

TEPID RETAIL ACTIVITY IN MAY

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- **Broad retail activity disappointed in May, inching up +0.2% MoM-sa in May (-0.7% YoY).** This result was below our estimate of +0.4% MoM-sa (0% YoY) and market expectations of +1.7% MoM-sa (+2.5% YoY). Meanwhile, core retail sales (which excludes building materials and vehicles sales) edged up 0.1% MoM-sa (-0.2% YoY), also below our estimate of +0.4% MoM-sa (+1.0% YoY) and market expectations of +1.0% MoM-sa (+2.4% YoY). In comparison with the pre-pandemic benchmark (February 2020), broad retail sales are up 1.2% to date, while core sales have surpassed this benchmark by 3.9%.
- **The details pointed to a mixed composition bag.** Six out of ten retail activities surveyed posted monthly gains, with May's tepid print figure stemming mainly from the strengthening of fuels (+2.1%), supermarkets (+1.0%), and clothing (+3.5%). Conversely, other personal items (-2.2%), building materials (-1.1%) and furniture and home appliances (-3.0%) sales shrank at the margin. Vehicles sales stayed virtually flat (-0.2%), decoupling from Fenabrave's strong data for the month.
- **In quarterly terms, despite these tepid figures, May's data led positive carryovers to 2Q22.** We calculate a 1.2% QoQ-sa print for the broad index, and a 2.2% QoQ-sa print for the core index, suggesting continued contribution from goods to household consumption growth in the short term. For 2H22, we expect a decline of real wage bill (with recent fiscal measures partially offsetting this drag), which should weigh on goods-consumption in the period (reinforced by weakening in credit granting due to rising interest rates).
- **Our 2Q22 GDP growth tracking was maintained at +0.7% QoQ-sa, which implies significant upsides risks to our 2022 growth forecast of +1.2%.** We believe domestic activity will turn sour in 2H22 once the effects of a tighter monetary policy start to kick in, but the additional recent fiscal stimuli may partially support demand in the period. For 2023, we expect a 0.6% GDP growth.



Figure 1 – Retail Sales Breakdown

| Weights | % MoM | | | % YoY | | | % QoQ | | | % Feb-20* |
|---------------------------------------|-------------|------------|------------|------------|------------|-------------|-------------|------------|------------|------------|
| | Mar-22 | Apr-22 | May-22 | Mar-22 | Apr-22 | May-22 | Dec-21 | Mar-22 | May-22 | |
| 66.9% Core Retail Sales | 1.4 | 0.8 | 0.1 | 4.9 | 4.5 | -0.2 | -2.3 | 2.0 | 3.6 | 3.9 |
| 8.3% Fuels | 4.7 | 0.8 | 2.1 | 12.3 | 9.8 | 7.1 | -2.8 | 5.5 | 10.3 | 0.5 |
| 30.6% Hypermarkets, supermarkets | 0.0 | -0.9 | 1.0 | -3.4 | 4.1 | -0.5 | 0.1 | 1.0 | 0.5 | 2.8 |
| 6.2% Fabrics, clothing and footwear | 0.3 | 2.0 | 3.5 | 81.3 | 33.9 | 8.3 | -2.9 | 3.5 | 7.0 | -4.5 |
| 7.4% Furniture and home appliances | 0.9 | 2.2 | -3.0 | 7.2 | -8.7 | -12.6 | -6.0 | -0.6 | 2.2 | -13.9 |
| 5.1% Pharmaceuticals | -3.9 | 1.0 | 3.6 | 3.6 | 3.5 | 9.2 | 2.2 | 5.8 | -3.4 | 22.4 |
| 0.9% Books, papers and magazine | 4.2 | -5.2 | 5.5 | 40.6 | -0.9 | 25.8 | 0.2 | -3.4 | 26.5 | -32.5 |
| 0.6% Office equipment and supplies | 14.4 | -5.7 | 2.0 | 16.5 | -0.4 | 2.0 | 1.4 | 1.2 | 8.6 | -9.3 |
| 7.8% Other personal items | -1.5 | 0.0 | -2.2 | 8.9 | 1.1 | -7.1 | -9.6 | -0.2 | 0.7 | 1.2 |
| 100% Broad Retail Sales | -0.3 | 0.5 | 0.2 | 5.3 | 1.6 | -0.7 | -1.8 | 1.5 | 1.7 | 1.2 |
| 8.9% Building Materials | 1.7 | -2.3 | -1.1 | 1.2 | -9.9 | -7.7 | -1.9 | 0.1 | 0.0 | 7.5 |
| 24.2% Vehicles | 0.5 | 0.0 | -0.2 | 8.5 | -1.8 | 0.8 | -0.9 | -0.7 | 1.6 | -5.2 |

