

MIXED SIGNALS IN RETAIL AT THE START OF 4Q22

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- **Broad retail sales inched up 0.5% MoM-sa (+0.3% YoY) in October, below market consensus of +0.5% MoM-sa (+0.8% YoY) and our estimate of +0.8% MoM-sa (+1.1% YoY).** Meanwhile, core retail sales (which excluded building materials and vehicles sales) inched up 0.4% MoM-sa (+2.7% YoY), slightly above consensus of +0.3% MoM-sa (2.4% YoY) and our estimate of 0% MoM-sa (2.0% YoY). In comparison with the pre-pandemic benchmark (February 2020), broad retail sales remain down 0.9%, while core retail sales are up 3.4%. The statistical carryovers calculated to 4Q22 are 1.5% QoQ-sa and 1.2% QoQ-sa for broad and core retail, respectively, but we caution readers about the high volatility of seasonal adjustments seen in the recent period.
- **The details continued to bring mixed signals across sectors, since five of the ten retail activities expanded at the margin.** On the one hand, furniture (+2.5% MoM-sa) and other personal items (+2.0% MoM-sa) stood out, while supermarkets (+0.2% MoM-sa) and fuels (+0.4% MoM-sa) continued to show resilience, with the latter still reflecting significant deflation due to the recent tax cuts. Conversely, we draw attention to important retail activities weakening at the margin: clothing (-3.4% MoM-sa), building materials (-3.5% MoM-sa), and vehicles (-1.7% MoM-sa) were the lowlights. In broad terms, these figures reflect some support for household income (owing to a labor income recovery, government transfers, and tax cuts), while at the same time tightening financial conditions continue to hit credit-led activities.
- **November's available data point to a weak performance in the month.** According to FGV surveys (soft data), consumer confidence shrank to 85.3 points (from 88.6), while retail confidence tumbled to 87.2 points (from 98), both considerably below the 100 points neutral threshold. Our proprietary IGet data for core retail sales increased slightly by 0.2% MoM-sa, breaking a discouraging streak of seven consecutive declines but still showing a tepid performance. In 4Q22 we expect retail activity to repeat the poor performance seen in the previous quarter, with diverging figures between income-led segments (supported by labor income recovery and government transfers) and credit-led segments (weakened by tight financial conditions).
- **We are maintaining our IBC-Br tracking for October at +0.5% MoM-sa (we expect the series to be significantly revised, as usual after 3Q GDP releases).** Our 4Q22 GDP growth tracking was also maintained, at 0% QoQ-sa.



Figure 1 – Retail Sales Details

Retail Sales Breakdown											
Weights	% MoM			% YoY			% QoQ			%	
	Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22	Jun-22	Sep-22	Oct-22	Feb-20*	
66.9%	Core Retail Sales										
8.3%	Fuels	4.0	1.3	0.4	30.3	34.7	34.2	7.3	16.7	13.4	19.3
30.6%	Hypermarkets, supermarkets	0.3	1.3	0.2	1.4	3.8	2.6	0.3	0.4	0.8	4.2
6.2%	Fabrics, clothing and footwear	11.4	-2.2	-3.4	-5.5	-9.5	-14.8	1.8	-11.4	-5.0	-21.4
7.4%	Furniture and home appliances	1.2	-0.1	2.5	-8.7	-6.1	-0.5	0.9	-3.9	-0.3	-14.3
5.1%	Pharmaceuticals	-0.3	0.6	-0.4	6.6	5.8	5.2	-1.3	-0.6	-1.3	20.0
0.9%	Books, papers and magazine	2.8	1.9	-3.8	20.5	31.0	13.6	18.6	0.7	0.5	-35.0
0.6%	Office equipment and supplies	-1.4	2.0	2.0	2.0	7.0	8.1	2.3	-1.9	-0.7	-9.9
7.8%	Other personal items	-1.1	-0.9	2.0	-10.5	-10.1	-8.5	-3.6	-3.5	-2.0	-2.7
100%	Broad Retail Sales										
8.9%	Building Materials	-0.9	-0.6	-3.5	-7.0	-8.2	-12.7	-3.9	-4.3	-4.3	-3.1
24.2%	Vehicles	5.0	0.1	-1.7	-4.1	-1.2	-0.7	-0.2	-2.2	1.3	-9.4

*We set our pre-pandemic period at February 2020. Sources: IBGE, Santander.

