

## **BETTER HEADLINE BUT WITH STILL WEAK COMPOSITION**

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- **Broad retail activity surprised to the upside in January, retreating only 0.3% MoM-sa (-1.4% YoY), topping market expectations (-1.1% MoM-sa) and our call (-1.5% MoM-sa) but breaking a streak of two gains.** At the same time, core retail sales (ex building material and vehicle sales) jumped 0.8% MoM-sa (-1.9% YoY), above market consensus (+0.5% MoM-sa) and our call (-0.5% MoM-sa). Both indexes remain slightly below their pre-pandemic marks (down 1.6% and 1.0%, respectively).
- **Zooming in on the details, despite the better headline result, we saw a widespread drop, with seven of ten retail activities posting weak prints.** Vehicles and auto parts (-1.9% MoM-sa) and clothing (-3.9% MoM-sa) were the lowlights, with furniture and home appliances (-0.6% MoM-sa) and supermarkets (-0.1% MoM-sa) also shrinking in the month. Conversely, other personal items were the main positive surprise (+9.4% MoM-sa), while pharmaceutical goods continued to strengthen (+3.8% MoM-sa), likely reflecting the increasing demand for COVID-19 tests due to the Omicron variant outbreak.
- **According to our proxies, the biggest negative contributions came from vehicle sales (-0.47 p.p.) and clothing (-0.24 p.p.).** Conversely, pharmaceutical products, despite their low weight, contributed +0.2 p.p., while other personal items contributed +0.73 p.p. All in all, we see the positive surprise for January concentrated in only two retail activities, while the remaining activities posted weak prints.
- **January's prints imply carryovers of 0.1% and -0.3% to 1Q22 for broad and core retail sales, respectively.** According to FGV, retail confidence expanded 2.5% MoM-sa in February, while consumer confidence jumped 5.1% MoM-sa, which may bring some relief to retail activities in the short term. Our proprietary index (IGet) also pointed to a rebound in February.
- **Despite the weak start of 1Q22 for goods-related activities (industry and retail), we still see GDP growing (currently, our estimate stands at +0.5% QoQ-sa), owing mainly to a continued strengthening of farm output and a continued rebound of mobility-related services activities (as we saw in 4Q21).** Our tracking of IBC-Br in January was updated to +0.2% MoM-sa (from flat, 0% MoM-sa).



Figure 1 – Retail Sales Breakdown

Weights	% MoM			% YoY			% QoQ			%
	Nov-21	Dec-21	Jan-22	Nov-21	Dec-21	Jan-22	Jun-21	Sep-21	Jan-22	Feb-20*
<b>66.9%</b> <b>Core Retail Sales</b>	<b>0.4</b>	<b>-1.9</b>	<b>0.8</b>	<b>-4.2</b>	<b>-3.0</b>	<b>-1.9</b>	<b>2.0</b>	<b>-0.1</b>	<b>-0.9</b>	<b>-1.0</b>
8.3% Fuels	-1.4	0.0	-0.4	-7.0	-6.3	-6.8	2.1	-1.7	-2.7	-12.9
30.6% Hypermarkets, supermarkets	0.8	-0.5	-0.1	-0.7	-0.4	-1.0	0.4	-0.7	0.2	0.7
6.2% Fabrics, clothing and footwear	-2.0	-0.4	-3.9	-4.4	-1.0	2.6	9.9	5.2	-3.9	-13.9
7.4% Furniture and home appliances	-1.8	-0.1	-0.6	-21.2	-18.0	-11.5	8.9	-7.6	-4.2	-12.3
5.1% Pharmaceuticals	2.9	3.2	3.8	2.6	7.8	10.0	-0.5	0.4	6.4	24.2
0.9% Books, papers and magazine	0.3	2.1	-2.0	-14.1	-6.0	23.1	16.4	-1.7	0.8	-35.4
0.6% Office equipment and supplies	-0.1	-1.8	0.3	-5.6	-6.4	-7.1	2.5	-6.2	1.5	-14.0
7.8% Other personal items	1.2	-9.9	9.4	-2.6	-5.8	-6.0	7.4	4.7	-3.9	3.5
<b>100%</b> <b>Broad Retail Sales</b>	<b>0.6</b>	<b>0.3</b>	<b>-0.3</b>	<b>-2.9</b>	<b>-2.7</b>	<b>-1.4</b>	<b>2.5</b>	<b>-1.5</b>	<b>0.0</b>	<b>-1.6</b>
8.9% Building Materials	0.4	-1.4	-0.3	-4.0	-8.2	-7.8	2.1	-4.7	-1.6	9.8
24.2% Vehicles	0.7	1.1	-1.9	1.7	0.4	2.8	6.8	-0.1	-0.2	-6.7

