

Brazil Macro: Retail Sales

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Activity Continued to Improve in August

- Data on retail sales released today by IBGE has confirmed the market's expectations of another gain in August. Following the upward trend anticipated by our proprietary coincident index for retail sales (IGet), the headline core index pointed to growth of 3.4% MoM s.a., a better result than the market consensus projection (3.0%). Relative to August 2019, there was an increase of 6.1%. The headline broad retail sales number (including auto and construction) rose 4.6% MoM s.a. (3.9% YoY).
- On the heels of the core retail movement in the previous month, we believe this positive result for August implies the broad headline number has fully recovered from the drop registered between March and April. Relative to the pre-crisis level, the core and the broad retail index are above February's reading by 8.2% and 2.2%, respectively.
- Preliminary soft data for September points to continued improvement in retail sales. According to FGV, retail confidence has recovered virtually all the losses registered in the crisis. The current situation component is at the highest level since May 2013, and current demand is running at around the highest level since December 2010. Based on this data, we project a rise of 0.5% MoM s.a. (7.8% YoY) for September.

Figure 1. Retail Sales Breakdown

	Jun/20			Jul/20			Aug/20		
	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ
Core Retail Sales	8.8	0.6	-8.2	5.0	5.5	6.1	3.4	6.1	15.5
Fuels	5.7	-16.2	-16.8	6.0	-10.6	-3.3	1.3	-9.0	8.9
Hypermarkets, supermarkets	0.6	6.5	2.1	-0.2	9.8	3.8	-2.4	4.4	0.2
Fabrics, clothing and footwear	53.7	-43.6	-58.0	27.9	-31.1	-9.6	30.5	-6.6	92.6
Furniture and home appliances	30.2	25.1	-5.0	5.2	26.5	36.9	4.6	36.2	62.3
Pharmaceutical	6.3	7.2	-8.5	7.8	13.5	4.1	-1.2	8.9	11.3
Books, papers and magazine	61.0	-40.1	-51.2	27.3	-25.0	-5.8	-24.7	-43.1	52.7
Office equipment and supplies	20.8	-10.4	-23.8	10.8	-5.7	5.7	1.5	-11.8	33.8
Others	28.5	4.0	-17.8	5.9	8.9	22.2	10.4	18.9	56.8
Broad Retail Sales	11.8	-2.2	-14.5	7.1	1.7	5.7	4.6	3.9	22.4
Building material	11.9	22.5	1.2	5.9	22.7	23.0	3.6	24.2	32.9
Vehicles	28.5	50.0	-36.4	12.3	-16.3	1.8	8.8	-9.9	50.4

Sources: IBGE and Santander.

Continuing Retail Sales Recovery

Retail activity has confirmed the market's expectations of another gain in August. Following the upward trend anticipated by our proprietary coincident index for retail sales (IGet), the headline index pointed to growth of 3.4% MoM s.a. (an all-time high), a better result than the market consensus projection (3.0%). Relative to August 2019, there was an increase of 6.1%. The headline broad retail sales number (including auto and construction) rose 4.6% MoM s.a. (2.9% YoY),

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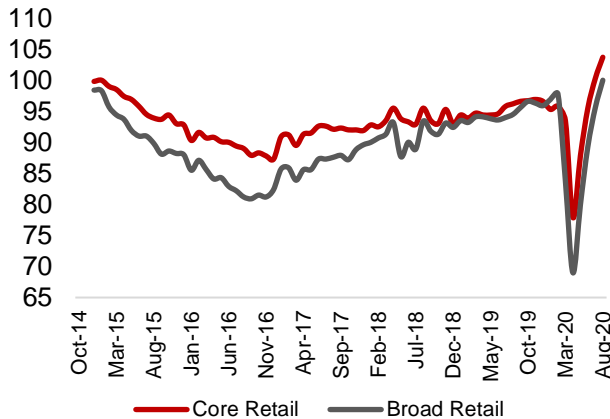
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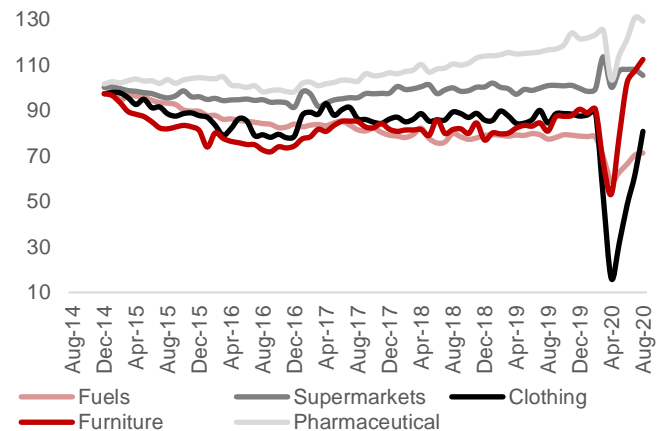
reaching the highest level since November 2014. On the heels of the favorable core retail movement in the previous month, we believe this positive result for August implies the broad headline number has fully recovered from the drop registered between March and April. Relative to the pre-crisis level, the core and the broad retail index are above February's reading by 8.2% and 2.2%, respectively. With today's result for the core index, assuming no growth in the remaining months of the quarter, we calculate that growth for 3Q20 stands at 17.8% QoQ s.a.