Retail activity inched up at the beginning of 4Q22. Following September's positive figures, broad retail sales inched up 0.5% MoM-sa (+0.3% YoY) in October, slightly below market consensus of +0.5% MoM-sa (+0.8% YoY) and our estimate of +0.8% MoM-sa (+1.1% YoY), recording the third non-negative print in a row. Meanwhile, core retail sales (which excluded building materials and vehicles sales) inched up 0.4% MoM-sa (+2.7% YoY), slightly above consensus of +0.3% MoM-sa (2.4% YoY) and our estimate of 0% MoM-sa (2.0% YoY), marking a positive streak of three consecutive gains. In comparison with the pre-pandemic benchmark (February 2020), broad retail sales remain down 0.9%, while core retail sales are up 3.4%. The statistical carryovers calculated to 4Q are 1.5% QoQ-sa and 1.2% QoQ-sa for broad and core retail, respectively, but we cautious readers about the high volatility of seasonal adjustments seen in the recent period.

Despite the positive headline figures, we see a mixed bag across sectors. Furniture (+2.5% MoM-sa) and other personal items (+2.0% MoM-sa) stood out in October, with the former posting a positive streak since July and with the latter rebounding after seven consecutive declines. Supermarkets (+0.2% MoM-sa) and fuels (+0.2% MoM-sa) continued to show resilience, with the latter still reflecting significant deflation due to the recent tax cuts, while pharmaceuticals inched down (-0.4% MoM-sa), continuing their flattening trend of recent months. Conversely, we draw attention to important retail activities significantly weakening at the margin, with clothing (-3.4% MoM-sa), building materials (-3.5% MoM-sa), and vehicles (-1.7% MoM-sa) as the lowlights. In comparison with pre-pandemic readings, we also see a mixed bag: fuels (up 19.3%), supermarkets (up 4.2%), and pharmaceutical products (up 20.8%) were the highlights, while vehicles (down 9.4%), clothing (down by 21.4%), and furniture (down 14.3%) remain the lowlights. Moreover, in our sensitive analysis, both income-led segments (+0.3% MoM-sa) and credit-led segments (+1.7% MoM-sa) continued to expand.

We continue to see a poor performance for retail activity in 4Q22. Indeed, November's available data corroborates our view: according to FGV surveys (soft data), consumer confidence shrank to 85.3 points (from 88.6), while retail confidence tumbled to 87.2 points (from 98), both considerably below the 100 points neutral threshold. Our proprietary IGet¹ data for core retail sales increased slightly by 0.2% MoM-sa, breaking a discouraging streak of seven consecutive declines but still showing a tepid performance. All in all, the strong performance of retail activity in 1H22 reflected (i) a recovery in labor income, (ii) fiscal stimuli, and (iii) savings spending amid the economy's reopening. Looking ahead, we expect the poor performance to be repeated in 4Q22, reflecting a divergence between income-led segments (supported by income recovery and government transferences) and credit-led segments (weakened by tight financial conditions).

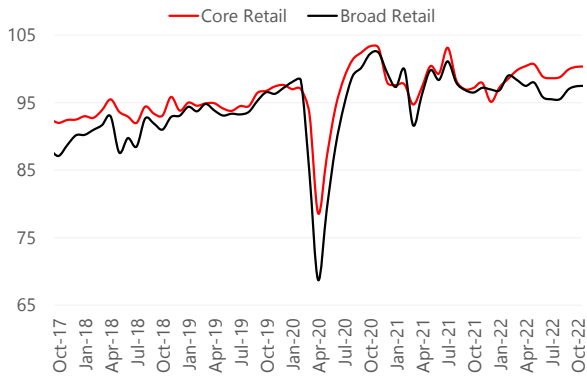
¹ Santander Brazil Economic Activity: "IGet: Varejo segue fraco em novembro" – December 6, 2022 – Available on: <https://bit.ly/Std-IGET-nov22>.



