Strong retail sales rebound in July as overall conditions improved

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- **Retail sales (July): 5.0% y/y; Banorte: 4.2%; consensus: 4.7% (range: 2.6% to 5.4%); previous: 4.0%**
- **Retail sales grew 0.9% m/m, resuming their recovery after a 0.3% drop in the previous month. In our view, they were driven by strong fundamentals and the restart of social programs' payments, offsetting inflationary pressures and other challenges**
- **Most categories were better, with six of the nine sectors climbing. We highlight internet sales (12.5%) and clothing and shoes (2.1%). On the contrary, weakness centered in glass and hardware sales (-3.7%)**
- **We believe there is still room for sales to keep growing, boosted by fundamentals. However, the main limit will continue to be inflation, impacting household's real income**

Retail sales growth continues, accelerating at the margin. The print came in at 5.0% y/y, higher than consensus (4.7%) and our estimate (4.2%). In our view, dynamism was supported by factors such as: (1) An improvement in the number of COVID-19 contagions in the second half of the month; and (2) the resumption of social programs' payments (after the end of the electoral ban). However, some challenges remain, such as a slowdown in real wages, lower consumer confidence, and the fact that the period did not have meaningful discounts or sales campaigns. Fundamentals kept strengthening, with remittances at a new historical high, employment improving despite seasonal distortions, and banking credit accelerating at the margin.

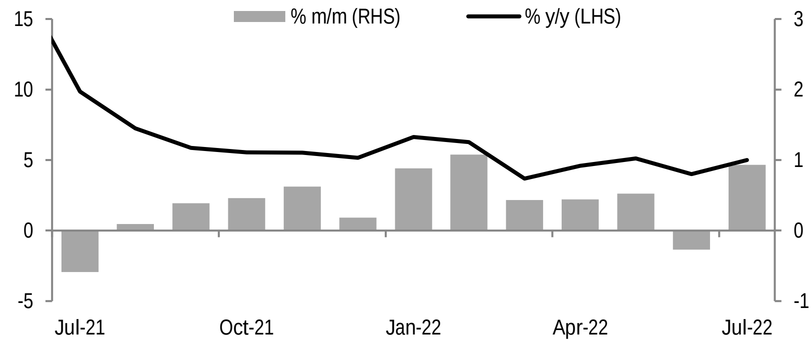
Sequential progress, recouping previous losses. Retail sales grew 0.9% m/m, resuming their recovery trend after a 0.3% decline June. In line with this, some timely data such as ANTAD sales and IMEF indicators improved. On the other hand, it stands out that even though inflation kept accelerating (8.15% y/y on average in July), retail sales advanced, remembering that households would have seen an additional impact on their purchasing power due to said factor. Six out of nine sectors increased, especially internet sales (12.5%) and clothing and shoes (2.1%). We believe that their strength may be related to the start of the holiday period, with evidence of further normalization relative to the two previous years. On declines, glass and hardware shops were the weakest at -3.7%. Three categories posted close to null growth, noting food and beverages (-0.05%), office and leisure (-0.04%) and healthcare products (0.01%). Vehicles and fuel resumed their advance at 0.9%. Car sales rose 4.5% –contrasting with AMIA figures–, but gasoline sales contracted 1.1% –in line with Pemex data. Lastly, supermarkets and departmental stores rose 0.6%, with the first also at +0.6%, but the latter stronger at +1.5%.

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

	% m/m			% 3m/3m
	Jul-22	Jun-22	May-22	May-Jul'22
Retail sales	0.9	-0.3	0.5	1.1
Food, beverages, and tobacco	-0.05	-1.4	0.5	-0.7
Supermarket, convenience, and departmental stores	0.6	-1.7	1.7	0.9
Clothing and shoes	2.1	0.1	0.6	1.1
Healthcare products	0.01	7.6	1.3	3.8
Office, leisure, and other personal use goods	-0.04	2.5	2.6	3.5
Appliances, computers, and interior decoration	3.4	-0.8	-1.1	1.6
Glass and hardware shop	-3.7	-1.1	1.4	-1.6
Motor Vehicles, auto parts, fuel and lube oil	0.9	-1.2	0.6	2.1
Internet sales	12.5	-2.6	1.8	4.5

Source: INEGI

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



Source: INEGI, Banorte

Positive performance would continue despite inflationary pressures and other challenges. We believe retail sales will maintain a favorable performance in the rest of the third quarter. First, timely data for August indicates an improvement. ANTAD sales grew in real terms, with same-store sales up 2.5% (previous: 3.3%) and total stores up 4.9% (previous: 5.6%). Meanwhile, vehicle sales rebounded strongly, at +4.1% m/m (using our in-house seasonal adjustment model), while production also increased, albeit marginally (+0.9%), even though the supply of semiconductors has not normalized completely and that some technical stoppages have taken place. Such is the case of the GM plant in Silao (from August 29th to September 5th), with others currently underway (Volkswagen plant in Puebla from September 19th to 23rd). Finally, INEGI's *Timely Indicator of Economic Activity* shows that services would not decline, which would be favorable at the margin.

For the rest of the year, inflation pressures will continue and constitute the main headwind for household consumption. The dynamism that we see in fundamentals allows us to anticipate that the inflationary impact will only imply a slowdown. On the other hand, we remain attentive to other potential drags, such as: (1) A possible US recession that could result in lower remittances; (2) a slowdown in activity in Mexico towards the end of the year that could affect employment; and (3) Banxico's tightening cycle. These factors would have direct implications on the level of consumer income, thus impacting expenditures. However, we remain relatively optimistic, as there is still room for recovery. As such, and in line with our base scenario for GDP, we continue to believe that domestic demand will be an important driver for the rest of the year.

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