

A POSITIVE PRINT ENDING A WEAK 3Q

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- **Broad retail sales surprised to the upside and jumped 1.5% MoM-sa (+1.0% YoY) in September, topping market consensus of +0.7% MoM-sa (+0.3% YoY) and our estimate of +0.5% MoM-sa (-0.3% YoY).** Meanwhile, core retail sales (excluding building materials and vehicle sales) also surprised to the upside and expanded +1.1% MoM-sa (+3.2% YoY), also above market consensus of +0.3% MoM-sa (+1.8% YoY) and our estimate of +0.5% MoM-sa (+2.1% YoY). Broad retail sales remain down 1.5% in comparison with the pre-pandemic benchmark (February 2020), while core retail sales are up 2.8%.
- **The details highlighted mixed signals across retail activities.** On the one hand, supermarkets (+1.2% MoM-sa) and fuels (+1.3% MoM-sa) stood out, with the latter still reflecting significant deflation due to recent tax cuts. Clothing (+0.7% MoM-sa) and pharmaceutical products (+0.6% MoM-sa) also expanded at the margin. Conversely, relevant retail activities showed weak prints, with other personal items (-1.0% MoM-sa), furniture (-0.1% MoM-sa), vehicles (-0.1% MoM-sa) and building materials (0% MoM-sa) as the lowlights. In broad terms, income-led segments showed resilience, while credit-led segments continued to suffer.
- **Despite the positive headline, September's figures consolidated a deterioration of retail activity across 3Q22.** In quarterly terms, broad retail sales shrank 1.2% QoQ-sa (-1.0% QoQ-sa in 2Q22), while core retail sales retreated 1.1% QoQ-sa (+1.5% QoQ-sa in 2Q22). To 4Q22, we calculate statistical carryovers of +0.75% QoQ-sa and +1.0% QoQ-sa for core and broad retail sales, respectively.
- **October's available data continue to point to a lukewarm performance in the month** according to FGV's surveys (soft data), retail confidence tumbled to 98 points (from 101.8), while consumer confidence shrank to 88.6 points (from 88.9). Moreover, our proprietary data IGet (real sales) pointed to sequential declines in broad retail (-2.1% MoM-sa) and core retail (-1.4% MoM-sa). For 4Q22, we expect retail activity to show a tepid performance, amid a virtual flattening of the real wage bill, deceleration in credit granting and normalization of savings rate (positively correlated with interest rates).
- **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), which imparts slight upside risks to our current 2022 GDP forecast (+2.8%). For 2023, we forecast a GDP growth of +0.7%.



Figure 1 – Retail Sales Details

Retail Sales Breakdown											
Weights	% MoM			% YoY			% QoQ			% Feb-20*	
	Jul-22	Aug-22	Sep-22	Jul-22	Aug-22	Sep-22	Mar-22	Jun-22	Sep-22		
66.9%	Core Retail Sales										
	-0.3	0.1	1.1	-5.3	1.6	3.2	1.9	1.5	-1.1	2.8	
8.3%	Fuels	12.6	3.8	1.3	17.4	30.3	34.8	5.7	7.3	16.6	18.7
30.6%	Hypermarkets, supermarkets	-0.6	0.3	1.2	-0.3	1.4	3.8	1.0	0.2	0.3	3.8
6.2%	Fabrics, clothing and footwear	-16.9	9.3	0.7	-16.2	-5.5	-9.5	2.2	3.2	-13.8	-17.8
7.4%	Furniture and home appliances	-3.3	0.9	-0.1	-14.5	-8.7	-5.9	-0.5	0.6	-4.3	-17.0
5.1%	Pharmaceuticals	-1.7	-0.3	0.6	4.0	6.6	5.9	5.5	-1.2	-0.5	20.8
0.9%	Books, papers and magazine	-2.3	3.1	2.5	11.0	20.5	31.8	-3.9	19.0	1.8	-31.2
0.6%	Office equipment and supplies	-1.4	-1.2	1.7	-0.2	2.0	6.8	1.6	2.1	-2.3	-12.4
7.8%	Other personal items	-0.9	-1.3	-1.0	-28.7	-10.5	-10.0	-1.0	-3.7	-3.9	-5.3
100%	Broad Retail Sales										
	-0.3	0.0	1.5	-6.9	-0.7	1.0	1.2	-1.0	-1.2	-1.5	
8.9%	Building Materials	-1.9	-0.6	0.0	-13.7	-7.0	-7.9	-0.1	-3.5	-3.6	2.0
24.2%	Vehicles	-2.6	4.9	-0.1	-8.5	-4.1	-1.2	-1.2	-0.1	-2.4	-8.0

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

Retail activity ended a weak 3Q quarter marking a positive print. Broad retail sales surprised to the upside and jumped 1.5% MoM-sa (+1.0% YoY) in September, topping market consensus of +0.7% MoM-sa (+0.3% YoY) and our estimate of +0.5% MoM-sa (-0.3% YoY). Meanwhile, core retail sales (excluding building materials and vehicle sales) also surprised to the upside and expanded +1.1% MoM-sa (+3.2% YoY), also above market consensus of +0.3% MoM-sa (+1.8% YoY) and our estimate of +0.5% MoM-sa (+2.1% YoY). Broad retail sales remain 1.5% down in comparison with the pre-pandemic benchmark (February 2020), while core retail sales are up by 2.8%.