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

**Broad retail activity topped expectations in January but with a discouraging composition.** The slight retreat of 0.3% MoM-sa (-1.4% YoY) beat market expectations of -1.1% MoM-sa (-2.6% YoY) and our call of -1.5% MoM-sa (-4.0% YoY) but broke a streak of two (tepid) gains. At the same time, core retail activity (which excludes building materials and vehicle sales) jumped 0.8% MoM-sa (-1.9%), also topping market consensus of +0.5% MoM-sa (-2.8% YoY) and our call of -0.5% MoM-sa (-4.2% YoY). In comparison to the pre-pandemic period, both indexes remain slightly below their levels in February 2020, down 1.6% and 1.0%, respectively.

**The details reveal a widespread drop, with seven of ten retail activities printing weak figures.** Both credit-led and income-led segments weakened in January, with vehicles and auto parts (-1.9% MoM-sa) and clothing (-3.9% MoM-sa) as the lowlights, while furniture and home appliances (-0.6% MoM-sa) and supermarkets (-0.1% MoM-sa) also shrank in the month. Conversely, other personal items were the main positive surprise (+9.4% MoM-sa), while pharmaceutical goods continued to strengthen (+3.8% MoM-sa), likely reflecting the increasing demand for COVID-19 tests due to the Omicron variant outbreak,. In terms of contribution, according to our proxies, the biggest negative contributions came from vehicle sales (-0.47 p.p.) and clothing (-0.24 p.p.). Meanwhile, pharmaceutical products, despite their low weight, contributed +0.2 p.p., while other personal items contributed +0.73 p.p. All in all, we see the positive surprise for January concentrated in only two retail activities.

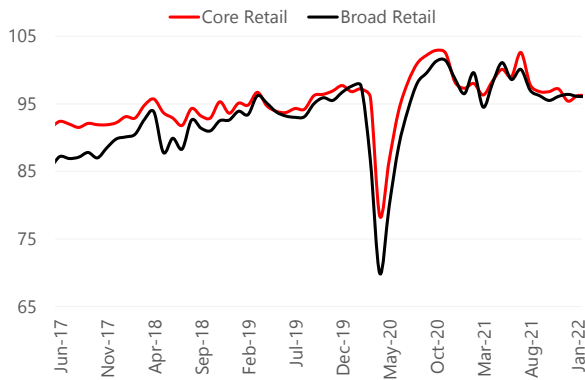
**Looking further, better carryovers implied to 1Q22.** January's prints imply carryovers of 0.1% and -0.3% to 1Q22 for broad and core retail sales, respectively. According to FGV, retail confidence expanded 2.5% MoM-sa in February, while consumer confidence jumped 5.1% MoM-sa, which may bring some relief to retail activities in the short-term. Our proprietary index (IGet) also pointed to a rebound in February<sup>1</sup>.

**Despite the weak start of 1Q22 for goods-related activities (industry and retail), we still see GDP growing (currently, our estimate stands at +0.5% QoQ-sa),** owing mainly to a continued strengthening of farm output and a continued rebound of mobility-related services activities (as we saw in 4Q21). Our tracking of IBC-Br in January was updated to +0.2% MoM-sa (from stability, 0% MoM-sa).

