

Brazil Macro: Retail Sales

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A Consolidated Sharp Third-Quarter Recovery

- Data on retail sales released today by IBGE disappointed the market's expectation of another substantial gain in September. Reflecting the softening trend anticipated by our proprietary coincident index for retail sales (IGet), the headline core index points to slight growth of 0.6% MoM s.a. (7.3% YoY), below the market consensus projection (1.4%). The broad retail sales number (including auto and construction) rose 1.2% MoM s.a. (7.4% YoY).
- This positive result for September implies the core headline number is up by 7.7% since February (pre-crisis mark), reaching an all-time high. With today's result, retail sales end 3Q20 registering a sharp quarterly increase of 17.2% on the heels of the government income transfers, after falling by 8.2% in the previous quarter.
- According to FGV, preliminary data for October implies a softening in retail sales and consumer confidence, with both figures pointing to the first decrease since April's tumble. Based on this data and on the IGet, we project a decline of 1.0% MoM s.a. (5.3% YoY) for October.

Figure 1. Retail Sales Breakdown

Retail Sales Breakdown									
	Jul/20			Aug/20			Sep/20		
	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ
Core Retail Sales	4.7	5.5	5.5	3.1	6.2	14.8	0.6	7.3	17.2
Fuels	6.0	-10.6	-3.2	1.8	-9.0	9.3	3.1	-5.0	15.0
Hypermarkets, supermarkets	-0.3	9.8	3.0	-2.1	2.9	-0.1	-0.4	4.4	0.8
Fabrics, clothing and footwear	25.2	-31.1	-10.4	36.7	-6.2	91.0	-2.4	-7.2	131.1
Furniture and home appliances	4.8	26.5	36.2	4.1	36.2	61.6	1.0	28.6	41.8
Pharmaceutical	7.8	13.5	4.0	-1.2	9.0	11.1	2.1	13.7	15.5
Books, newspapers and magazines	25.0	-25.0	-14.4	-21.1	-43.3	48.7	8.9	-36.2	57.2
Office equipment and supplies	10.6	-5.7	5.3	0.9	-11.9	32.9	1.1	-7.2	33.3
Others	5.9	8.9	22.3	10.3	18.8	56.9	-0.6	18.8	46.7
Broad Retail Sales	7.2	1.7	5.5	4.1	3.7	22.0	1.2	7.4	24.2
Building materials	14.5	22.7	34.1	0.1	24.1	44.6	1.4	31.2	37.4
Vehicles	17.1	-16.3	11.2	3.1	-10.4	52.1	4.9	-1.5	60.0

Sources: IBGE and Santander.

Retail Sales Recovery Decelerates

Retail activity data disappointed the market's expectation of another substantial gain in September. Reflecting the softening trend anticipated by our proprietary coincident index for retail sales (IGet), the headline index points to a slight growth of 0.6% MoM s.a. (an all-time high), below the market consensus projection (1.4%). Relative to September 2019, retail sales increased 7.3%. The headline broad retail sales number (including auto and construction) rose 1.2% MoM

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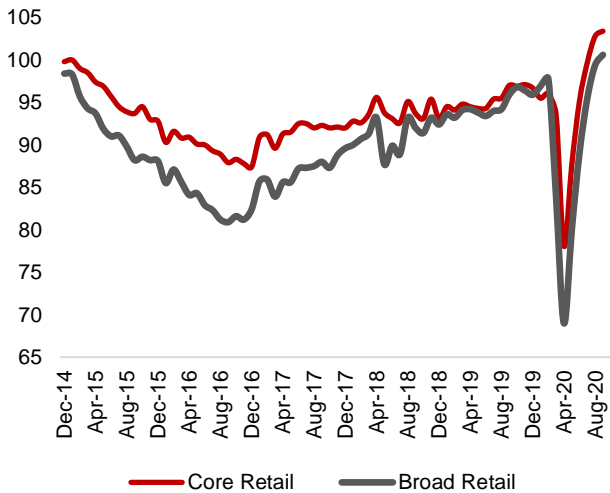
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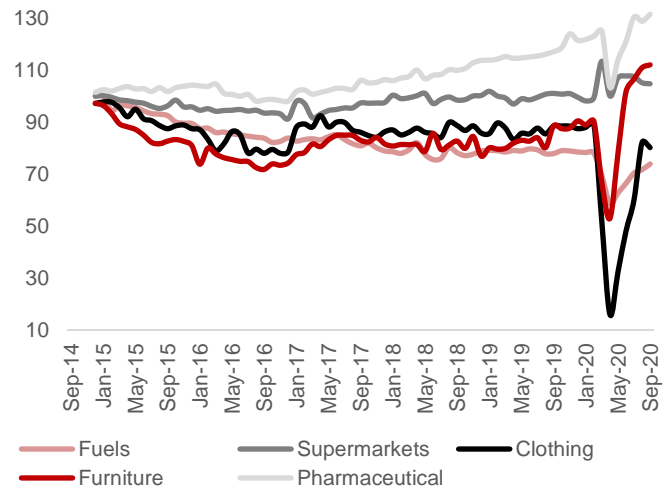
s.a. (7.4% YoY), reaching the highest level since May 2014. This positive result for September implies that, relative to the pre-crisis level, the core and the broad retail index are above February's reading by 7.2% and 2.9%, respectively. With today's result, retail sales end 3Q20 registering a quarterly increase of 17.2% on the heels of the government income transfers, after falling by 8.2% in the previous quarter. Regarding the retail sales outlook, assuming no growth for the remaining months of the year, expected growth for 4Q20 (per consensus) is now at 1.4% QoQ s.a. (core index) and at 2.3% QoQ s.a. (broad index).