Among retail activities, we see a mixed bag. On the one hand, supermarkets (+1.2% MoM-sa) and fuels (+1.3% MoM-sa) stood out, with the latter still reflecting significant deflation due to recent tax cuts. Clothing (+0.7% MoM-sa) and pharmaceutical products (+0.6% MoM-sa) also expanded at the margin. Conversely, relevant retail activities showed weak prints, with other personal items (-1.0% MoM-sa), furniture (-0.1% MoM-sa), vehicles (-0.1% MoM-sa) and building materials (0% MoM-sa) as the lowlights. In comparison with pre-pandemic readings, also a mixed bag: fuels (up by 18.7%), supermarkets (up 3.8%) and pharmaceutical products (up by 20.8%) are the highlights, while vehicles (down by 8.0%), clothing (down by 17.8%) and furniture (down by 17.0%) are the lowlights. Moreover, in our sensitive analysis, credit-led segments continued to expand (+1.4% MoM-sa), while credit-led segments partially rebounded the previous drop and inched up at the margin (+0.6% MoM-sa). When we exclude vehicles sales from credit-segments, our analysis pointed to a retreat (-0.3% MoM-sa), the sixth decline in a row.

We continue to see a weak performance for retail activity in 2H22. Despite the positive headline, September's figures consolidated a deterioration of retail activity across 3Q22. Indeed, broad retail sales broke marked the first healthy print after a string of six consecutive weak prints, while core retail sales marked the first significant expansion after four weak months in a row. In quarterly terms, broad retail sales shrank 1.2% QoQ-sa (-1.0% QoQ-sa in 2Q22), while core retail sales retreated 1.1% QoQ-sa (+1.5% QoQ-sa in 2Q22). To 4Q22, we calculate statistical carryovers of +0.75% QoQ-sa and +1.0% QoQ-sa for core and broad retail sales, respectively. October's available data continue to point to a lukewarm performance in the month: according to FGV's surveys (soft data), retail confidence tumbled to 98 points (from 101.8), while consumer confidence shrank to 88.6 points (from 88.9). Moreover, our proprietary data IGet¹ (real sales) pointed to sequential declines in broad retail (-2.1% MoM-sa) and core retail (-1.4% MoM-sa). All in all, after the positive performance seen in 1H22 (in our view due to (i) recovery in labor income, (ii) fiscal stimuli, and (iii) savings stipends amid the economy's reopening) retail activity is clearly losing steam in short-term. For 4Q22, we expect retail activity to show a tepid performance, amid a virtual flattening of the real wage bill, deceleration in credit granting and normalization of savings rate (positively correlated with interest rates).

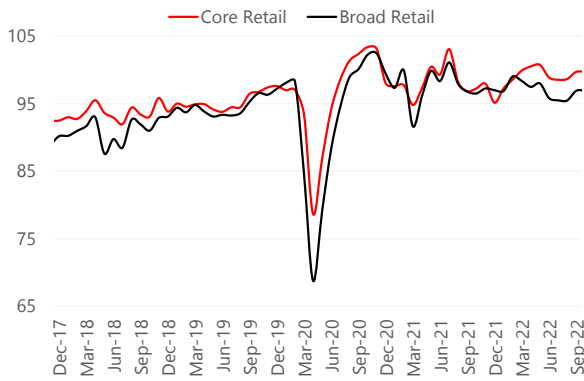
¹ Santander Brazil Economic Activity: "IGet: Varejo tem desempenho modesto em outubro" – November 4, 2022 – Available on: <https://bit.ly/Std-IGET-out22>.



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 a GDP growth of +0.7%.

