

WEAK JULY RETAIL SALES FIGURES

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- **Broad retail sales shrank 0.7% MoM-sa in July (-6.8% YoY), close to our estimate of -0.6% MoM-sa (-6.6% YoY) and below market consensus of -0.1% MoM-sa (-5.5% YoY).** Meanwhile, core retail sales (excluding building materials and vehicle sales) retreated 0.8% MoM-sa (-5.2% YoY), also close to our estimate of -1.0% MoM-sa (-5.8% YoY) and below market consensus of 0% MoM-sa (-3.9% YoY). These figures marked the third decline in a row for core retail sales and the second decline in a row for broad retail sales. Moreover, in comparison with pre-pandemic readings (February 2020), core retail sales stand 0.5% above this mark, at the same time broad retail sales remain idle, at 3.8%.
- **The details pointed to a widespread drop.** Indeed, nine out of ten retail activities surveyed posted monthly declines, with July's weak figure stemming mainly from a sharp tumble in the sale of clothing (-17.1% MoM-sa), furniture and home appliances (-3.0% MoM-sa), vehicles (-2.7% MoM-sa) and building materials (-2.0% MoM-sa). Conversely, fuels sales climbed in real terms (+12.2% MoM-sa) but mostly reflecting substantial deflation due to a tax cut in the period. In terms of contribution, as we expected, fuels contributed the most (+1.01 p.p.), while clothing (-1.06 p.p.), vehicles (-0.65 p.p.) and furniture (-0.22 p.p.) contributed the least.
- **July's prints marked a weak start to 3Q22 and raises doubts about new sequential quarterly growth in consumption variables.** We calculate carryovers of -2.3% QoQ-sa for broad retail sales and -1.9% QoQ-sa for core retail sales. Additionally, our proprietary indicator (IGet family) points to continued weakening in August. We expect a slight decline in the real wage bill in the 3Q22 (with a virtual stability in 2H22) following the sharp increase seen in 1H22, despite the new round of fiscal stimulus. This element, along with a softening in credit granting (due to rising interest rates), should cool down retail sales in 2H22. We recognize that a resilient labor market (with increasing wages) could partially support demand in the period.
- **Regarding IBC-Br for July, we are slightly revising our expectations of a monthly gain to +0.5% MoM-sa (+2.9% YoY) from +0.6% MoM-sa previously (+3.0% YoY).** Regarding 3Q22 GDP growth, we are also keeping unchanged our +0.4% QoQ-sa tracking. Our 2022 GDP growth forecast of +2.6% is slightly biased to the upside, while risks are also tilted to the upside in our 2023 GDP forecast of -0.2%.



Figure 1 – Retail Sales Details

		Retail Sales Breakdown									
		% MoM			% YoY			% QoQ			%
Weights		May-22	Jun-22	Jul-22	May-22	Jun-22	Jul-22	Dec-21	Mar-22	Jul-22	Feb-20*
66.9%	Core Retail Sales	-0.5	-1.4	-0.8	-0.2	-0.1	-5.2	-2.2	1.6	-1.1	0.5
8.3%	Fuels	2.1	-0.9	12.2	7.2	8.0	17.4	-2.7	5.5	7.5	11.3
30.6%	Hypermarkets, supermarkets	1.0	-0.1	-0.6	-0.5	2.2	-0.1	0.0	1.0	0.2	2.2
6.2%	Fabrics, clothing and footwear	3.9	-5.7	-17.1	8.5	2.2	-16.2	-1.9	2.3	-4.6	-25.6
7.4%	Furniture and home appliances	-3.4	-1.5	-3.0	-12.5	-14.7	-14.6	-6.0	-0.8	-3.9	-18.4
5.1%	Pharmaceuticals	3.9	-0.2	-1.4	9.3	9.0	4.0	1.9	5.6	2.5	20.7
0.9%	Books, papers and magazine	4.8	-3.6	-2.0	25.8	2.7	11.2	0.7	-3.8	-1.4	-37.2
0.6%	Office equipment and supplies	1.8	-1.7	-1.5	2.1	1.9	-0.4	1.3	1.4	0.3	-12.4
7.8%	Other personal items	-2.6	-1.4	-0.5	-7.2	-11.4	-28.7	-10.0	-0.7	-4.6	-2.2
100%	Broad Retail Sales	0.5	-2.5	-0.7	-0.7	-3.0	-6.8	-1.4	1.2	-2.4	-3.8
8.9%	Building Materials	-1.5	-1.5	-2.0	-7.7	-12.0	-13.7	-2.2	0.1	-4.9	2.3
24.2%	Vehicles	-0.5	-4.6	-2.7	0.8	-7.1	-8.5	-1.4	-0.9	-4.6	-12.9

