0.6% MoM-sa (market median: 0.7%). Both indexes are above the pre-pandemic mark (February 2020).
- February's figure was mainly driven by sales in the credit-led segments. Furniture and Vehicles stood out by increasing 9.3% and 8.8%, respectively. Clothing posted a sharp increase (7.8%). In the details, six of the ten segments that form broad retail sales showed monthly growth.
- Looking ahead, we expect a sharp quarterly deterioration of retail sales in 1Q21, as the fiscal cliff materializes and given the setback in the economy's reopening process following the pandemic's resurgence. Based on our proprietary index for retail sales (IGet), our tracking for broad retail sales in March is at -12.8% MoM-sa.
- We forecast stable 1Q21 GDP (+0.2% QoQ-sa). The pandemic's upsurge was more intense in March, which led to the adoption of tighter social distancing measures on a national basis and hard-hitting segments of the tertiary sector. Even considering this scenario, we expect stable 1Q21 GDP, but with a sequential deterioration in 2Q21 (-0.6% QoQ-sa).

Figure 1 – Retail Sales Breakdown

	Dec-20			Jan-21			Feb-21		
	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ
Core Retail Sales	-6.1	1.3	0.0	-0.2	-0.3	-3.4	0.6	-3.9	-5.8
Fuels	-1.5	-6.5	2.7	0.3	-7.8	0.5	-0.4	-10.3	-1.2
Hypermarkets, supermarkets	-0.3	3.4	-2.3	-2.1	1.2	-3.3	0.8	-4.6	-3.0
Fabrics, clothing and footwear	-13.3	-9.1	13.5	-8.3	-21.3	-3.9	7.8	-18.6	-11.6
Furniture and home appliances	-2.4	2.6	-4.9	-11.0	-5.2	-9.3	9.3	0.6	-8.2
Pharmaceutical	-1.4	14.1	4.8	2.4	12.9	4.9	-0.2	8.9	2.7
Books, papers and magazine	0.0	-37.5	4.0	-25.7	-53.2	1.0	15.4	-41.0	-9.5
Office equipment and supplies	-5.9	-11.7	2.4	2.3	-13.5	-0.4	-0.4	-10.7	-3.3
Other	-13.1	1.6	0.4	7.6	9.8	-4.7	-0.5	2.0	-7.5
Broad Retail Sales	-3.1	2.8	3.2	-2.2	-3.1	-0.8	4.1	-1.9	-2.4
Building Materials	-1.6	19.2	-2.8	0.1	11.1	-4.2	2.0	17.9	-3.2
Vehicles	-2.7	2.3	12.0	-4.3	-15.5	4.5	8.8	-3.8	0.7

Sources: IBGE, Santander.

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

U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629 / (212) 350-3918.

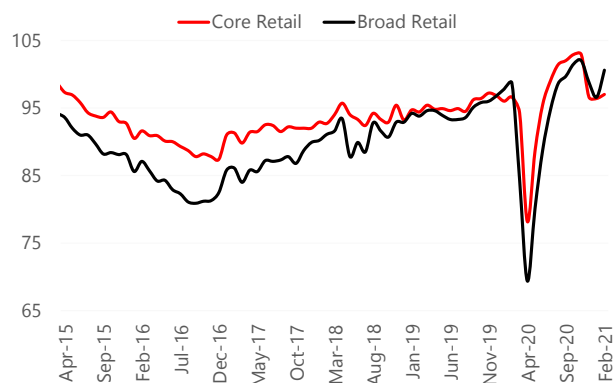
* Employed by a non-US affiliate of Santander Investment Securities, Inc. and is not registered/qualified as a research analyst under FINRA rules.



Retail activity strongly increased 4.1% MoM-sa this month, positively surprising expectations (market consensus 1.8%). After cumulating a contraction of ~5% from December to January, broad retail sales showed a rebound in February, but not enough to fully offset the previous steep declines. Regarding core retail sales (which excludes auto and building materials sales), the index was up 0.6% MoM-sa (market median: 0.7%). In comparison to the pre-pandemic period (February 2020), broad and core retail sales are 0.4% and 1.9% above this mark, respectively.