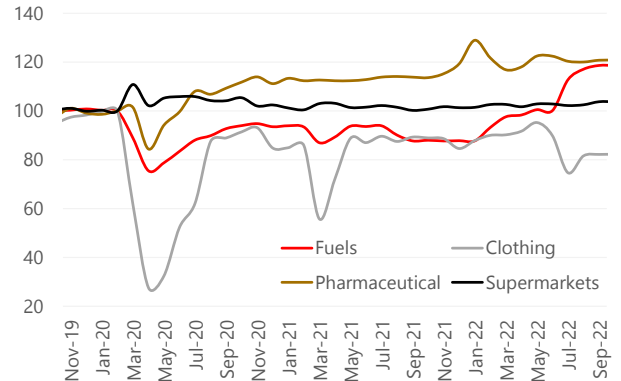
For details on Santander’s economic activity outlook, please refer to our last reports².

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



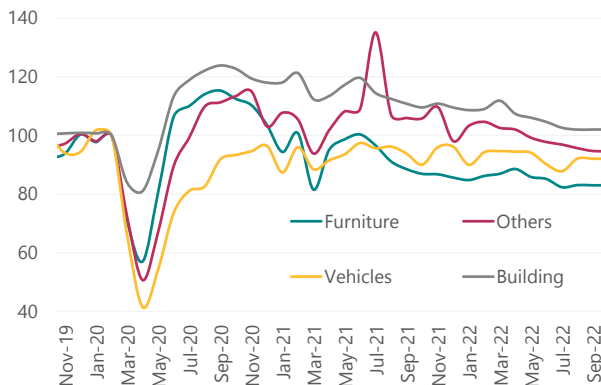
Sources: IBGE, Santander.

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



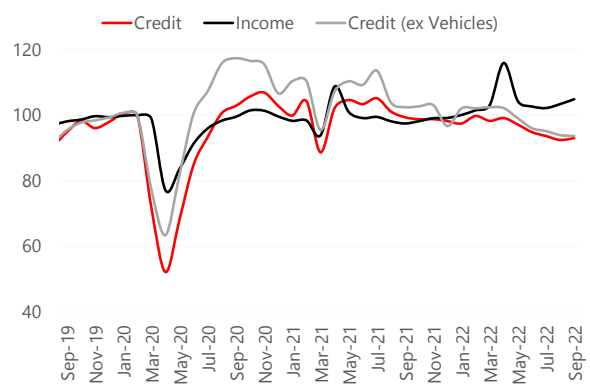
Sources: IBGE, Santander.

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



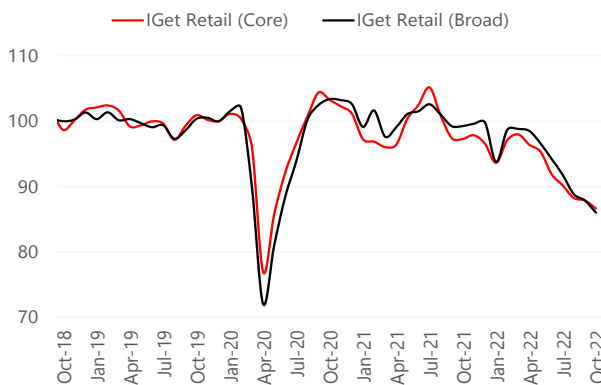
Sources: IBGE, Santander.

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



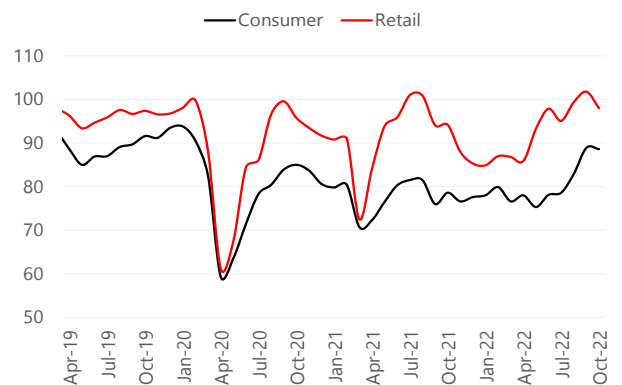
Sources: IBGE, Santander. * Income segments include fuels, supermarkets, clothing, books, and pharmaceutical products; credit segments include furniture, building materials, others, office equipment and vehicles.

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: “Chartbook: A Better Outlook for 2023” – October 21, 2022 – Available on: <https://bit.ly/Std-chart-econact-oct22>

Santander Brazil Economic Activity: “Financial Conditions Continue to Worsen in October” – October 19, 2022 – Available on: <https://bit.ly/Std-FCI-oct22>



