# June's retail sales declined modestly after 10 months higher

- **Retail sales (June): 4.0% y/y; Banorte: 4.2%; consensus: 5.0% (range: 2.5% to 6.4%); previous: 5.2%**
- **In sequential terms, retail sales fell 0.3% m/m, ending a streak of ten months higher. This happened in a challenging backdrop in terms of inflation and other factors, despite resilient fundamentals**
- **Inside, performance was negative, with seven out of the nine sectors lower. The main declines were at supermarket and departmental (-1.7%) and food and beverages (-1.4%). Meanwhile, items with the best performance were healthcare (8.4%) and office and leisure (2.6%)**
- **We believe that this result can be quickly reversed in coming months, supported by better fundamentals such as employment and remittances. However, we remain on the look at the evolution of inflationary pressures and their influence on household consumption patterns**

**Retail sales grow 4.0% y/y in June.** The result was lower than consensus (5.0%) but closer to our estimate (4.2%). In the period, calendar distortions regarding the annual comparison were moderate, resulting in an advance of 4.3% y/y with seasonally adjusted figures. The deceleration in annual figures continued. In our opinion, this reflects: (1) More normalized comparison bases; and to a lesser extent (2) inflation pressures. However, we also observed other factors that could have specifically affected performance in this period, including less discounts campaigns relative to the previous month, an increase in contagions due to the fifth wave of COVID-19, and the absence social programs' payments –complying with the electoral ban–, which were reactivated until July. On the other hand, the fall could have been partially offset by better signals in fundamentals related to household income, such as employment and remittances.

**Modest sequential decline, impacted by a more adverse backdrop.** Retail sales declined 0.3% m/m, ending ten months of gains. Overall, the result was in line with some timely data such as ANTAD sales and IMEF's indicators. Additionally, and as mentioned in previous reports, inflationary pressures continued to affect dynamism, considering the impact on household purchasing power. Seven out of nine sectors lost. Specifically, weakness centered on supermarket and departmental (-1.7%) and food and beverages (-1.4%). Within the former, we note that both sectors were lower, albeit with departmental an inch lower at -3.1%. In vehicles and fuel (-1.3%) the 15-month upward trend ended, with auto sales falling 3.6% –consistent with AMIA figures– but with a marginal increase in gasoline sales of 0.1% –in line with Pemex data–. Internet sales dropped 0.7%, but only after the +0.9% seen in the previous month, which we attribute to a decline in discounts that is likely not yet incorporated into the seasonal adjustment model. Lastly, the only two stronger sectors were healthcare products at +8.4% –likely related to the increase in COVID-19 cases– and office and leisure at +2.6%.

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

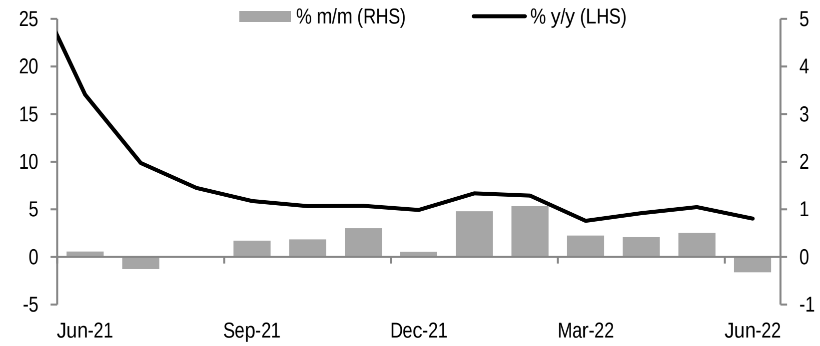
STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV

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

| | % m/m | | | % 3m/3m |
|---|---|---|---|---|
| | Jun-22 | May-22 | Apr-22 | Apr-Jun'22 |
| Retail sales | -0.3 | 0.5 | 0.4 | 1.3 |
| Food, beverages, and tobacco | -1.4 | 0.5 | -0.7 | -0.1 |
| Supermarket, convenience, and departmental stores | -1.7 | 1.5 | 0.2 | 1.1 |
| Clothing and shoes | -0.1 | 0.5 | 0.5 | 1.1 |
| Healthcare products | 8.4 | 1.3 | -4.0 | -2.4 |
| Office, leisure, and other personal use goods | 2.6 | 2.4 | -2.2 | 1.2 |
| Appliances, computers, and interior decoration | -1.1 | -1.0 | 2.0 | 3.3 |
| Glass and hardware shop | -0.7 | 1.6 | -2.6 | -0.1 |
| Motor Vehicles, auto parts, fuel and lube oil | -1.3 | 0.7 | 2.2 | 4.2 |
| Internet sales | -0.7 | 0.9 | -2.6 | -0.7 |

Source: INEGI

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




Source: INEGI, Banorte

**Retail sales could maintain their dynamism in the second half of the year, despite greater challenges on the horizon.** Some factors at the beginning of 3Q22 give reasons to believe that retail sales improved. Firstly, payments from social programs were reactivated in July, which, along with a decrease in COVID-19 contagions, may have favored sales. Regarding the month's hard data, ANTAD sales in real terms rebounded, with total stores at +5.6% (previous: 2.1%) and with same-stores at 3.3% (previous: -0.1%). However, one unfavorable point would be AMIA sales, which continued to decline for a second consecutive month (-7.4% m/m, with our seasonal adjustment model). Nevertheless, considering that the sector remains under production pressures, it is still difficult to gauge whether this is due to supply issues or lower demand. On the other hand, according to INEGI's *Timely Indicator of Economic Activity*, services would have contracted marginally, although still without much clarity about which sectors could explain this. Inflation should continue limiting sales. However, its effect could be more limited considering some of the positive factors mentioned above.

Going forward, and as we have mentioned before, we expect the pace of recovery to moderate in the remainder of the year, in a context where global inflationary pressures, as well as the monetary tightening cycle of several central banks, will impact. In Mexico, we estimate that the maximum point of the inflationary cycle will be in 3Q22 (in the annual rate), while central bank target rate increases will end in December, reaching 10.00%. In this sense, households will continue facing budget restrictions in the rest of the year. However, we estimate that strength in fundamentals will allow them to soften possible adverse effects without the need to substantially change their consumption patterns in the short or medium-term.

As such, consumer credit has maintained good dynamism during the year, with adequate and stable levels of non-performing loans. On the other hand, we expect employment to continue its recovery during the rest of 2022, considering that some labor market slack prevails. However, we cannot rule out a moderation at the end of 4Q22, with the unemployment rate around 3.6%. Lastly, on remittances, we will pay attention to the evolution of the US labor market. In the short-term, consensus still anticipates an increase of new jobs. However, we do not rule out that the slowdown in demand could generate lower job creation or even layoffs in the medium term, which could eventually affect remittances sent to our country.

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**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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