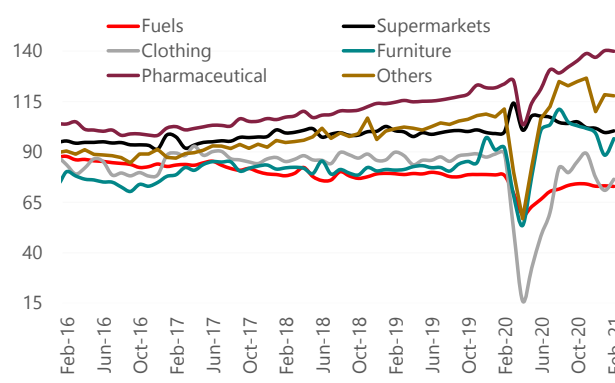
This increase was relatively widespread across segments. Sales climbed in six of the ten segments that form broad retail sales. Furniture and Vehicles stood out by increasing 9.3% and 8.8%, respectively, while Clothing posted a sharp increase (7.8%). In the details, regarding the pandemic's impact, half of the segments are still running above pre-pandemic readings. Furniture and Building materials, even losing momentum in the last months, are 4.9% and 20.8%, respectively, above this mark.

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



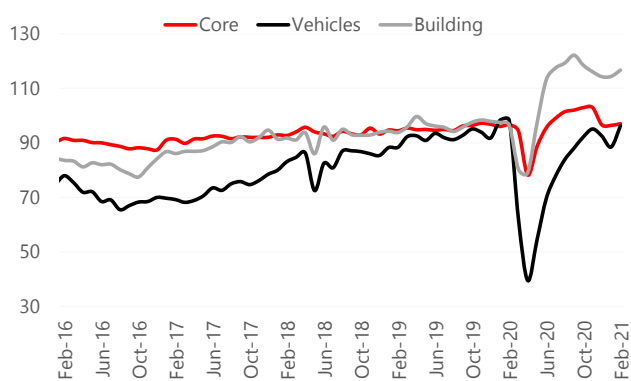
Sources: IBGE, Santander.

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



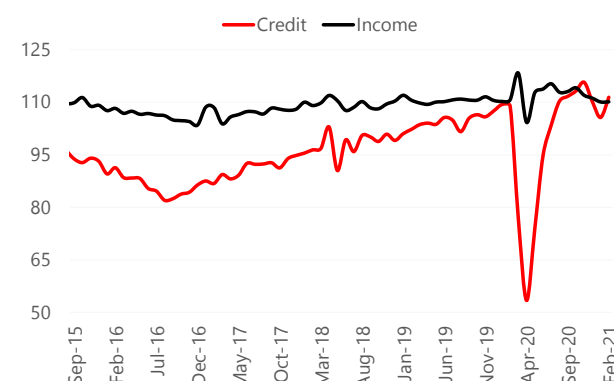
Sources: IBGE, Santander.

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

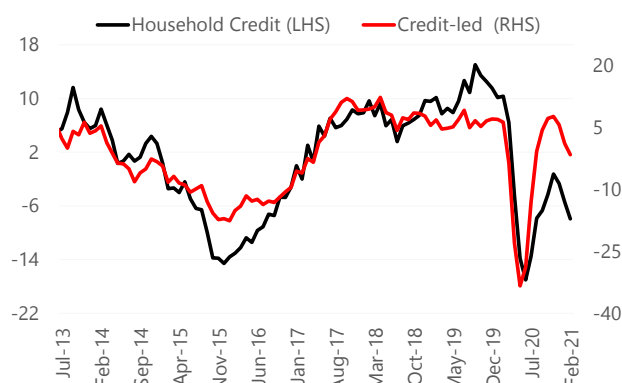


Sources: IBGE, Santander.

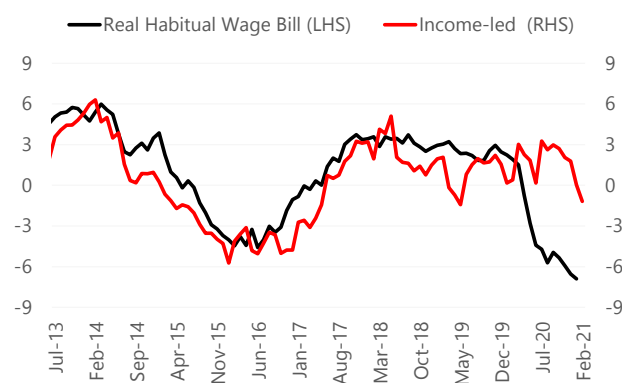
Figure 3.B – Sensitivity Analysis (sa, 2011=100)



Sources: IBGE, Santander.