We are raising our September IBC-Br to 0.1% MoM-sa (from 0% MoM-sa previously). We are maintaining our 3Q22 GDP growth tracking at +0.8% QoQ-sa (+4.1% YoY), imparting slight upside risks to our current 2022 GDP forecast (+2.8%). For 2023, we forecast GDP growth of +0.7%.

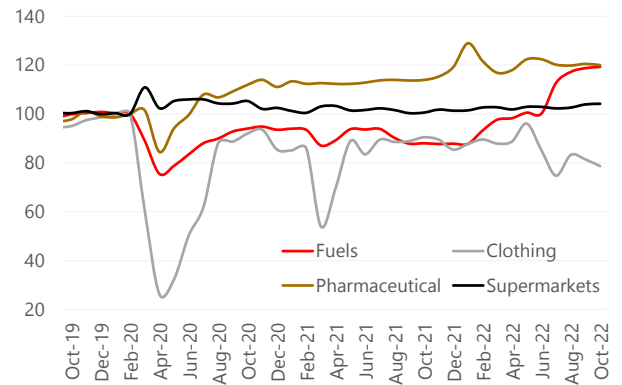
For details on Santander’s economic activity outlook, please refer to our last reports².

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



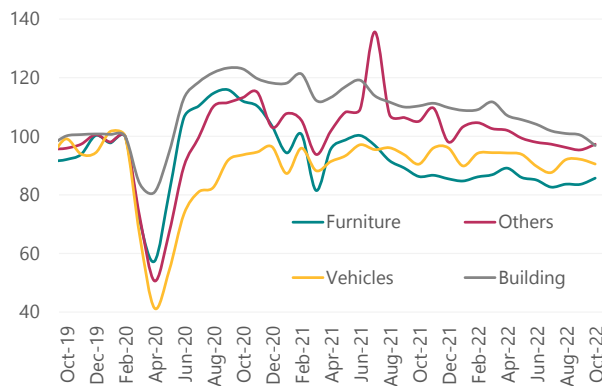
Sources: IBGE, Santander.

Figure 2.B – Retail Sales Segments (sa, Feb/20=100)



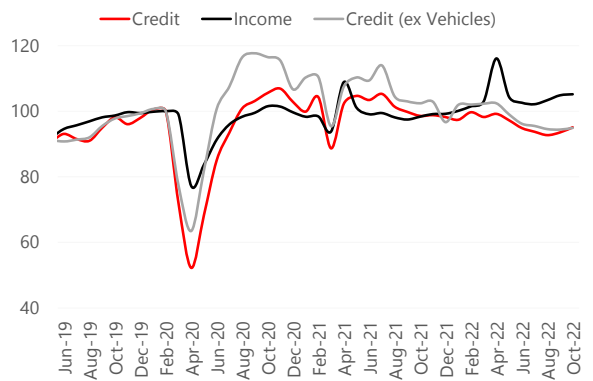
Sources: IBGE, Santander.

Figure 3.A – Retail Sales Segments (sa, Feb/20=100)



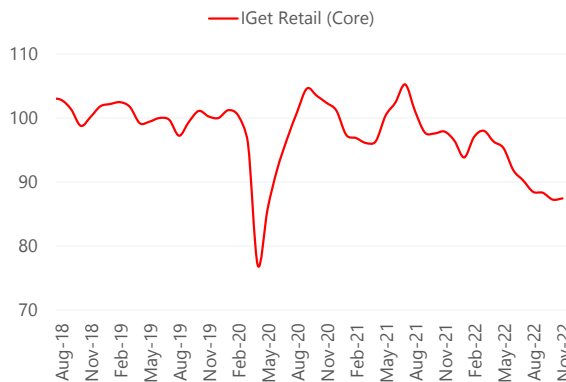
Sources: IBGE, Santander.