<sup>1</sup> Santander Brazil Economic Activity - "IGet Fevereiro: Varejo mostra melhora na margem" – March 09, 2022 – Available on: <https://bit.ly/Std-IGET-fev22>

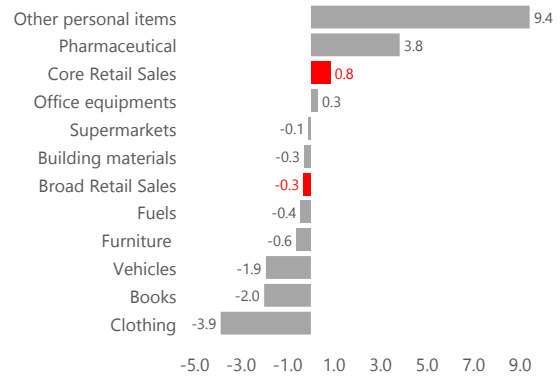


**Figure 2.A – Retail Sales (sa, 2014=100)**



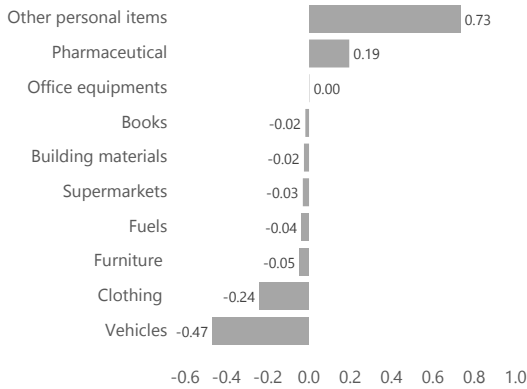
Sources: IBGE, Santander.

**Figure 2.B – Retail Sales Breakdown (sa, MoM %)**



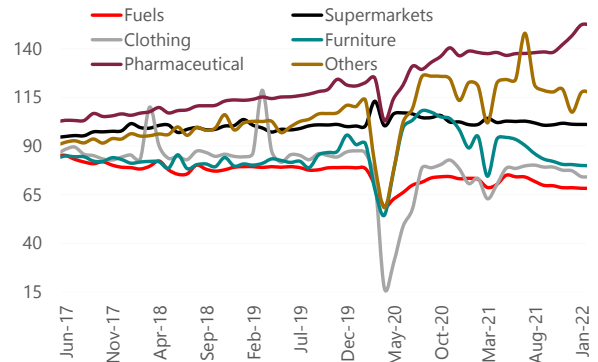
Sources: IBGE, Santander.

**Figure 3.A – Retail Sales Contributions\* (sa, p.p.)**



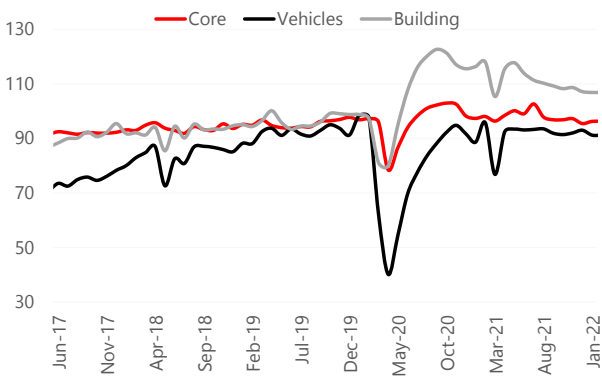
Sources: IBGE, Santander. \* Proxy for monthly contributions from broad retail segments.

**Figure 3.B – Retail Sales Segments (sa, 2011=100)**



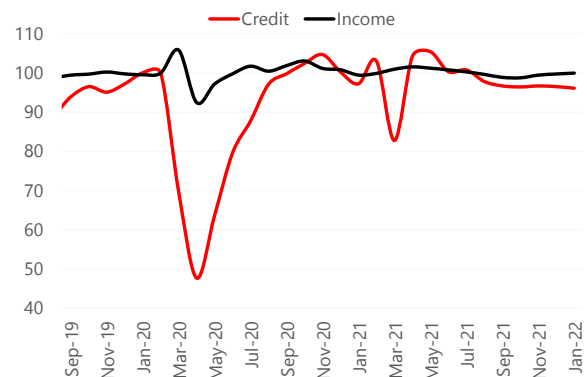
Sources: IBGE, Santander.