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

Retail activity virtually flattened in May. Broad retail activity disappointed and inched up in +0.2% MoM-sa in May (-0.7% YoY), below our estimate of +0.4% MoM-sa (0% YoY) and market expectations of +1.7% MoM-sa (+2.5% YoY). Meanwhile, core retail sales (which excludes building materials and vehicles sales) edged up 0.1% MoM-sa (-0.2% YoY), also below our estimate of +0.4% MoM-sa (+1.0% YoY) and market expectations of +1.0% MoM-sa (+2.4% YoY). In comparison with the pre-pandemic benchmark (February 2020), broad retail sales are up by 1.2%, while the core sales surpassed it by 3.9%.

Mixed bag among the composition. Six out of ten retail activities surveyed posted monthly gain, with May's tepid print figure stemming mainly from the strengthening of fuels (+2.1%), supermarkets (+1.0%), and clothing (+3.5%). Conversely, other personal items (-2.2%), building materials (-1.1%) and furniture and home appliances (-3.0%) sales shrank at the margin. Vehicle sales stayed virtually flat (-0.2%), decoupling from the strong figures seen in Fenabrave's data for the month. In quarterly terms, despite the tepid figures, May's data led positive carryovers to 2Q22. We calculate a 1.2% QoQ-sa print for the broad index, and a 2.2% QoQ-sa print for the core index, suggesting continued contribution from goods to household consumption growth in the short term. In 1H22, several measures were adopted to increase disposable income in the period (increasing government transfers, anticipation of benefits, and the FGTS withdrawal authorization), with a strong labor market recovery lending a hand, boosting demand for goods. For 2H22, we expect a decline of real wage bill (with recent fiscal measures partially offsetting this drag), which should weigh on goods-consumption in the period (reinforced by weakening in credit granting due to rising interest rates).

Our 2Q22 GDP growth tracking was maintained at +0.7% QoQ-sa, which implies significant upsides risks to our 2022 growth forecast of +1.2%. We believe domestic activity will turn sour in 2H22 once the effects of a tighter monetary policy start to kick in, but the additional recent fiscal stimuli may partially support demand in the period. For 2023, we expect a 0.6% GDP growth. **For details on Santander's economic outlook, please refer to our last chartbook¹.**

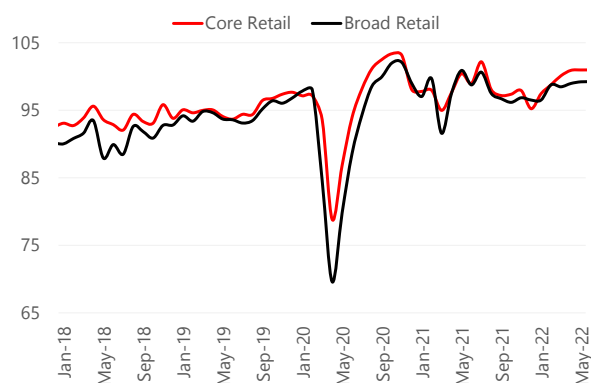
¹ Santander Brazil Economic Activity: "Chartbook – Upward Revisions in 2022, Concerns Regarding 2023 Intensify" – June 14, 2022 – Available on: <https://bit.ly/Std-chart-econact-jun22>

Santander Brazil Special Report: "A Model to Forecast Probability of Recession in Brazil" – June 08, 2022 – Available on: <https://bit.ly/Std-special-060822>

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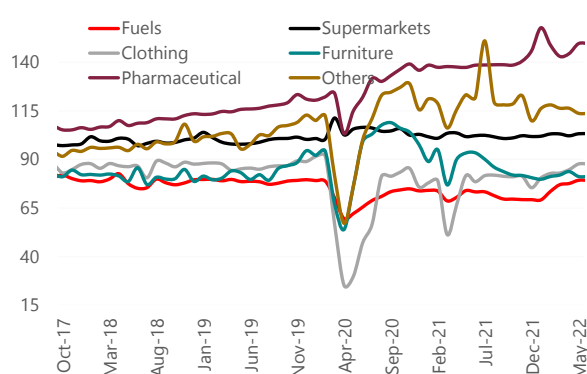


Figure 2.A – Retail Sales (sa, 2014=100)



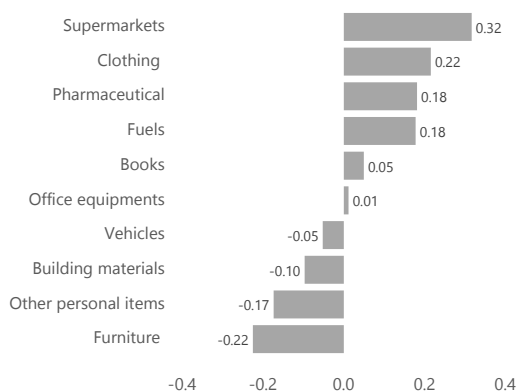
Sources: IBGE, Santander.

