

Brazil Macro: Retail Sales

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Sequential Improvement at the Start of 4Q20

- Data on retail sales released today by IBGE has surprised market expectations of only a slight gain in October: the headline core index pointed to growth of 0.9% MoM s.a. (8.3% YoY), considerably above consensus (0.1%). For the broad retail sales number (including auto and construction), there was an increase of 2.1% MoM s.a. (6.0% YoY), vs. consensus at 1.5%.
- These figures show that we began 4Q20 with a large sequential gain, above our expectations, which suggests to us that the accommodation process we were expecting might be slower than we anticipated initially. These numbers imply that core and broad indexes are 8.0% and 4.9% above February's reading (pre-crisis). With today's result, the carryover for 4Q20 is at 2.2% and 4.2%, respectively.
- According to FGV, preliminary data for November implies a softening in retail sales and consumer confidence, with both figures pointing to the second decrease in a row since April's tumble. Based on this data and on our proprietary coincident indicator of retail sales (IGet), our tracking is at -0.7% MoM s.a. (3.0% YoY) for the core index. For broad retail sales, our tracking is at 0.7% MoM s.a. (3.5% YoY).

Figure 1. Retail Sales Breakdown

	Retail Sales Breakdown								
	Aug-20			Sep-20			Oct-20		
	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ
Core Retail Sales	2.9	6.2	14.5	0.5	7.2	16.9	0.9	8.3	9.5
Fuels	1.7	-9.0	9.2	2.8	-5.4	14.7	1.1	-5.3	10.0
Hypermarkets, supermarkets	-2.1	2.9	-0.1	-0.3	4.4	0.8	0.6	7.2	-2.1
Fabrics, clothing and footwear	37.3	-6.2	89.9	-2.6	-6.9	130.2	6.6	-2.7	76.6
Furniture and home appliances	4.1	36.2	61.1	-1.1	28.8	40.4	-1.1	21.7	14.9
Pharmaceutical	-1.2	9.0	11.1	2.2	13.8	15.6	2.3	13.8	8.2
Books, papers and magazine	-21.4	-43.3	48.5	8.2	-36.7	56.5	6.6	-33.2	12.3
Office equipment and supplies	0.8	-11.9	32.8	1.1	-7.1	33.2	3.7	-10.9	16.1
Others	10.6	18.8	56.9	-1.1	18.6	46.6	1.9	18.4	23.7
Broad Retail Sales	4.0	3.7	22.0	1.2	7.4	24.1	2.1	6.0	14.3
Building material	3.4	24.1	32.1	2.4	31.4	24.7	0.2	20.9	12.9
Vehicles	8.1	-10.4	49.4	5.2	-1.6	53.7	4.8	-5.9	31.7

Sources: IBGE and Santander.

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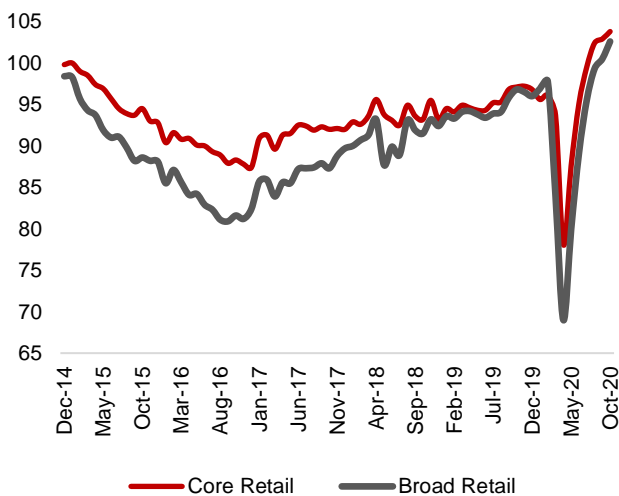
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Retail Sales Surprise Positively as 4Q20 Begins

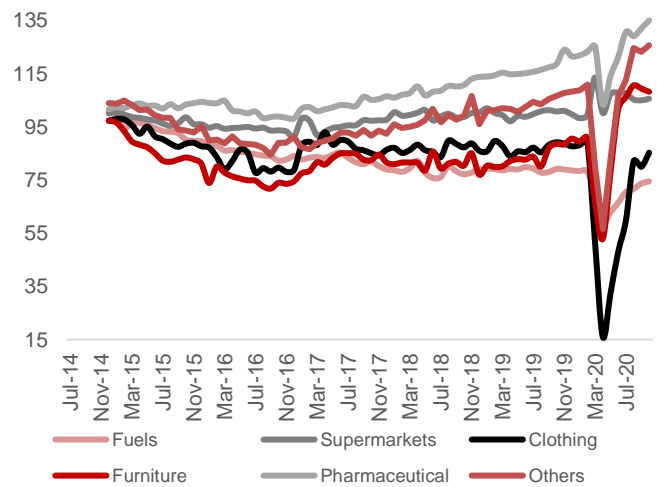
Retail activity data surprised positively, with an above-expectations sequential gain in October. The headline index points to slight growth of 0.9% MoM s.a. (reaching an all-time high level), while consensus was at 0.1%. Relative to October 2019, retail sales increased 8.3%. The headline broad retail sales number (including auto and construction) rose 2.1% MoM s.a. (6.0% YoY), reaching the highest level since January 2014. This positive result for October implies that, relative to the pre-crisis level, the core and the broad retail index are above February's reading by 8.0% and 4.9%, respectively. Assuming no growth in the remaining months of the year, with today's result, core retail sales end 4Q20 registering a quarterly increase of 2.2% after rising by 16.9% in the previous quarter, on the heels of the (temporary) government income transfers program. Regarding the broad index, more related to GDP, the carryover for 4Q20 is at 4.2%, after a sharp increase of 24.7% in 3Q20. These figures are in keeping with our projections of a substantial sequential improvement in GDP, occurring simultaneously with growth in industrial production and an advance in services sector improvement following the economy's reopening.