Figure 2-A. Retail Sales (s.a., 2014=100)



Sources: IBGE and Santander.

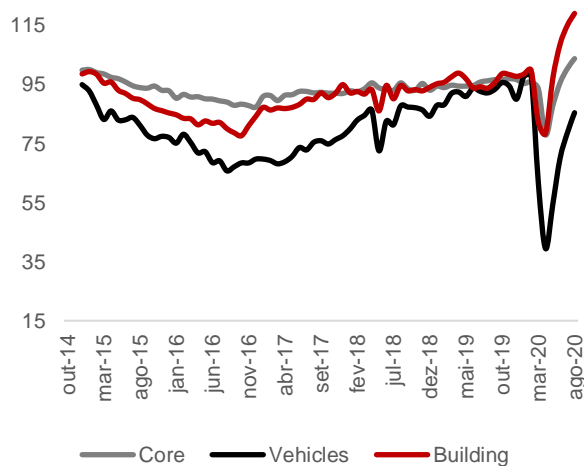
Figure 2-B. Core Retail Sales Breakdown (s.a., 2014=100)



Sources: IBGE and Santander.

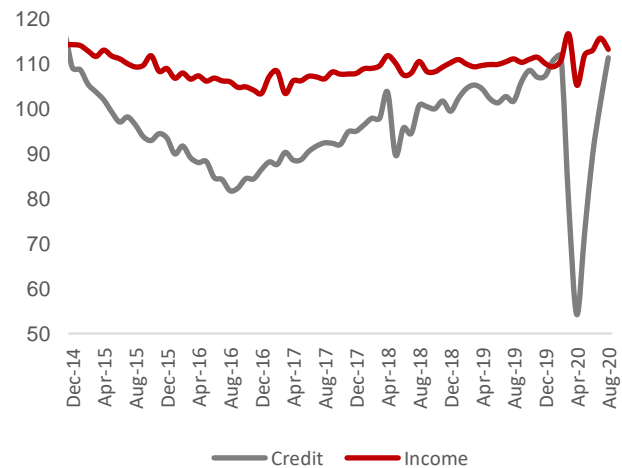
Among the categories, August's positive monthly result was driven to a large extent by segments such as Vehicles (8.8%), Clothing (30.5%) and Building Materials (3.6%). The negative highlight was Books (-24.7%). Supermarkets and Pharmaceuticals, which showed some resilience in the crisis, registered declines of 2.2% and 1.2%, respectively. Regarding the diffusion index, 7 of the 10 sectors of the broad retail sales index posted positive variations.

Figure 3-A. Broad Retail Sales Breakdown (s.a., 2014=100)



Sources: IBGE and Santander.

Figure 3-B. Credit x Income Segments (s.a., 2011=100)



Sources: IBGE and Santander.

In a sensitivity analysis, the effect of income transfers is easier to see. Alongside the social distancing measures, the massive government transfers have shown a clear pattern for household spending in recent months. In retail, sales in the income-led segments (such as Supermarkets and Pharmaceuticals) fell significantly less than sales in the credit-led segments (e.g., Vehicles). In comparison to February (pre-crisis), the index in April (worst month of the crisis) for sales associated with credit concessions was -51.4%, against -5.4% for income-related sales. Now, the readings are -0.34% and +0.02% relative to February's level.



Preliminary soft data for September points to continued improvement in retail sales. According to FGV, retail confidence has recovered virtually all the losses registered in the crisis. The current situation component is at the highest level since May 2013, and current demand is running at around the highest level since December 2010. On the other hand, the expectation component is still 13.6% below February's reading, reflecting a slow pace of recovery. This composition suggests a favorable outlook regarding sales in the current month but indicates that caution is warranted in relation to the coming months, as the emergency aid will be reduced, and we expect labor market conditions to continue to deteriorate. Based on this data, we project a rise of 0.5% MoM s.a. (7.8% YoY) for retail sales in September.

Figure 4. Recovery Breakdown

	MoM%	YoY%	Rec%*	Feb%**
Core Retail Sales	3.4	6.1	144.1	8.2
Fuels	1.3	-9.0	64.2	-8.8
Hypermarkets, supermarkets	-2.2	3.0	-742.9	5.9
Fabrics, clothing and footwear	30.5	-6.6	88.5	-9.4
Furniture and home appliances	4.6	36.2	158.7	24.2
Pharmaceutical	-1.2	8.9	130.5	4.9
Books, papers and magazine	-24.7	-43.1	43.8	-39.2
Office equipment and supplies	1.5	-11.8	87.2	-5.5
Others	10.4	18.9	125.0	12.3
Broad Retail Sales	4.6	3.9	107.6	2.2
Building material	3.6	24.2	189.7	19.2
Vehicles	8.8	-9.9	78.4	-12.9

* Percentage of the drop already recovered.