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

Retail activity continues to weaken at the start of 3Q22. Broad retail sales shrank 0.7% MoM-sa in July (-6.8% YoY), close to our estimate of -0.6% MoM-sa (-6.6% YoY) and below market consensus of -0.1% MoM-sa (-5.5% YoY). Meanwhile, core retail sales (excluding building materials and vehicle sales) retreated 0.8% MoM-sa (-5.2% YoY), also close to our estimate of -1.0% MoM-sa (-5.8% YoY) and below market consensus of 0% MoM-sa (-3.9% YoY). These figures marked the third decline in a row for core retail sales and the second decline in a row for broad retail sales. Moreover, in comparison with pre-pandemic readings (February 2020), core retail sales stand 0.5% above this mark, at the same time broad retail sales remain idled by 3.8%.

Widespread drop among activities. Indeed, nine out of ten retail activities surveyed posted monthly declines, with July's weak figure stemming mainly from a sharp tumble in the sale of clothing (-17.1% MoM-sa), furniture and home appliances (-3.0% MoM-sa), vehicles (-2.7% MoM-sa) and building materials (-2.0% MoM-sa). Conversely, fuels sales climbed in real terms (+12.2% MoM-sa) but reflects a sharp deflation due to a tax cut in the period. In terms of contribution, as expected fuels contributed the most (+1.01 p.p.), while clothing (-1.06 p.p.), vehicles (-0.65 p.p.) and furniture (-0.22 p.p.) contributed the least.

July's prints marked a weak start to 3Q22, raising doubts of new sequential quarterly growth in consumption variables. We calculate carryovers of -2.3% QoQ-sa for broad retail sales and -1.9% QoQ-sa for core retail sales. Additionally, our proprietary indicator (IGet family) points to continued weakening in August¹. We expect a slight decline in the real wage bill in the 3Q22 (with a virtual stability in 2H22) following the sharp increase in 1H22, despite the new round of fiscal stimulus. This element, along with a softening in credit granting (due to rising interest rates), should cool down retail sales in 2H22. We recognize that a resilient labor market (with increasing wages) could partially support demand in the period. Regarding IBC-Br for July, we are maintaining our expectations of a monthly gain of +0.6% MoM-sa (+3.0% YoY). Regarding 3Q22 GDP growth, we are also keeping unchanged our +0.4% QoQ-sa tracking. Our 2022 GDP growth forecast of +2.6% are slightly biased to the upside, while risks are also tilted to the upside in our 2023 GDP forecast of -0.2%.

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

¹ **Santander Brazil Economic Activity: "Varejo segue enfraquecendo em agosto"** – September 8, 2022 – Available (in Portuguese) on: <https://bit.ly/Std-IGET-ago22>

² **Santander Brazil Special Report: "Nowcasting Brazilian GDP with LASSO"** – May 16, 2022 – Available on: <https://bit.ly/Std-special-051622>

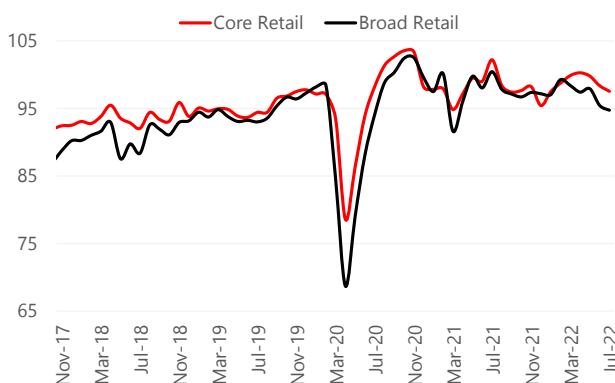
Santander Brazil Special Report: "A Model to Forecast Probability of Recession in Brazil" – June 08, 2022 – Available on: <https://bit.ly/Std-special-060822>