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



Sources: IBGE and Santander.

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



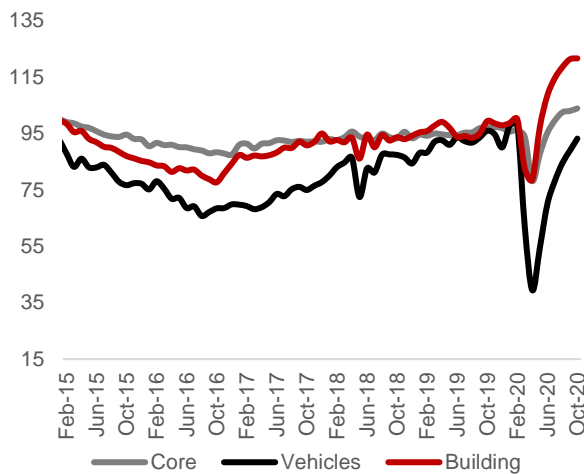
Sources: IBGE and Santander.

Among the categories, 9 of the 10 sectors of the broad retail sales index posted positive variations, characterizing this as widespread monthly growth. October's positive monthly result was driven to a large extent by segments such as Vehicles (4.8%), Clothing (6.6%) and Books (6.6%). The only negative highlight was Furniture and Home Appliance: this category posted its second decline in a row after reaching all-time highs on the heels of the emergency aid. In our view, this result is probably due to the reduced paycheck value of the government income transfers beginning at the end of September, with effects in October onward, but also may be related to the beginning of the recomposition of household consumption, with less time spent at home and with demand shifting from the goods to the services sector following the economy's reopening. In comparison with pre-crisis levels, five sectors are up since February's reading, among which we highlight Furniture (19.0%) and Building Materials (21.5%). Vehicles is still down by 5.2%, a gap that, in our view, may be filled in the coming months, especially with the positive result for coincident indicators of vehicles sales in November.

This more-than-established retail sales recovery can be analyzed highlighting the heterogeneous resumption among the categories, breaking them down into three groups. The first one encompasses the categories that benefited from the emergency aid and from the recomposition of household consumption. In this group, Building and Furniture have far surpassed their pre-crisis levels, and are running at historically high levels. The second group comprises the categories that were more resilient to the crisis, such as Supermarkets and Pharmaceutical goods, with more moderate declines and showing steady recoveries, since both are considered essential goods. The third group encompasses the most affected segments, such as Vehicles and Clothing, which recorded sharp declines due to the pandemic but are pointing to sharp increases in the previous months, getting closer to their pre-crisis levels.

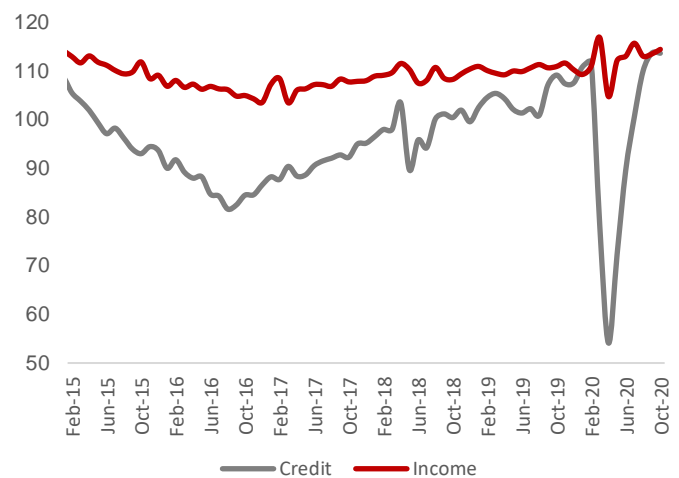


Figure 3-A. Broad Retail Sales Breakdown (s.a., 2014=100)



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 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 with 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 +3.2% relative to February's level.

Preliminary soft data for November implies a softening in retail sales and consumer confidence, with both figures pointing to the second decrease since April's tumble. We believe caution is warranted with respect to the coming months, as government emergency aid is reduced, and we expect labor market conditions to continue to deteriorate, but we believe these figures for the beginning of 4Q20 indicate a favorable outlook, and we may see a substantial sequential improvement in economic activity in the last quarter of the year. Based on this data and on our proprietary coincident indicator of retail sales (IGet), our tracking is at -0.7% MoM s.a. (3.0% YoY) for the core index. For broad retail sales, our tracking is at 0.7% MoM s.a. (3.5% YoY).