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



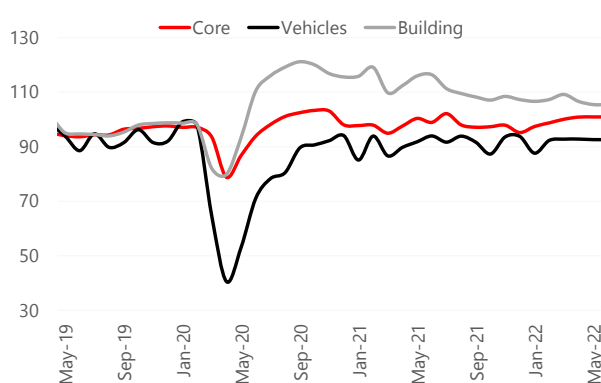
Sources: IBGE, Santander.

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 5 – “Heatmap” Showing Retail Sales by Component

| Retail Sales (% MoM sa) | | | | | | | | | | | | |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Jun-21 | Jul-21 | Aug-21 | Sep-21 | Oct-21 | Nov-21 | Dec-21 | Jan-22 | Feb-22 | Mar-22 | Apr-22 | May-22 |
| Core Retail Sales | -1.44 | 3.24 | -4.05 | -0.87 | 0.20 | 0.56 | -2.75 | 2.34 | 1.35 | 1.35 | 0.80 | 0.06 |
| Fuels | -0.92 | 0.05 | -2.68 | -2.43 | -0.05 | -0.38 | -0.04 | -0.16 | 6.22 | 4.74 | 0.79 | 2.14 |
| Hypermarkets, supermarkets | 0.47 | 0.19 | -0.78 | -0.84 | 0.31 | 1.12 | -0.41 | 0.15 | 1.14 | 0.01 | -0.93 | 1.03 |
| Fabrics, clothing and footwear | -3.86 | 3.93 | 0.37 | -0.71 | -0.32 | 0.31 | -7.22 | 6.67 | 2.84 | 0.28 | 2.04 | 3.48 |
| Furniture and home appliances | 0.11 | -3.52 | -4.53 | -2.66 | -2.14 | -0.25 | -1.41 | -1.00 | 1.76 | 0.93 | 2.20 | -3.04 |
| Pharmaceutical | 0.85 | 0.05 | 0.10 | 0.01 | -0.14 | 1.49 | 3.77 | 8.11 | -5.59 | -3.95 | 0.98 | 3.56 |
| Office equipment and supplies | -1.05 | 0.57 | -5.93 | -1.34 | 2.43 | 4.06 | -2.00 | -2.22 | -1.81 | 14.36 | -5.70 | 1.96 |
| Books, papers and magazine | 7.28 | -8.25 | 0.46 | 0.94 | -1.37 | 1.38 | -0.38 | -39.72 | 86.00 | 4.19 | -5.16 | 5.51 |
| Others | -1.22 | 24.02 | -20.85 | -1.17 | 0.39 | 3.58 | -10.53 | 5.74 | 1.61 | -1.46 | -0.02 | -2.23 |
| Broad Retail Sales | -2.12 | 1.91 | -3.14 | -0.79 | -0.56 | 0.70 | -0.35 | 0.00 | 2.33 | -0.29 | 0.50 | 0.25 |
| Building material | 0.37 | -4.37 | -1.60 | -1.18 | -1.04 | 1.27 | -1.09 | -0.58 | 0.61 | 1.75 | -2.33 | -1.09 |
| Vehicles | 2.32 | -2.41 | 2.40 | -2.38 | -4.72 | 7.20 | 0.16 | -6.53 | 5.33 | 0.51 | 0.03 | -0.22 |

Sources: IBGE, Santander.