Figure 5 – “Heatmap” Showing Retail Sales by Component

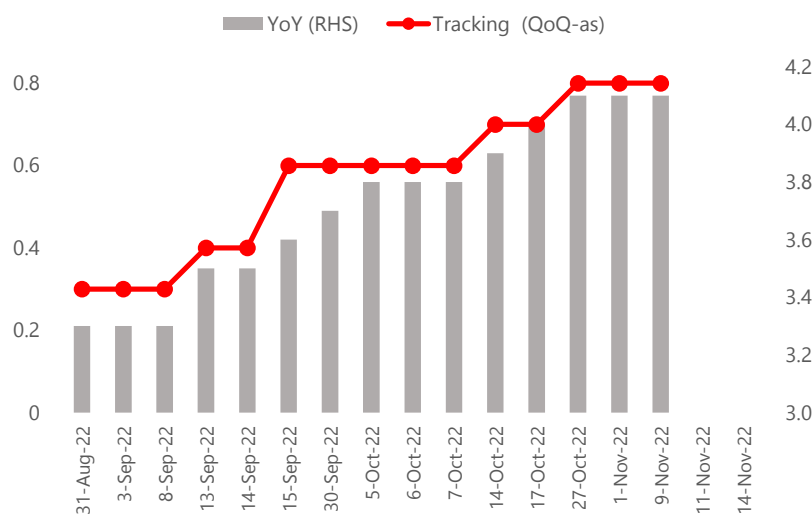
Retail Sales (% MoM sa)												
	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Core Retail Sales	0.43	0.71	-2.86	2.24	1.32	1.36	0.62	0.22	-1.85	-0.34	0.11	1.07
Fuels	0.31	-0.34	0.14	-0.11	6.26	4.69	0.76	2.23	-0.39	12.64	3.81	1.31
Hypermarkets, supermarkets	0.50	1.02	-0.42	0.14	1.15	0.04	-0.94	1.15	-0.03	-0.63	0.30	1.24
Fabrics, clothing and footwear	-0.39	-0.33	-4.57	3.85	2.46	0.22	1.63	3.88	-5.67	-16.88	9.27	0.73
Furniture and home appliances	-1.80	-0.16	-1.31	-0.97	1.67	0.85	1.87	-3.06	-0.82	-3.30	0.90	-0.09
Pharmaceutical	-0.18	1.43	3.53	8.05	-5.60	-3.99	0.99	3.78	-0.05	-1.71	-0.25	0.61
Office equipment and supplies	2.67	4.10	-2.05	-2.20	-1.49	15.18	-6.87	1.63	-1.75	-1.44	-1.22	1.75
Books, papers and magazine	0.48	2.14	-0.25	-41.14	89.34	4.44	-5.58	5.75	-0.97	-2.31	3.14	2.45
Others	-0.12	3.65	-10.63	5.36	1.30	-1.97	-0.57	-2.72	-1.49	-0.87	-1.28	-1.01
Broad Retail Sales	-0.27	0.76	-0.27	-0.12	2.22	-0.67	-0.89	0.53	-2.22	-0.34	-0.02	1.50
Building material	-1.13	1.17	-1.21	-0.80	0.36	2.60	-4.04	-1.20	-1.39	-1.89	-0.61	0.04
Vehicles	-3.98	6.65	0.14	-6.42	4.81	0.38	-0.21	-0.38	-4.23	-2.58	4.93	-0.08

Sources: IBGE, Santander.

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

Retail Sales (contributions sa, p,p)												
	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Fuels	0.03	-0.03	0.01	-0.01	0.52	0.39	0.06	0.19	-0.03	1.05	0.32	0.11
Hypermarkets, supermarkets	0.15	0.31	-0.13	0.04	0.35	0.01	-0.29	0.35	-0.01	-0.19	0.09	0.38
Fabrics, clothing and footwear	-0.02	-0.02	-0.28	0.24	0.15	0.01	0.10	0.24	-0.35	-1.05	0.57	0.05
Furniture and home appliances	-0.13	-0.01	-0.10	-0.07	0.12	0.06	0.14	-0.23	-0.06	-0.24	0.07	-0.01
Pharmaceutical	-0.01	0.07	0.18	0.41	-0.29	-0.20	0.05	0.19	0.00	-0.09	-0.01	0.03
Office equipment and supplies	0.02	0.04	-0.02	-0.02	-0.01	0.14	-0.06	0.01	-0.02	-0.01	-0.01	0.02
Books, papers and magazine	0.00	0.01	0.00	-0.25	0.54	0.03	-0.03	0.03	-0.01	-0.01	0.02	0.01
Others	-0.01	0.28	-0.83	0.42	0.10	-0.15	-0.04	-0.21	-0.12	-0.07	-0.10	-0.08
Building material	-0.10	0.10	-0.11	-0.07	0.03	0.23	-0.36	-0.11	-0.12	-0.17	-0.05	0.00
Vehicles	-0.96	1.61	0.03	-1.55	1.16	0.09	-0.05	-0.09	-1.02	-0.62	1.19	-0.02

Sources: IBGE, Santander.

Figure 7 – 3Q22 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>



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