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



Sources: IBGE and Santander.

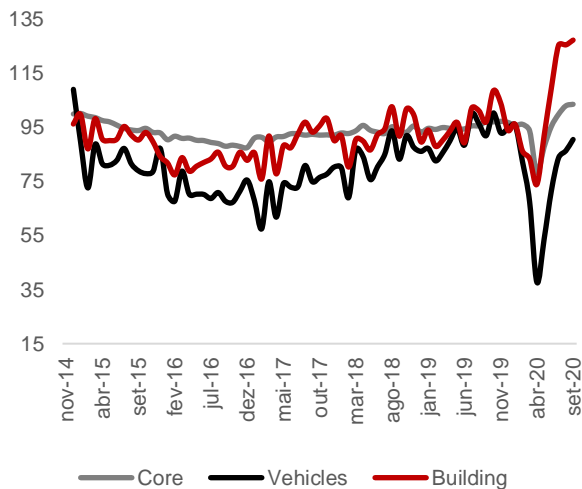
Figure 2-B. Core Retail Sales Breakdown (s.a., 2014=100)



Sources: IBGE and Santander.

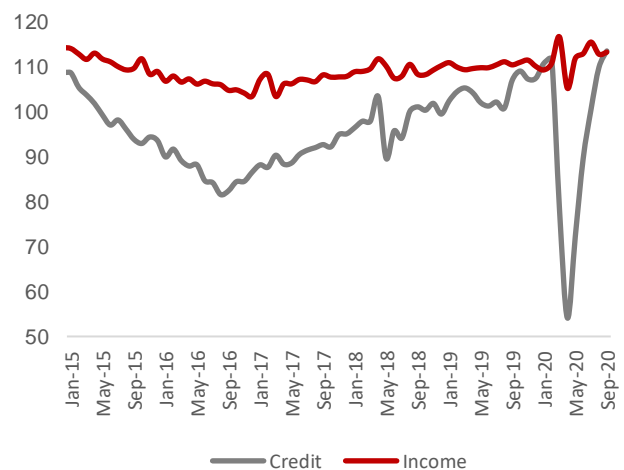
Among the categories, 7 of the 10 sectors of the broad retail sales index posted positive variations. September's positive monthly result was driven to a large extent by segments such as Vehicles (4.9%), Fuels (3.1%) and Books (8.9%). The most negative highlight was Clothing: after posting four sharp increases in a row, this category declined by -2.4%, which implies it is now running at levels below February's reading of -10.3%. Furniture, which reached all-time highs in the previous months, posted slight growth of 1.4%. Supermarkets, due to the effects of price hikes for essential goods such as Foods, posted a decline of -0.4%. Regarding the evolution from pre-crisis level, 6 of the 10 sectors are above February's reading, and 3 are at all-time highs (Others, Furniture and Building Materials).

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. Along with the social distancing measures, the massive government transfers have resulted in 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%, vs. -5.4% for income-related sales. Now, the readings are +1.7% and +2.3% relative to February's level.

Preliminary soft data for October implies a softening in retail sales and consumer confidence, with both figures pointing to the first decrease since April's tumble. Despite the current quarter's favorable sales figure, we believe caution is warranted with respect to the coming months, as government emergency aid will be reduced, and we expect labor market conditions to continue to deteriorate. Based on the soft data and on the IGet, our tracking for core retail sales for October is at -1.0% MoM s.a. (5.3% YoY). For broad retail sales, our tracking is at +0.8% MoM s.a. (3.2% YoY).

Figure 4. Recovery Breakdown

	Drop	MoM%	YoY%	Rec%*	Feb%**
Core Retail Sales	-18.6	0.6	7.3	-	7.7
Fuels	-24.7	3.1	-5.0	78.4	-5.4
Hypermarkets, supermarkets	0.8	-0.4	4.4	-	5.4
Fabrics, clothing and footwear	-82.1	-2.4	-7.2	87.5	-10.3
Furniture and home appliances	-41.4	1.0	28.6	-	24.0
Pharmaceutical	-15.9	2.1	13.7	-	6.9
Books, newspapers and magazines	-69.3	8.9	-36.2	46.3	-37.2
Office equipment and supplies	-43.1	1.1	-7.2	87.2	-5.5
Others	-48.8	-0.6	18.8	-	11.5
Broad Retail Sales	-29.4	1.2	7.4	-	2.9
Building materials	-21.1	1.4	31.2	-	47.4
Vehicles	-59.9	4.9	-1.5	-	9.7

* Percentage of the drop already recovered.