Figure 3.B – Sensitivity Analysis (sa, Feb/20=100)*



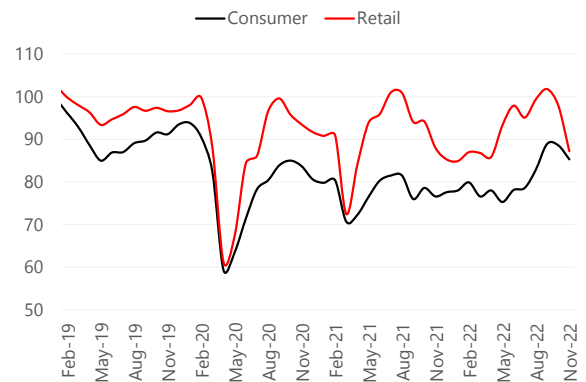
Sources: IBGE, Santander. * Income segments include fuels, supermarkets, clothing, books, and pharmaceutical products; credit segments include furniture, building materials, others, office equipment and vehicles.

Figure 4.A – IGet (sa, Dec/19=100)



Sources: IBGE, Santander.

Figure 4.B – FGV Economic Confidence Data (sa)*



Sources: FGV, Santander.

* Neutral level: 100 points.

² Santander Brazil Economic Activity: “Financial Conditions Remain Critically Restrictive” – November 30, 2022 – Available on: <https://bit.ly/Std-FCl-nov22>



Figure 5 – “Heatmap” Showing Retail Sales by Component

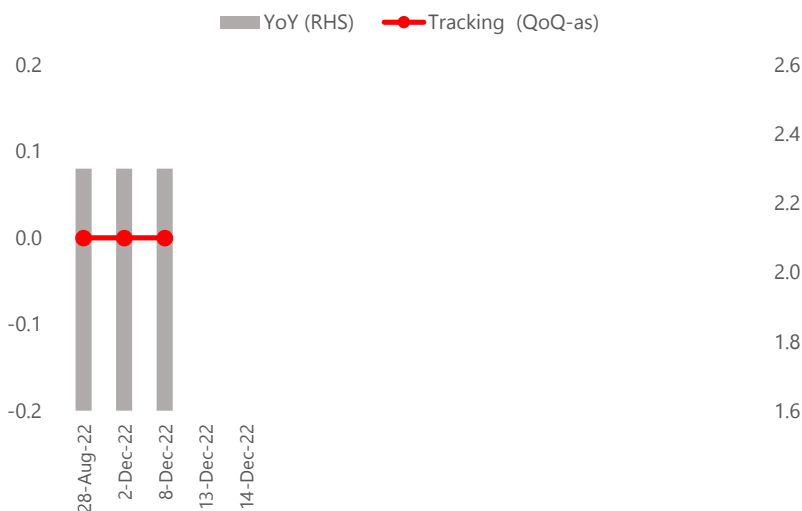
Retail Sales (% MoM sa)												
	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Core Retail Sales	0.76	-2.87	2.28	1.27	1.28	0.62	0.29	-1.81	-0.24	0.18	1.15	0.38
Fuels	-0.35	0.15	-0.10	6.25	4.75	0.61	2.30	-0.39	12.59	3.96	1.33	0.44
Hypermarkets, supermarkets	1.21	-0.42	0.12	1.17	0.07	-0.85	1.05	-0.02	-0.61	0.32	1.27	0.25
Fabrics, clothing and footwear	-1.03	-4.61	2.74	2.10	-1.88	0.96	8.33	-11.35	-12.28	11.35	-2.20	-3.41
Furniture and home appliances	0.49	-1.39	-0.87	1.65	0.87	2.57	-3.60	-0.98	-2.86	1.23	-0.06	2.52
Pharmaceutical	1.21	3.35	8.22	-5.65	-3.97	0.95	3.76	0.01	-1.81	-0.29	0.55	-0.42
Office equipment and supplies	4.84	-1.95	-2.27	-1.66	15.34	-6.80	1.69	-1.53	-1.13	-1.37	1.99	2.00
Books, papers and magazine	1.31	-0.79	-41.20	89.08	4.40	-5.67	5.57	-1.20	-2.69	2.80	1.89	-3.80
Others	4.28	-10.53	5.26	1.36	-1.95	-0.54	-2.64	-1.39	-0.67	-1.15	-0.87	2.03
Broad Retail Sales	0.72	-0.26	-0.11	2.24	-0.65	-0.89	0.50	-2.19	-0.33	0.03	1.54	0.46
Building material	0.83	-1.32	-0.86	0.21	2.43	-4.10	-1.38	-1.49	-2.14	-0.89	-0.56	-3.53
Vehicles	6.13	0.02	-6.43	4.79	0.23	-0.12	-0.50	-4.31	-2.41	5.02	0.12	-1.73

