Retail sales grew for an eight month in a row in March

- **Retail sales (March): 3.8% y/y; Banorte: 4.8%; consensus: 2.7% (range: -0.4% to 5.0%); previous: 6.4%**
- **Sales picked up again in monthly terms (0.4%), stringing eight consecutive months to the upside. Seasonally adjusted, the level reached a new historical high (since the series started in 2008), quite strong despite increasing price pressures**
- **Sector dynamics were mostly favorable, albeit with meaningful differences. On the positive side, we highlight office and leisure (3.7%), as well as internet sales (3.0%). On the contrary, clothing and shoes (-1.4%) and supermarket and departmental stores (-0.1%) declined**
- **We expect sales to decelerate as price pressures keep affecting real wages, especially when considering purchases of essential goods**

Growth of 3.8% y/y in March. This was higher than consensus (2.7%) but lower than our estimate (4.8%). With seasonally adjusted figures, sales grew 3.6% y/y. This remains associated with less distortions from the pandemic as base effects normalized further, although it will probably take more time for them to be completely erased. With this, retail sales were up 5.6% y/y in the quarter, above the 5.2% of 4Q21. The month was characterized by a further improvement in COVID-19 cases and mobility (with absolute levels above pre-pandemic benchmarks since February). Nevertheless, price pressures continued, with the annual rate at 7.45%, a new high since January 2001.

Sequential growth for an eight month in a row. Retail sales were up 0.4% m/m, accumulating a 3.8% advance since July last year. Although lower than our expectations, it is consistent with the relative improvement in fundamentals such as employment and banking credit. Remittances slowed down, but a higher exchange rate (adjusting strongly at the beginning of the period as a reaction to the war in Ukraine) likely helped. By sectors, 7 out of 9 were higher. Among them, we highlight office and leisure (3.7%) and internet sales (3.0%), likely reflecting preparations before the *Easter* holiday period. Other positive sectors included glass and hardware (2.0%), and appliances, computers, and decoration (1.6%). We should mention that healthcare products barely grew 0.7% (after a 7.8% decline in February). We expected a larger increase due to the base effect and possibly boosted by advanced payments of social programs due to the electoral ban, concentrated on the elderly in this period. On the contrary, clothing and shoes (-1.4%) and supermarket and departmental store sales (-0.1%) declined. Within the latter, the decline centered in departmental, lower by 1.4%. This may be suggesting that people started to cut on purchases of non-essential goods as inflation takes a toll on real wages. However, and considering some distortions from base effects, we will remain on the look about their performance ahead to corroborate this. Lastly, vehicles and fuel rose 1.4%. Inside, autos rose 1.0%, relatively consistent with advanced sales data from AMIA. Meanwhile, fuel sales increased 3.2%, boosted by higher mobility.

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Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*

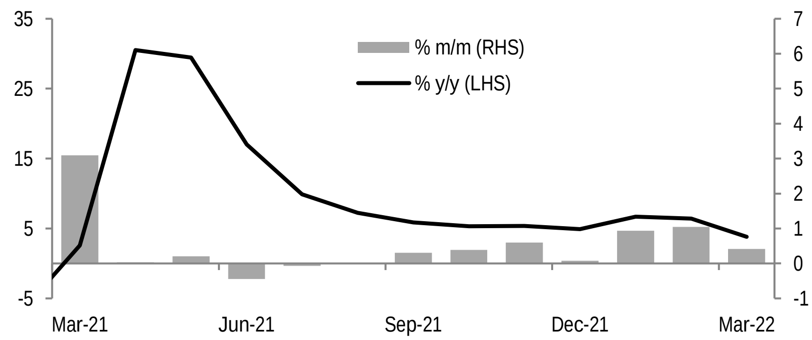
STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV

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

	% m/m			% 3m/3m
	Mar-22	Feb-22	Jan-22	Jan-Mar'22
Retail sales	0.4	1.0	0.9	2.0
Food, beverages, and tobacco	0.9	0.7	-0.8	0.1
Supermarket, convenience, and departmental stores	-0.1	1.5	0.2	0.8
Clothing and shoes	-1.4	3.3	-0.1	1.8
Healthcare products	0.9	-7.8	9.5	2.7
Office, leisure, and other personal use goods	3.7	-3.3	1.2	2.2
Appliances, computers, and interior decoration	1.6	2.8	0.7	1.3
Glass and hardware shop	2.0	0.6	2.2	2.6
Motor Vehicles, auto parts, fuel and lube oil	1.4	2.3	1.8	4.3
Internet sales	3.0	1.6	-15.4	-0.3

Source: INEGI

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



Source: INEGI, Banorte

Despite its relative resiliency, headwinds for retail have been rising. Domestic demand will likely decelerate in coming months, affected by both global and local drivers. In this respect, IMEF's non-manufacturing PMI fell at the margin in April, with the most significant setbacks in 'new orders' and 'production'. Nevertheless, they remained firmly in expansion. April's available hard data has been positive. Vehicle sales stood at 83.5 thousand units according to AMIA. Based on our calculations, this translates to +6.0% m/m (sa) and has been quite strong in the last five months. ANTAD sales accelerated at the margin, with total- and same-stores up 8.1% and 6.1% y/y in real terms, respectively.

We continue seeing price pressures as the strongest headwind. Globally, trade problems worsened since late March as Shanghai entered stricter lockdowns, encompassing the entire city by April 5th. Although this probably affected exports more –in terms of aggregate demand–, it is poised to have influenced consumption goods imports. In turn, it may have reverberated in prices of goods other than food. On the latter, we point out that, according to several outlets, the US is in the middle of its worst bird flu outbreak in years. Since January, the CDC has counted 38.0 million cases of A(H5) flu in backyard and commercial birds as of May 25th. This virus is highly pathogenic, with 35 states affected. In Mexico, border states such as Durango and Coahuila have also been impacted, with 1.8 million birds sacrificed until May 19th. Coupled with increasingly difficult drought conditions in other states such as Sinaloa, Chihuahua, and Nuevo León, underlying pressures for agricultural goods remain.

In this backdrop, the government's *Plan Against Inflation* will try to limit further price increases. Among the measures, zero tariffs on 66 out of 72 tariff codes started on May 17th and will be in place for one year, with the possibility of extending them for one more. The six remaining ones include live animals, pending further authorizations. As stated before, it is our take that their effect on inflation will be quite modest, to which we should also consider possible lags.

Given this outlook, we are closely following employment and real wages. As of March, total payrolls rose 5.5% y/y in real terms, supporting the case of underlying strength in consumption fundamentals. Nevertheless, this has been mostly due to the first factor. Specifically, the average hourly wage fell 2.4% y/y in real terms in the same period and has contracted since October 2021. As stated elsewhere, we think a slowdown is likely at least for the second quarter, with our GDP estimate at +0.3% q/q. In this backdrop, we cannot rule out job losses if there is a more protracted deceleration. In turn, this would result in lower total payrolls, limiting consumption growth. On a more positive note, remittances remain very strong, while banking credit keeps recovering.

Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Oscar Rodolfo Olivos Ortiz, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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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	Reference
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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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