Figure 4. Recovery Breakdown

	Oct-20	% Drop	MoM %	YoY %	Feb %*
Core Retail Sales		-18.7	0.9	8.3	8.0
Fuels		-24.7	1.1	-5.3	-4.7
Hypermarkets, supermarkets		0.8	0.6	7.2	6.1
Fabrics, clothing and footwear		-82.1	6.6	-2.7	-4.6
Furniture and home appliances		-41.4	-1.1	21.7	19.0
Pharmaceutical		-15.9	2.3	13.8	9.6
Books, papers and magazine		-69.3	6.6	-33.2	-33.7
Office equipment and supplies		-43.1	3.7	-10.9	-2.1
Others		-48.8	1.9	18.4	13.3
Broad Retail Sales		-29.4	2.1	6.0	4.9
Building material		-21.1	0.2	20.9	21.5
Vehicles		-59.9	4.8	-5.9	-5.2

* 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)												
	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Fuels	-0.25	-0.51	-0.25	-0.26	-11.25	-15.27	6.97	5.72	6.02	1.70	2.79	1.09
Hypermarkets, supermarkets	0.20	-1.29	-1.40	1.22	14.17	-11.80	7.09	0.56	-0.28	-2.14	-0.28	0.57
Fabrics, clothing and footwear	-0.56	-1.13	0.46	1.48	-42.28	-68.80	100.62	48.61	24.58	37.29	-2.56	6.62
Furniture and home appliances	-0.23	2.49	-1.32	1.68	-26.29	-21.04	47.07	30.72	4.42	4.14	-1.08	-1.10
Pharmaceutical	4.55	-2.02	0.33	1.07	1.62	-17.33	10.24	6.22	7.84	-1.22	2.25	2.27
Office equipment and supplies	4.03	-10.18	-1.23	-0.12	-23.60	-25.16	21.62	20.47	10.58	0.81	1.07	3.70
Books, papers and magazine	-9.17	15.14	0.00	-3.19	-37.45	-50.99	10.74	72.12	25.00	-21.41	8.24	6.62
Others	1.31	0.28	0.46	2.02	-28.13	-28.98	46.47	28.47	5.82	10.65	-1.12	1.95
Core Retail Sales	0.10	-0.41	-1.24	0.52	-2.50	-16.65	12.16	8.56	4.63	2.91	0.49	0.87
Building material	-0.81	-0.71	0.82	1.42	-17.50	-4.73	23.54	11.53	5.72	3.41	2.36	0.25
Vehicles	-1.36	-4.86	8.56	0.51	-37.07	-36.25	37.82	28.55	11.89	8.07	5.21	4.84
Broad Retail Sales	-0.31	-0.52	0.94	0.93	-14.21	-17.76	15.80	11.51	7.18	3.98	1.21	2.09

Sources: IBGE and Santander.

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

Retail Sales (% 3MMA seasonally adjusted)												
	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Fuels	0.51	0.25	-0.34	-0.34	-3.91	-8.67	-7.41	-1.52	6.22	4.40	3.45	1.85
Hypermarkets, supermarkets	0.03	-0.53	-0.83	-0.50	4.67	0.61	2.49	-1.78	2.35	-0.62	-0.90	-0.63
Fabrics, clothing and footwear	1.26	-0.19	-0.41	0.26	-13.61	-31.43	-36.35	-3.60	45.33	35.55	16.85	11.49
Furniture and home appliances	3.25	1.36	0.30	0.93	-8.71	-14.76	-6.21	17.55	22.93	11.48	2.42	0.61
Pharmaceutical	2.13	1.14	0.91	-0.22	1.01	-4.97	-2.59	-1.17	8.03	4.10	2.83	1.10
Office equipment and supplies	-3.46	1.50	1.55	3.47	-13.29	-27.32	-34.19	-3.24	34.45	14.18	1.96	-3.53
Books, papers and magazine	2.89	-0.62	-2.59	-4.09	-8.28	-15.53	-13.04	3.63	16.84	9.70	3.93	1.87
Others	1.39	0.84	0.68	0.92	-8.69	-17.41	-11.33	12.23	22.80	13.84	4.89	3.60
Core Retail Sales	0.66	0.00	-0.52	-0.38	-1.07	-6.13	-3.17	0.54	8.21	5.24	2.63	1.41
Building material	1.77	0.99	-0.24	0.51	-5.16	-7.11	-1.11	9.99	12.64	6.66	3.78	1.98
Vehicles	1.03	-1.23	0.64	1.28	-9.86	-22.62	-22.02	5.14	23.67	14.89	8.18	5.97
Broad Retail Sales	0.84	0.07	0.03	0.45	-4.16	-10.01	-7.14	2.23	11.13	7.33	4.02	2.40

Sources: IBGE and Santander.



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