Sources: IBGE, Santander.

Figure 6 – “Heatmap” Showing Retail Sales Contribution by Component

Retail Sales (contributions sa, p,p)												
	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Fuels	-0.03	0.01	-0.01	0.52	0.39	0.05	0.19	-0.03	1.05	0.33	0.11	0.04
Hypermarkets, supermarkets	0.37	-0.13	0.04	0.36	0.02	-0.26	0.32	-0.01	-0.19	0.10	0.39	0.07
Fabrics, clothing and footwear	-0.06	-0.29	0.17	0.13	-0.12	0.06	0.52	-0.70	-0.76	0.70	-0.14	-0.21
Furniture and home appliances	0.04	-0.10	-0.06	0.12	0.06	0.19	-0.27	-0.07	-0.21	0.09	0.00	0.19
Pharmaceutical	0.06	0.17	0.42	-0.29	-0.20	0.05	0.19	0.00	-0.09	-0.01	0.03	-0.02
Office equipment and supplies	0.04	-0.02	-0.02	-0.01	0.14	-0.06	0.02	-0.01	-0.01	-0.01	0.02	0.02
Books, papers and magazine	0.01	0.00	-0.25	0.53	0.03	-0.03	0.03	-0.01	-0.02	0.02	0.01	-0.02
Others	0.33	-0.82	0.41	0.11	-0.15	-0.04	-0.21	-0.11	-0.05	-0.09	-0.07	0.16
Building material	0.07	-0.12	-0.08	0.02	0.22	-0.36	-0.12	-0.13	-0.19	-0.08	-0.05	-0.31
Vehicles	1.48	0.00	-1.56	1.16	0.06	-0.03	-0.12	-1.04	-0.58	1.22	0.03	-0.42

Sources: IBGE, Santander.

Figure 7 – 4Q22 GDP Growth Nowcasting (% , QoQ-sa and YoY-nsa)³

Sources: IBGE, Santander

³ Santander Brazil Special Report: “Nowcasting Brazilian GDP with LASSO” – May 16, 2022 – Available on: <https://bit.ly/Std-special-051622>
 Santander Brazil Special Report: “Nowcasting Supply Sectors: Updating GDP Tracking” – October 28, 2022 – Available on: <https://bit.ly/Std-special-102822>

**Figure 8 – 4Q22 GDP Growth Nowcasting (% , QoQ-sa and YoY-nsa)**

4Q22 GDP Growth						
Date	Release	Reference	Tracking (%)		Projection (%)	
			QoQ-sa	YoY	QoQ-sa	YoY
28-Aug-22	Labor Market	Oct-22	0.0	2.3	0.0	2.3
02-Dec-22	Industry	Oct-22	0.0	2.3	0.0	2.3
08-Dec-22	Retail Sales	Oct-22	0.0	2.3	0.0	2.3

Sources: IBGE, Santander



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