Figure 4.A – Household Credit x Credit-led segments (3mma, YoY%)


Sources: IBGE, Santander.

Figure 4.B – Real Wage Bill x Income-led segments (3mma, YoY%)


Sources: IBGE, Santander.

February's figure stems mainly from the credit-led segments. In a sensitivity analysis, sales in the credit-led segments were up by 5.5%, likely reflecting the sequential increase of household's credit granting (+5.8% MoM-sa, inflation adjusted) this month. Sales in the income-led segments were stable (+0.1%). 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.

Looking ahead, we expect a quarterly deterioration of retail sales in 1Q21. As the fiscal cliff materializes and given the setback in the economy's reopening process following the pandemic's resurgence, we should expect a weak quarterly figure for retail sales at the start of 2021. Indeed, based on our proprietary index for retail sales (IGet), our tracking for broad retail sales in March is at -12.8% MoM-sa. [See link below](#)¹.

We forecast a stable GDP in 1Q21 (+0.2% QoQ-sa). The upsurge in the pandemic was more intense in March, which led to the adoption of tighter social distancing measures on a national basis and tertiary sectors being hard hit. Even considering this scenario, we expect stable 1Q21 GDP, but with sequential deterioration in 2Q21 (-0.6% QoQ-sa). **For details on Santander's economic forecasts, please refer to our last scenario review**².

Figure 5 – "Heatmap" Showing Retail Sales Trend 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	Feb-21
Core Retail Sales	-0.21	-0.86	-6.20	-2.97	0.46	7.93	4.52	2.20	1.29	0.49	-1.75	-2.15	-1.99
Fuels	-0.17	-3.90	-8.65	-7.49	-1.62	6.05	4.35	3.31	1.76	1.14	-0.18	-0.45	-0.54
Hypermarkets, supermarkets	-0.33	4.89	0.54	2.51	-2.01	2.02	-0.99	-1.13	-0.73	-0.83	-0.77	-1.72	-0.53
Fabrics, clothing and footwear	0.11	-13.44	-31.71	-36.24	-3.50	45.45	35.37	16.56	11.41	2.87	-0.94	-5.68	-5.39
Furniture and home appliances	2.71	-10.17	-14.90	-6.68	16.06	21.55	11.84	1.33	-0.16	-2.98	-1.81	-4.80	-1.76
Pharmaceutical	0.16	0.95	-4.91	-2.69	-1.19	7.99	4.07	2.86	1.15	2.45	1.18	1.22	0.26
Office equipment and supplies	5.89	-14.43	-28.23	-33.08	-3.38	35.00	14.07	1.95	-4.56	5.78	3.05	-7.35	-5.18
Books, papers and magazine	-2.50	-8.95	-15.41	-13.46	3.17	16.20	9.31	3.68	1.53	1.59	-0.74	-1.18	-1.42
Others	1.02	-8.76	-16.93	-11.48	12.02	22.63	13.95	4.74	3.44	0.46	-3.42	-1.80	-2.48
Broad Retail Sales	0.93	-4.23	-10.11	-7.37	1.88	10.62	7.02	3.86	2.32	1.13	-0.30	-1.62	-0.47
Building material	-0.61	-6.03	-6.71	0.23	12.82	13.26	6.74	2.57	0.28	-0.89	-2.21	-1.18	0.17
Vehicles	1.55	-10.33	-22.74	-21.97	4.87	23.43	14.62	8.00	5.76	4.24	1.60	-1.32	0.43

Sources: IBGE, Santander.

¹ Santander Brazil Economic Activity - "IGET – Março 2021: Um forte impacto no final do trimestre" – April 12, 2021 - Available (in Portuguese) on: <http://bit.ly/Std-igt-mar21>

² Santander Brazil - Macroeconomic Scenario: "Anchoring Power Is Dwindling" – April 1, 2021 - Available on: <http://bit.ly/Std-scenario-Apr21>



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Credit	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	jcerruti@santander.com.ar	54 11 4341 1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Henrique Navarro*	Head, Brazil	havieira@santander.com.br	5511-3012-5756

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Lucas Maynard*.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2021 by Santander Investment Securities Inc. All Rights Reserved.