** Variation relative to February's reading

Sources: IBGE and Santander.

Figure 5. "Heatmap" Showing Retail Sales by Component

	Retail Sales (% MoM seasonally adjusted)													
	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Fuels	-0.63	-2.40	0.90	1.54	-0.25	-0.51	-0.25	-0.38	-11.25	-15.13	6.62	5.73	6.02	1.28
Hypermarkets, supermarkets	1.01	1.10	0.10	-0.20	0.20	-1.29	-1.30	1.12	14.17	-11.80	7.09	0.65	-0.19	-2.23
Fabrics, clothing and footwear	4.77	-6.11	4.73	0.11	-0.23	-1.02	0.57	1.36	-42.26	-68.54	94.44	53.65	27.89	30.53
Furniture and home appliances	1.68	-4.26	7.79	0.23	0.34	3.19	-1.77	1.80	-26.19	-20.36	47.56	30.19	5.19	4.56
Pharmaceutical	0.35	0.78	0.34	1.45	4.47	-2.02	0.33	1.07	1.54	-17.27	10.24	6.31	7.83	-1.22
Office equipment and supplies	-1.13	5.95	-2.03	5.61	4.39	-10.29	-1.11	-0.12	-23.60	-25.33	21.88	20.83	10.85	1.47
Books, papers and magazine	0.00	-2.61	-2.88	-1.48	-6.88	21.25	-4.95	-7.41	-35.50	-53.02	30.00	60.99	27.30	-24.66
Others	1.95	-1.15	2.22	0.66	1.41	0.28	0.46	2.02	-28.13	-28.98	46.47	28.47	5.92	10.37
Core Retail Sales	1.27	0.42	0.42	0.10	0.21	-0.31	-1.35	0.52	-2.40	-16.68	12.71	8.77	5.03	3.39
Building material	0.43	-0.53	2.03	3.14	-0.30	-0.61	0.72	1.42	-17.64	-4.62	23.72	11.86	5.90	3.57
Vehicles	-1.17	-0.54	1.30	2.47	-1.26	-4.66	8.44	0.51	-37.10	-36.14	38.07	28.49	12.30	8.79
Broad Retail Sales	0.43	0.53	1.16	1.05	-0.31	-0.42	1.04	0.93	-14.31	-17.66	15.80	11.76	7.05	4.60

Sources: IBGE and Santander.



Figure 6. “Heatmap” Showing Retail Sales by Component: 3-Month Moving Average

Retail Sales (% 3MMA seasonally adjusted)														
	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Fuels	0.04	-0.67	-0.72	0.00	0.72	0.25	-0.34	-0.38	-3.95	-8.67	-7.46	-1.57	6.11	4.26
Hypermarkets, supermarkets	0.04	0.57	0.73	0.33	0.03	-0.43	-0.80	-0.50	4.67	0.58	2.49	-1.74	2.41	-0.59
Fabrics, clothing and footwear	2.24	0.04	1.00	-0.53	1.49	-0.38	-0.23	0.30	-13.60	-31.39	-36.78	-3.13	47.55	34.77
Furniture and home appliances	0.92	-1.00	1.65	1.15	2.66	1.26	0.56	1.05	-8.78	-14.50	-5.70	17.83	23.22	11.76
Pharmaceutical	0.26	0.46	0.49	0.86	2.10	1.25	0.88	-0.22	0.98	-4.97	-2.59	-1.11	8.06	4.12
Office equipment and supplies	1.79	-3.39	-1.82	-2.33	-3.72	3.87	2.39	1.99	-15.28	-28.51	-31.11	-0.81	37.89	11.67
Books, papers and magazine	-1.98	-0.12	0.87	3.11	2.66	-0.35	-2.48	-4.09	-8.24	-15.58	-13.05	3.75	17.13	10.12
Others	0.95	0.88	1.00	0.57	1.43	0.78	0.71	0.92	-8.69	-17.41	-11.33	12.23	22.85	13.77
Core Retail Sales	0.49	0.63	0.70	0.31	0.24	0.00	-0.48	-0.38	-1.08	-6.11	-2.99	0.77	8.58	5.61
Building material	-1.59	-1.12	0.64	1.55	1.60	0.72	-0.07	0.51	-5.24	-7.13	-1.08	10.21	12.86	6.87
Vehicles	0.07	0.43	-0.14	1.08	0.82	-1.16	0.71	1.31	-9.91	-22.61	-21.94	5.27	23.89	15.29
Broad Retail Sales	-0.04	0.25	0.71	0.92	0.63	0.10	0.10	0.52	-4.16	-10.02	-7.14	2.36	11.17	7.59

Sources: IBGE and Santander.



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