

An Expected Adjustment

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- Data on retail sales released today pointed to signs of an adjustment, with the broad index posting a monthly increase of 0.6% (vs. consensus of 0.8%), close to our call (0.4%), while the core index (which excludes building materials and vehicles) posted a decline of 0.1% (consensus of +0.3), the first drop since April's tumble.
- After a favorable start to the sequence of fourth quarter releases, this result left a carryover of 4.5% for 4Q20, in our view reinforcing the likelihood of solid sequential growth for economic activity in the remaining quarter of the year. Based on our proprietary coincident indicator of retail sales (IGET), our tracking of broad retail sales for December is at 0.5% MoM-sa (7.9% YoY).
- On Monday (January 18), the Brazilian Central Bank (BCB) will release the IBC-Br for November, and based on the information set available as of this writing, we are keeping our projection at 0.6% (-0.9% YoY), while our tracking of 4Q20 GDP is at 2.5% QoQ-sa (-2.0% YoY).

Figure 1 – Retail Sales Breakdown

	Sep-20			Oct-20			Nov-20		
	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ	% MoM	% YoY	% QoQ
Core Retail Sales	0.4	7.2	16.6	0.8	8.4	9.3	-0.1	3.4	4.3
Fuels	2.8	-5.4	14.5	1.4	-5.0	10.0	-0.4	-6.7	6.7
Hypermarkets, supermarkets	-0.5	4.4	0.1	0.8	7.3	-2.8	-2.2	-1.7	-2.5
Fabrics, clothing and footwear	-2.9	-6.9	129.9	6.8	-2.3	76.2	3.6	-4.9	33.2
Furniture and home appliances	-1.5	28.8	40.0	-1.4	21.9	14.4	-0.1	17.9	1.6
Pharmaceutical	2.3	13.8	15.9	2.4	14.0	8.5	2.6	11.7	6.7
Books, papers and magazine	8.5	-36.7	57.3	4.9	-34.5	11.3	5.6	-15.3	3.5
Office equipment and supplies	0.9	-7.1	33.3	4.2	-10.3	16.3	3.0	-9.9	8.9
Others	-1.6	18.6	46.5	1.8	18.4	23.6	1.4	16.1	9.0
Broad Retail Sales	1.0	7.4	23.9	2.1	6.1	14.2	0.6	4.0	7.7
Building material	2.5	31.4	25.4	-0.5	20.9	14.2	-0.8	16.9	6.5
Vehicles	5.2	-1.6	53.5	4.8	-5.8	31.7	3.5	0.9	19.8

Sources: IBGE and Santander.

Retail activity data released today pointed to signs of adjustment in November, decelerating from the sharp increases and the highs reached in recent months. The headline broad index posted growth of 0.6% MoM-sa (close to our call of 0.4%), vs. consensus of 0.9%; relative to November 2019, there was an increase of 4.0%. Regarding the core index (which excludes building materials and vehicles), there was a monthly decrease of 0.1%, the first since April's tumble. This adjustment was expected, since the sharp increase seen in the previous months was a consequence of the massive (temporary) income transfers program. Indeed, we believe the reduced paycheck value from September onward, the decrease in consumer confidence, the

