Retail sales extend gains in November despite price headwinds

- **Retail sales (November): 5.4% y/y; Banorte: 3.1%; consensus: 3.1% (range: 0.4% to 6.1%); previous: 5.3%**
- **In monthly terms, sales grew 0.9%, strong considering relevant gains in the past three months. This upward surprise suggests good results from *El Buen Fin* (Mexico's Black Friday), helped by better fundamentals and despite price pressures**
- **Sector performance was favorable. Growth was led by internet sales (8.4% m/m), appliances and computers (4.9%), and supermarket and departmental (4.4%), in our view consistent with both COVID-19 caution and goods perceived as those with the heaviest discounts. Only vehicles and fuels (-1.4%) declined**
- **Signals for December look positive, but uncertainty remains high as COVID-19 dynamics worsened at the start of 2022 and price pressures remain high**

Retail sales up 5.4% y/y in November. This was above consensus at 3.1%, which matched our estimate. The period is benefited by a calendar effect, with one more working day in the annual comparison. As such, using seasonally adjusted figures, sales rose 4.2% y/y (previous: 6.3%). Relevant for the sector, fundamentals for consumption kept improving during the month, with an additional uptick in job creation, an improvement in consumer loans and strong remittances –at US$4,665.2 million, despite adverse seasonality–. Moreover, results likely were boosted by discounts from *El Buen Fin* (Mexico's Black Friday), which took place during the month. Hence, these factors seem to have been strong enough to outweigh for price pressures, which remain as a key headwind for consumers' purchasing power.

Sequential growth continues. Retail sales grew 0.9% m/m, accelerating at the margin and positive considering accumulated gains in the past three months. Despite high inflation in some key items, relative scarcity –due to supply constraints– and higher energy costs, consumers seem to have taken advantage of better virus' dynamics and discounts. These drivers look more evident when analyzing sector dynamics. Specifically, growth was led by internet sales (8.4%), which we believe have gained significant market share in recent years, likely been boosted further by fears about COVID-19, as well as discounts. Appliances and computers picked up 4.9%, with consumers particularly interested in bargains in electronic goods (*e.g.* TVs, refrigerators, kitchen appliances, etc.). Supermarkets and departmental stores grew 4.4%. The only category that fell was vehicles and fuel (-1.4%), which have been very sluggish and mostly to the downside since June.

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www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Executive Director of Economic Research and Financial Markets Strategy
juan.alderete.macal@banorte.com

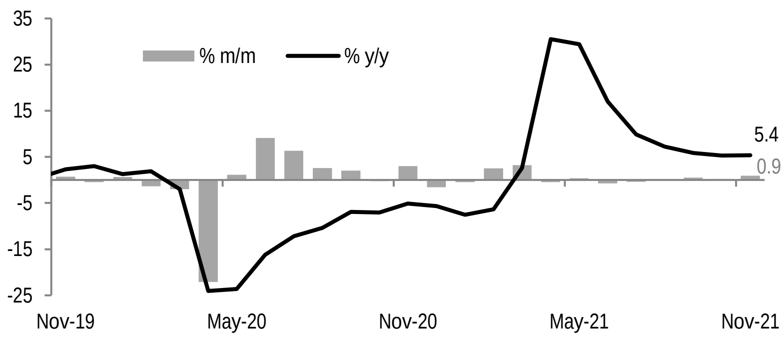
Francisco Flores
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Retail sales
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m
	Nov-21	Oct-21	Sep-21	Sep-Nov'21
Retail sales	0.9	0.2	0.5	0.9
Food, beverages, and tobacco	0.1	-2.4	-0.3	-3.1
Supermarket, convenience, and departmental stores	4.4	0.1	1.5	3.9
Clothing and shoes	1.0	4.0	11.4	7.5
Healthcare products	0.0	-1.3	0.1	2.1
Office, leisure, and other personal use goods	1.6	-0.1	6.9	5.2
Appliances, computers, and interior decoration	4.9	-0.5	-1.1	-2.9
Glass and hardware shop	1.3	-1.4	2.3	1.1
Motor Vehicles, auto parts, fuel and lube oil	-1.4	0.6	-1.8	-3.0
Internet sales	8.4	-8.7	1.1	-1.3

Source: INEGI

Retail sales
% y/y (nsa), % m/m (sa)



Source: INEGI, Banorte

Favorable signals for December, but with higher uncertainty ahead. Immediate figures suggest some resilience, which would be positive considering prevailing trends in activity. Specifically, some of the main supports include: (1) Stability in virus conditions, with the 'traffic light' indicator showing states in 'green' oscillating between 27 and 28, with the rest in 'yellow'; (2) higher mobility, in part boosted by the holidays; and (3) better fundamentals, highlighting additional employment gains in the period. At the margin, something important is that annual inflation moderated, aided by downward adjustments in fruits and vegetables and LP gas. Although this could free up some resources for higher spending in other fronts, pressures in core goods could offset for this. Related to the latter, although consumer confidence backtracked to 44.5pts, the purchasing power component was stable at 26.4pts. This may well be reflecting also the expectation of a 22% increase to the minimum wage. On timely data, ANTAD sales rebounded strongly, with all-stores up +8.0% y/y in real terms, while same-stores stood at +5.9%, both at their highest since July. Meanwhile, vehicle sales totaled 97.4 thousand units, which implies a 7.9% m/m advance (in-our in-house seasonal adjustment model).

Nevertheless, the outlook for 2022 has clouded, mainly due to more challenging virus conditions. Specifically, we have had a strong increase in cases because of 'Omicron', with a total of 750.9 thousand new cases accumulated so far in the month. As such, the 'traffic light' indicator has deteriorated (with the last one showing 1 state in 'red', 9 in 'orange', 10 in 'yellow' and 12 in 'green'), with overall mobility levels adjusting lower (led by public transportation).

Moreover, several press reports state that work absenteeism has increased, resulting in some businesses closing –the most salient being flight cancelations in air transportation– which could dampen activity Nevertheless, considering that advanced data point to less severe strains, it might be that the overall impact is more modest.

All in all, we believe the short-term outlook has become more challenging, especially front-loaded to the first months of the year. Despite of this, it is our take that conditions for the medium-term are more favorable, with fundamentals such as employment, remittances and credit recovering further. In turn, this should help drive the sector in 2022, with the main risk being that high inflation –both abroad and domestically– extends well into the year, affecting both current households' purchasing power and inflation expectations.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Luis García Casales, José Itzamna Espitia Hernández, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez and Gerardo Daniel Valle Trujillo, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research			
Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Director of Economic Research, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Leslie Thalía Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Quantitative Analysis			
Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandro.cervantes@banorte.com	(55) 1670 - 2972
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5004 - 1282
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 5140
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8173 - 9127
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5249 - 6423
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5004 - 1051
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 1670 - 1899