**Figure 4.A – Retail Sales Segments (sa, 2011=100)**



Sources: IBGE, Santander.

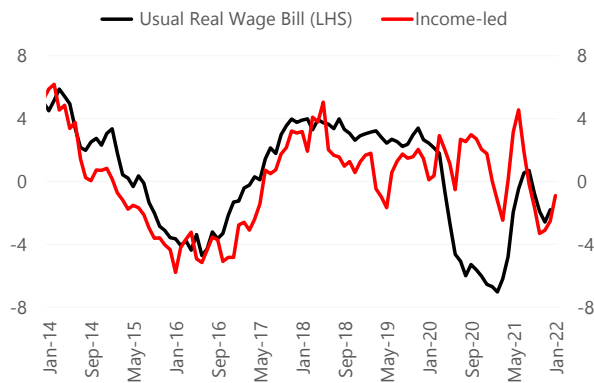
**Figure 4.B – Sensitivity Analysis (sa, 2011=100)**



Sources: IBGE, Santander.

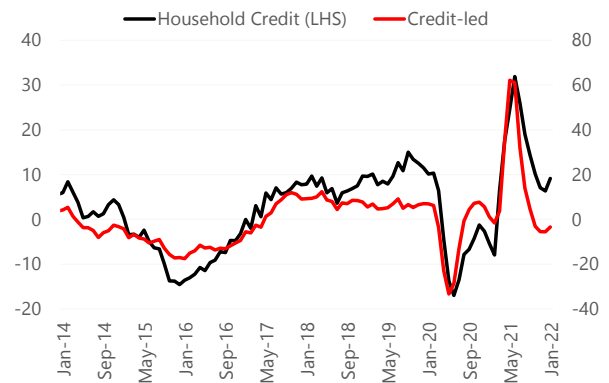


Figure 5.A – Income-Led Segments (3mma, YoY%)



Sources: IBGE, Santander.

Figure 5.B – Credit-Led Segments (3mma, YoY%)



Sources: IBGE, Santander.

Figure 6 – “Heatmap” Showing Retail Sales by Component

Retail Sales (% MoM sa)												
	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
<b>Core Retail Sales</b>	0.72	-1.73	2.18	1.73	-1.10	3.64	-4.68	-1.02	0.00	0.41	-1.85	0.84
Fuels	-0.68	-5.76	2.33	6.69	-1.07	-0.13	-2.97	-2.92	-0.29	-1.44	0.00	-0.44
Hypermarkets, supermarkets	0.10	3.07	-2.02	0.69	-0.19	0.19	-0.88	-1.18	0.20	0.79	-0.49	-0.10
Fabrics, clothing and footwear	3.68	-14.19	11.61	11.97	-0.13	1.66	0.50	-1.25	0.00	-2.02	-0.39	-3.88
Furniture and home appliances	6.63	-21.50	25.50	0.96	-1.06	-3.32	-4.54	-3.36	-1.44	-1.83	-0.12	-0.62
Pharmaceutical	-0.50	-0.43	0.44	-1.09	0.66	0.07	0.29	0.29	-0.14	2.89	3.16	3.82
Office equipment and supplies	-0.55	-11.05	10.56	2.95	-3.96	-0.57	-4.71	-2.85	5.71	-0.15	-1.75	0.30
Books, papers and magazine	13.98	-2.60	8.78	4.21	4.71	-5.47	-1.02	0.69	-0.68	0.34	2.05	-2.01
Others	-1.47	-15.65	20.02	1.55	0.00	19.16	-17.77	-2.55	-0.67	1.19	-9.90	9.40
<b>Broad Retail Sales</b>	3.21	-5.12	3.81	3.06	-2.47	1.52	-3.10	-0.82	-0.73	0.63	0.31	-0.31
Building material	1.46	-10.76	9.59	1.99	-3.31	-2.20	-0.99	-0.91	-0.92	0.37	-1.38	-0.28
Vehicles	8.13	-19.83	20.31	1.08	-0.32	0.21	0.21	-1.71	-0.54	0.66	1.09	-1.94

Sources: IBGE, Santander.