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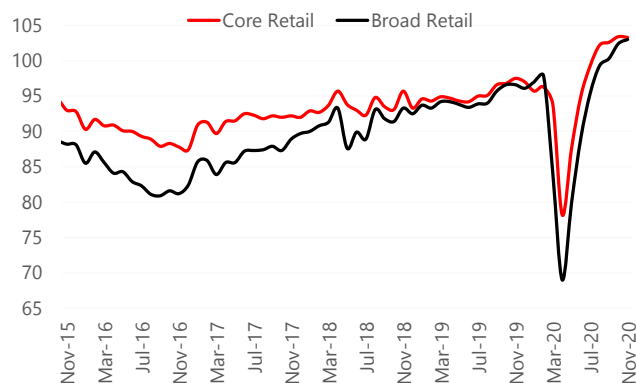
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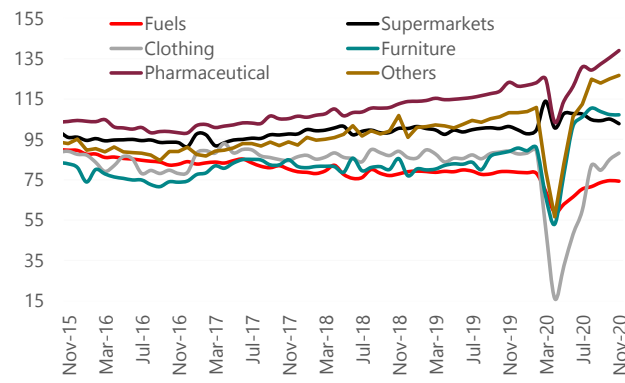
bad employment outlook, and the beginning of the economy’s reopening (shifting demand from goods toward services) were reasons to expect a cooling down in retail sales at some point.

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



Sources: IBGE and Santander.

Figure 2.B – Core Retail Sales (s.a., 2011=100)

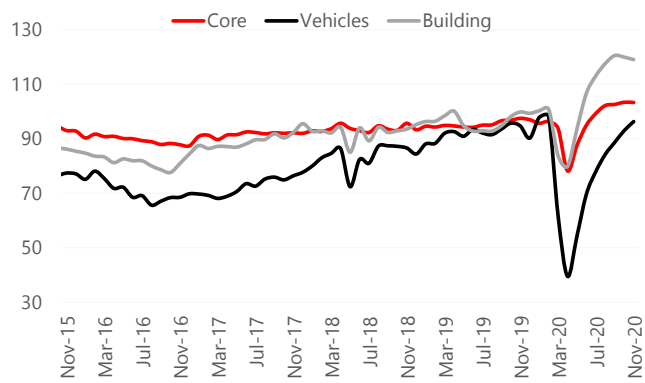


Sources: IBGE and Santander.

Among the categories, six of the ten sectors posted positive variations, with November’s positive monthly result driven to a large extent by segments such as Clothing (3.6%), Books (5.6%), and Vehicles (3.5%). The negative highlight was Supermarkets, contributing negatively with a decline of 2.2%, probably reflecting the reduction in disposable income and price hikes for essential goods. Furniture and Building Materials posted slight declines, after reaching all-time highs in recent months on the heels of the improvement in the real estate market. In our view, in addition to the reduced paycheck value, this result may be related to the beginning of the reversion of household consumption toward the pre-pandemic pattern, with less time spent at home and with demand shifting from the goods to the services sector following the economy’s reopening.

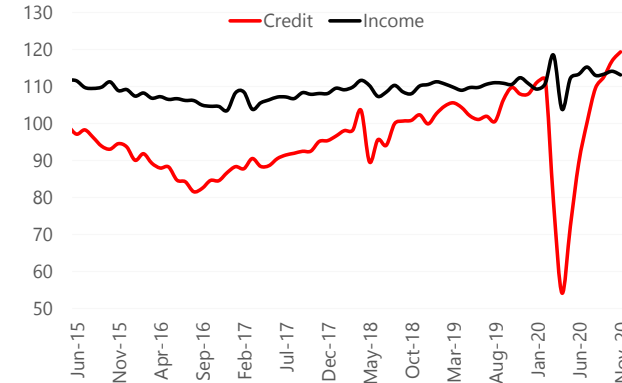
This well-established retail sales recovery can be analyzed highlighting the heterogeneous resumption among the categories, breaking them down into three groups. The first one encompasses the categories that benefited from the emergency aid and from the establishment of a new pattern of household consumption in the pandemic. In this group, Building Materials and Furniture have far surpassed their pre-crisis levels, and are still 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 (sa 2014=100)



Sources: IBGE and Santander.