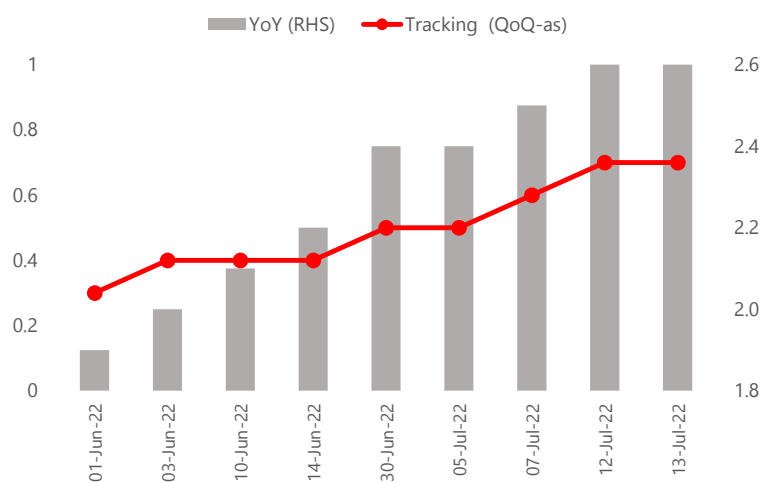


Figure 6 – “Heatmap” Showing Retail Sales Contribution by Component

| Retail Sales (contributions sa, p.p) | | | | | | | | | | | | |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Jun-21 | Jul-21 | Aug-21 | Sep-21 | Oct-21 | Nov-21 | Dec-21 | Jan-22 | Feb-22 | Mar-22 | Apr-22 | May-22 |
| Fuels | -0.08 | 0.00 | -0.22 | -0.20 | 0.00 | -0.03 | 0.00 | -0.01 | 0.52 | 0.39 | 0.07 | 0.18 |
| Hypermarkets, supermarkets | 0.14 | 0.06 | -0.24 | -0.26 | 0.09 | 0.34 | -0.12 | 0.05 | 0.35 | 0.00 | -0.29 | 0.32 |
| Fabrics, clothing and footwear | -0.24 | 0.24 | 0.02 | -0.04 | -0.02 | 0.02 | -0.45 | 0.41 | 0.18 | 0.02 | 0.13 | 0.22 |
| Furniture and home appliances | 0.01 | -0.26 | -0.33 | -0.20 | -0.16 | -0.02 | -0.10 | -0.07 | 0.13 | 0.07 | 0.16 | -0.22 |
| Pharmaceutical | 0.04 | 0.00 | 0.00 | 0.00 | -0.01 | 0.08 | 0.19 | 0.41 | -0.28 | -0.20 | 0.05 | 0.18 |
| Office equipment and supplies | -0.01 | 0.01 | -0.05 | -0.01 | 0.02 | 0.04 | -0.02 | -0.02 | -0.02 | 0.13 | -0.05 | 0.02 |
| Books, papers and magazine | 0.04 | -0.05 | 0.00 | 0.01 | -0.01 | 0.01 | 0.00 | -0.24 | 0.52 | 0.03 | -0.03 | 0.03 |
| Others | -0.09 | 1.87 | -1.63 | -0.09 | 0.03 | 0.28 | -0.82 | 0.45 | 0.13 | -0.11 | 0.00 | -0.17 |
| Building material | 0.03 | -0.39 | -0.14 | -0.10 | -0.09 | 0.11 | -0.10 | -0.05 | 0.05 | 0.16 | -0.21 | -0.10 |
| Vehicles | 0.56 | -0.58 | 0.58 | -0.58 | -1.14 | 1.74 | 0.04 | -1.58 | 1.29 | 0.12 | 0.01 | -0.05 |

Sources: IBGE, Santander.

Figure 7 – 1Q22 GDP Growth Nowcasting (% , QoQ-sa and YoY-nsa)



Sources: IBGE, Santander

Figure 8 – Santander GDP Growth Nowcasting

| 2Q22 GDP Growth | | | | | | |
|-----------------|--------------|-----------|--------------|-----|----------------|-----|
| Date | Release | Reference | Tracking (%) | | Projection (%) | |
| | | | QoQ-sa | YoY | QoQ-sa | YoY |
| 01-Jun-22 | Labor Market | Apr-22 | 0.3 | 1.9 | 0.2 | 1.8 |
| 03-Jun-22 | Industry | Apr-22 | 0.4 | 2.0 | 0.2 | 1.8 |
| 10-Jun-22 | Retail Sales | Apr-22 | 0.4 | 2.1 | 0.2 | 1.8 |
| 14-Jun-22 | Services | Apr-22 | 0.4 | 2.2 | 0.2 | 1.8 |
| 30-Jun-22 | Labor Market | May-22 | 0.5 | 2.4 | 0.2 | 1.8 |
| 05-Jul-22 | Industry | May-22 | 0.5 | 2.4 | 0.2 | 1.8 |
| 07-Jul-22 | IBC-Br | Apr-22 | 0.6 | 2.5 | 0.2 | 1.8 |
| 12-Jul-22 | Services | May-22 | 0.7 | 2.6 | 0.2 | 1.8 |
| 13-Jul-22 | Retail Sales | May-22 | 0.7 | 2.6 | 0.2 | 1.8 |

Sources: IBGE, Santander.



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