** Variation relative to February's reading.

Sources: IBGE and Santander.

Figure 5-A. "Heatmap" Showing Retail Sales by Component (% MoM s.a.)

	Retail Sales (% MoM seasonally adjusted)												
	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Fuels	0.13	1.41	-0.13	-0.51	-0.25	-0.26	-11.25	-15.27	6.80	5.89	6.02	1.84	3.06
Hypermarkets, supermarkets	0.30	-0.30	0.20	-1.38	-1.40	1.22	14.17	-11.80	6.99	0.65	-0.28	-2.14	-0.38
Fabrics, clothing and footwear	3.50	0.00	0.00	-1.13	0.57	1.59	-42.46	-68.93	101.88	48.92	25.16	36.71	-2.43
Furniture and home appliances	10.46	-1.24	0.23	3.19	-1.77	1.69	-26.19	-20.66	47.17	30.51	4.81	4.12	0.99
Pharmaceutical	0.86	1.28	4.46	-2.01	0.33	0.98	1.62	-17.33	10.24	6.22	7.76	-1.23	2.09
Office equipment and supplies	-0.24	4.46	4.27	-10.18	-1.23	-0.12	-23.60	-25.16	21.62	20.47	10.58	0.94	1.07
Books, papers and magazine	-1.23	-0.21	-9.17	15.14	0.00	-3.19	-37.45	-50.99	10.74	72.12	25.00	-21.13	8.93
Others	2.03	0.76	1.41	0.28	0.46	2.02	-28.13	-28.98	46.47	28.59	5.91	10.27	-0.64
Core Retail Sales	1.57	-0.10	0.21	-0.41	-1.24	0.52	-2.50	-16.56	12.16	8.68	4.73	3.11	0.58
Building material	-4.06	11.87	-4.15	-9.72	2.35	-10.21	-3.36	-11.40	24.25	19.19	14.55	0.08	1.44
Vehicles	-4.57	9.15	-7.29	1.61	1.38	-13.90	-18.20	-44.07	41.91	33.46	17.09	3.11	4.87
Broad Retail Sales	1.80	0.94	-0.41	-0.52	1.04	0.93	-14.21	-17.76	15.80	11.51	7.18	4.08	1.21

Sources: IBGE and Santander.



Figure 6-B. “Heatmap” Showing Retail Sales by Component (% 3MMA s.a.)

Retail Sales (% 3MMA seasonally adjusted)													
	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Fuels	-0.76	-0.13	0.47	0.25	-0.30	-0.34	-3.91	-8.67	-7.46	-1.52	6.22	4.50	3.59
Hypermarkets, supermarkets	0.84	0.40	0.07	-0.49	-0.86	-0.53	4.67	0.61	2.46	-1.78	2.35	-0.59	-0.94
Fabrics, clothing and footwear	1.16	0.31	1.14	-0.38	-0.19	0.34	-13.61	-31.47	-36.43	-3.41	45.85	35.56	16.89
Furniture and home appliances	2.39	1.38	2.92	0.72	0.53	1.01	-8.81	-14.62	-5.94	17.69	23.07	11.55	3.25
Pharmaceutical	0.61	0.92	2.21	1.19	0.88	-0.24	0.98	-4.99	-2.59	-1.17	8.00	4.07	2.76
Office equipment and supplies	-0.34	-0.34	-3.52	1.50	1.55	3.47	-13.29	-27.32	-34.19	-3.24	34.45	14.30	2.29
Books, papers and magazine	1.37	3.27	2.85	-0.69	-2.52	-4.09	-8.28	-15.53	-13.04	3.63	16.84	9.75	3.98
Others	0.93	0.57	1.39	0.81	0.71	0.92	-8.69	-17.41	-11.33	12.27	22.88	13.76	4.97
Core Retail Sales	0.95	0.52	0.55	-0.10	-0.48	-0.38	-1.08	-6.10	-3.14	0.62	8.28	5.38	2.75
Building material	2.64	2.13	0.95	-1.00	-4.05	-6.03	-3.80	-8.36	2.26	10.45	18.70	10.30	4.95
Vehicles	1.23	0.10	-1.15	0.91	-1.57	-3.71	-9.91	-23.63	-15.41	2.52	28.23	15.68	7.88
Broad Retail Sales	0.89	0.99	0.77	0.00	0.03	0.48	-4.13	-10.01	-7.14	2.23	11.13	7.37	4.05

Sources: IBGE and Santander.



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