Figure 3.B – Sensitivity Analysis (sa 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 +6.6% and +2.1% above February's level, respectively. In terms of outlook, we expect sales in credit-led segments to benefit from lower interest rates in 2021, while the reduction in disposable income should be a headwind for sales in income-led segments.

Figure 4 – Recovery Breakdown

	Nov-20	Drop %	MoM %	YoY %	Feb-20 % Chg
Core Retail Sales		-18.8	-0.1	3.4	7.3
Fuels		-24.7	-0.4	-6.7	-5.0
Hypermarkets, supermarkets		-	-2.2	-1.7	3.1
Fabrics, clothing and footwear		-82.1	3.6	-4.9	-1.3
Furniture and home appliances		-41.4	-0.1	17.9	17.9
Pharmaceutical		-15.9	2.6	11.7	13.0
Books, papers and magazine		-69.3	5.6	-15.3	-29.8
Office equipment and supplies		-43.1	3.0	-9.9	1.4
Others		-48.8	1.4	16.1	14.3
Broad Retail Sales		-29.4	0.6	4.0	5.2
Building material		-21.1	-0.8	16.9	18.1
Vehicles		-59.9	3.5	0.9	-1.9

Sources: IBGE and Santander.

After a favorable start to the sequence of fourth quarter releases, this positive result for broad retail sales left a carryover of 4.5% for 4Q20, in our view reinforcing the likelihood of solid sequential growth for economic activity in the remaining quarter of the year. Based on our proprietary coincident indicator of retail sales (IGET), our tracking of broad retail sales for December is at 0.5% MoM-sa (7.9% YoY). On Monday (January 18), the Brazilian Central Bank (BCB) will release the IBC-Br for November, and based on the information set available as of this writing, we are keeping our projection at 0.6% (-0.9% YoY), while our tracking of 4Q20 GDP is at 2.5% QoQ-sa (-2.0% YoY).

Figure 5 – “Heatmap” Showing Retail Sales by Component

	Retail Sales (% 3MMA sa)												
	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Core Retail Sales	0.83	0.14	-0.38	-0.41	-1.11	-6.12	-3.24	0.46	8.09	5.18	2.56	1.35	0.36
Fuels	0.60	0.34	-0.21	-0.38	-3.95	-8.67	-7.41	-1.52	6.11	4.35	3.41	1.95	1.23
Hypermarkets, supermarkets	0.30	-0.36	-0.86	-0.57	4.81	0.93	2.58	-1.92	2.18	-0.93	-1.09	-0.79	-0.64
Fabrics, clothing and footwear	1.45	-0.08	-0.19	0.08	-13.64	-31.46	-36.35	-3.60	45.33	35.55	16.69	11.42	2.47
Furniture and home appliances	3.53	1.55	0.49	0.71	-8.71	-14.71	-6.21	17.48	22.84	11.45	2.23	0.37	-1.01
Pharmaceutical	1.87	1.03	0.83	-0.05	1.01	-4.97	-2.59	-1.11	8.09	4.21	2.91	1.20	2.44
Office equipment and supplies	-6.63	0.14	0.51	6.40	-12.78	-26.90	-33.83	-2.40	34.98	14.23	2.02	-4.49	6.23
Books, papers and magazine	2.77	-0.62	-2.52	-3.98	-8.24	-15.48	-13.03	3.56	16.83	9.74	3.93	2.00	2.75
Others	1.52	0.94	0.81	0.80	-8.69	-17.43	-11.32	12.13	22.73	13.92	4.80	3.50	0.51
Broad Retail Sales	0.91	0.14	0.14	0.45	-4.16	-10.04	-7.17	2.19	11.09	7.34	3.95	2.37	1.23
Building material	2.45	1.57	0.71	0.33	-5.16	-7.16	-2.72	8.90	11.89	7.66	4.09	1.94	0.39
Vehicles	1.14	-1.16	0.75	1.24	-9.92	-22.61	-22.01	5.08	23.55	14.85	8.19	5.98	4.51

Sources: IBGE and Santander.



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