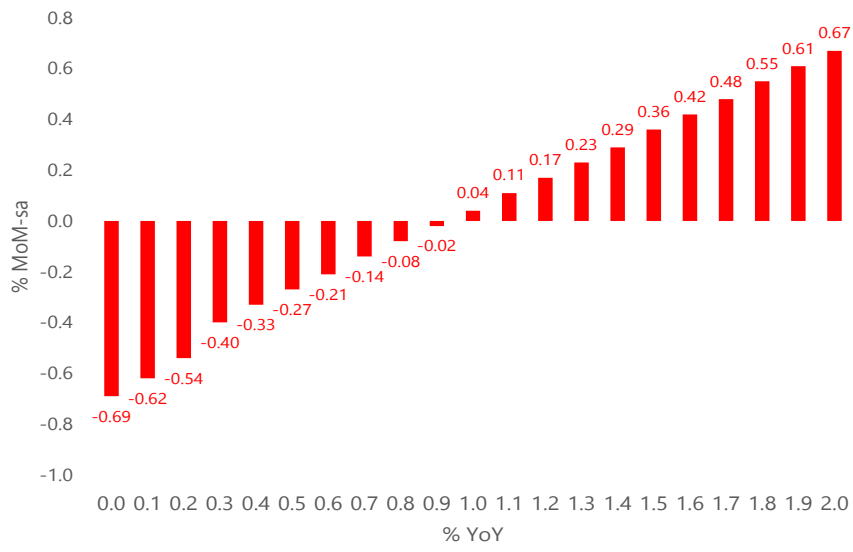
Figure 7 – “Heatmap” Showing Retail Sales Contribution by Component

Retail Sales (contributions sa, p.p)												
	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Fuels	-0.06	-0.48	0.19	0.55	-0.09	-0.01	-0.25	-0.24	-0.02	-0.12	0.00	-0.04
Hypermarkets, supermarkets	0.03	0.94	-0.62	0.21	-0.06	0.06	-0.27	-0.36	0.06	0.24	-0.15	-0.03
Fabrics, clothing and footwear	0.23	-0.88	0.72	0.74	-0.01	0.10	0.03	-0.08	0.00	-0.13	-0.02	-0.24
Furniture and home appliances	0.49	-1.59	1.89	0.07	-0.08	-0.25	-0.34	-0.25	-0.11	-0.14	-0.01	-0.05
Pharmaceutical	-0.03	-0.02	0.02	-0.06	0.03	0.00	0.01	0.01	-0.01	0.15	0.16	0.19
Office equipment and supplies	0.00	-0.10	0.10	0.03	-0.04	-0.01	-0.04	-0.03	0.05	0.00	-0.02	0.00
Books, papers and magazine	0.08	-0.02	0.05	0.03	0.03	-0.03	-0.01	0.00	0.00	0.00	0.01	-0.01
Others	-0.11	-1.22	1.56	0.12	0.00	1.49	-1.39	-0.20	-0.05	0.09	-0.77	0.73
Building material	0.13	-0.96	0.85	0.18	-0.29	-0.20	-0.09	-0.08	-0.08	0.03	-0.12	-0.02
Vehicles	1.97	-4.80	4.92	0.26	-0.08	0.05	0.05	-0.41	-0.13	0.16	0.26	-0.47

Sources: IBGE, Santander.



**Figure 8 – Deseasonalization Grid (IBC-Br) for January 2022**



Sources: BCB, Santander



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