Santander Brazil Special Report: "Resilience Factors for GDP Growth: What Has Changed Since January" – June 30, 2022 – Available on: <https://bit.ly/Std-special-GDP-062922>

Santander Brazil Special Report: "Tightest Financial Conditions since 2009" – August 11, 2022 – Available on: <https://bit.ly/Std-special-081122>

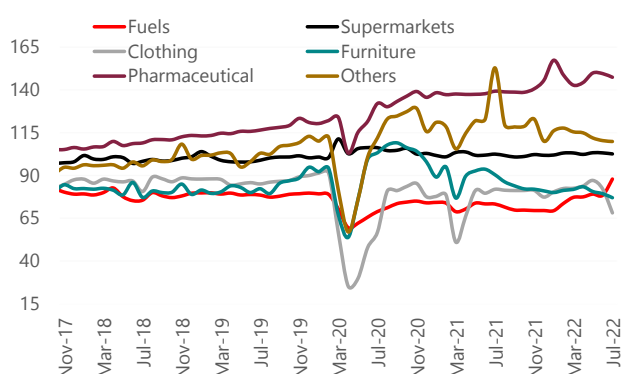


Figure 2.A – Retail Sales (sa, 2014=100)



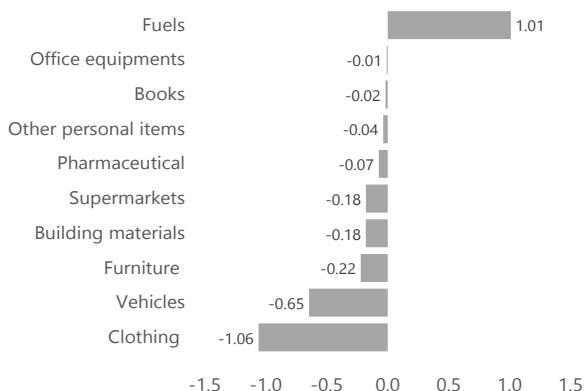
Sources: IBGE, Santander.

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



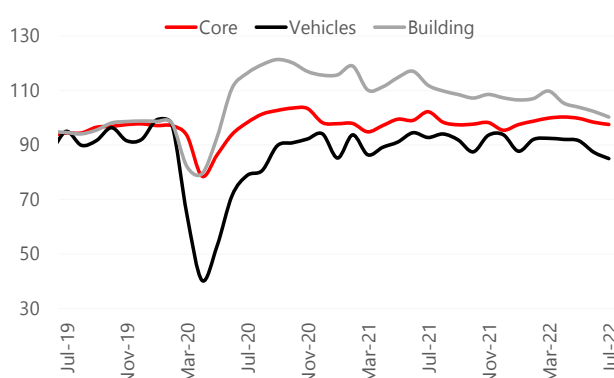
Sources: IBGE, Santander.

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)												
	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Core Retail Sales	-3.76	-0.96	0.25	0.59	-2.87	2.18	1.28	1.14	0.41	-0.49	-1.42	-0.83
Fuels	-2.45	-2.43	-0.05	-0.35	0.01	-0.12	6.14	4.76	0.36	2.15	-0.93	12.16
Hypermarkets, supermarkets	-0.78	-0.85	0.30	1.09	-0.43	0.16	1.16	0.03	-0.82	0.96	-0.10	-0.58
Fabrics, clothing and footwear	-0.68	-0.20	0.03	0.09	-4.89	3.98	2.44	0.16	1.62	3.90	-5.72	-17.08
Furniture and home appliances	-4.62	-2.70	-2.13	-0.21	-1.21	-1.19	1.59	0.69	1.88	-3.36	-1.53	-2.99
Pharmaceutical	-0.31	-0.09	-0.06	1.44	3.55	8.06	-5.50	-3.96	1.05	3.87	-0.24	-1.43
Office equipment and supplies	-5.94	-1.40	2.41	4.03	-2.01	-2.22	-1.71	14.89	-6.31	1.84	-1.69	-1.49
Books, papers and magazine	0.45	1.19	-1.05	1.18	0.23	-41.31	90.34	4.30	-6.37	4.84	-3.65	-2.04
Others	-21.84	-0.94	0.30	3.62	-10.59	5.52	1.38	-1.87	-0.50	-2.62	-1.37	-0.48
Broad Retail Sales	-2.62	-0.69	-0.43	0.68	-0.20	-0.13	2.29	-0.88	-0.99	0.52	-2.53	-0.73
Building material	-1.88	-1.17	-1.21	1.23	-1.14	-0.71	0.48	2.57	-4.01	-1.45	-1.49	-2.02
Vehicles	1.38	-2.31	-4.77	6.94	0.21	-6.43	4.93	0.43	-0.42	-0.52	-4.64	-2.67

Sources: IBGE, Santander.

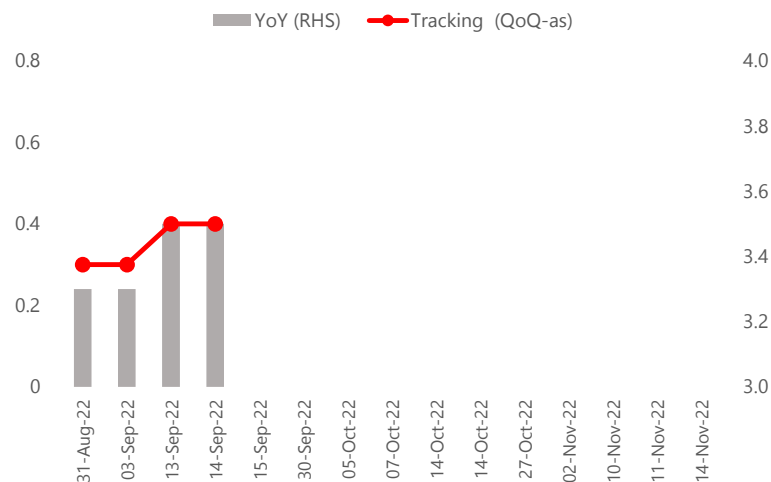


Figure 6 – “Heatmap” Showing Retail Sales Contribution by Component

Retail Sales (contributions sa, p.p)												
	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Fuels	-0.20	-0.20	0.00	-0.03	0.00	-0.01	0.51	0.40	0.03	0.18	-0.08	1.01
Hypermarkets, supermarkets	-0.24	-0.26	0.09	0.33	-0.13	0.05	0.35	0.01	-0.25	0.29	-0.03	-0.18
Fabrics, clothing and footwear	-0.04	-0.01	0.00	0.01	-0.30	0.25	0.15	0.01	0.10	0.24	-0.35	-1.06
Furniture and home appliances	-0.34	-0.20	-0.16	-0.02	-0.09	-0.09	0.12	0.05	0.14	-0.25	-0.11	-0.22
Pharmaceutical	-0.02	0.00	0.00	0.07	0.18	0.41	-0.28	-0.20	0.05	0.20	-0.01	-0.07
Office equipment and supplies	-0.05	-0.01	0.02	0.04	-0.02	-0.02	-0.02	0.13	-0.06	0.02	-0.02	-0.01
Books, papers and magazine	0.00	0.01	-0.01	0.01	0.00	-0.25	0.54	0.03	-0.04	0.03	-0.02	-0.01
Others	-1.70	-0.07	0.02	0.28	-0.83	0.43	0.11	-0.15	-0.04	-0.20	-0.11	-0.04
Building material	-0.17	-0.10	-0.11	0.11	-0.10	-0.06	0.04	0.23	-0.36	-0.13	-0.13	-0.18
Vehicles	0.33	-0.56	-1.15	1.68	0.05	-1.55	1.19	0.10	-0.10	-0.13	-1.12	-0.65

Sources: IBGE, Santander.

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



Sources: IBGE, Santander

Figure 8 – Santander GDP Growth Nowcasting

3Q22 GDP Growth						
Date	Release	Reference	Tracking (%)		Projection (%)	
			QoQ-sa	YoY	QoQ-sa	YoY
31-Aug-22	Labor Market	Jul-22	0.3	3.3	0.3	3.3
03-Sep-22	Industry	Jul-22	0.3	3.3	0.3	3.3
13-Sep-22	Retail Sales	Jul-22	0.4	3.5	0.3	3.3
14-Sep-22	Services	Jul-22	0.4	3.5	0.3	3.3

Sources: IBGE, Santander.



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