Retail sales – A setback in November despite the discount season

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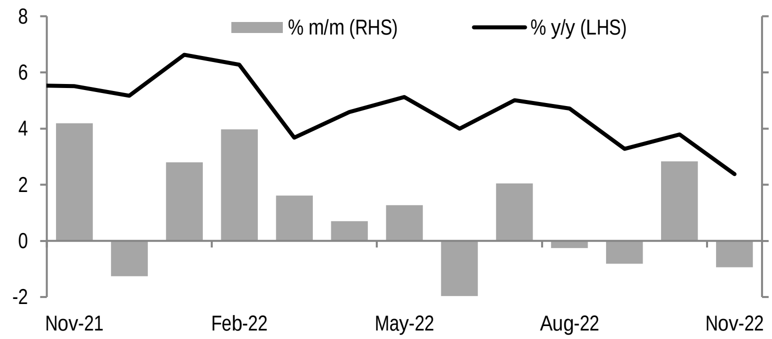
- **Retail sales (November): 2.4% y/y; Banorte: 1.9%; consensus: 2.2% (range: 0.9% to 3.5%); previous: 3.8%**
- **Retail sales fell 0.2% m/m, somewhat stable since August. Based on other, more timely data, we believe there are signs of a slowdown towards the end of 4Q22, consistent with our view on economic activity**
- **Inside, we highlight the contraction in vehicles and fuel (-2.0%) and internet sales (-2.1%). The latter is quite surprising as it fell for 2nd straight month despite tailwinds coming from *El Buen Fin* (Mexican's Black Friday) discounts**
- **Today's results, coupled with figures for December, are consistent with a sequential moderation in household consumption. In our view, this is likely a result of inflationary pressures, monetary tightening, and less dynamism in remittances performance at the margin**

Retail sales annual growth keeps normalizing. They increased 2.4% y/y, above consensus and our estimate (1.9%). In our view, this responds to a normalization as the distortions from the pandemic fade out, partly also reflected in base effects. However, it is our take that it was also caused by other factors that have been accumulating throughout the year –in some cases since 2021–, such as: (1) The monetary tightening cycle; (2) persistent inflationary pressures, especially at the core component; and (3) purchasing power losses for real wages. Despite of this, other drivers have allowed household consumption to surprise positively throughout the year, include: (1) Employment gains, adding 440 thousand jobs in the month; (2) remittances –slightly below US$5 billion; (3) the expansion in consumer credit, which has accelerated since April 2022; and (4) a slight improvement in consumer confidence.

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



Source: INEGI, Banorte

Sales fell sequentially, despite the discount season. Retail sales decreased 0.2% m/m despite positive expectations due to *El Buen Fin*'s discounts (Mexican's Black Friday) and the economic spillover for the Day of the Dead and Mexican Revolution festivities. This is consistent with ANTAD data, but not with IMEF's non-manufacturing indicator.

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Regarding the former, same-store sales contracted 1.6%, while the latter expanded 1.8pts, in our view indicating that most of the improvement was concentrated in services, not in goods.

Inside, four out of nine subsectors fell, with most of them partially affected by a more challenging base effect. The most relevant setbacks were in glass and hardware (-4.6%) and internet sales (-2.1%). We believe this is a sign of more strained budgets, especially in essential items such as food (which remains as one of the most pressured components within CPI), which could have dampened the positive effect from seasonal discounts. We especially highlight online sales as they declined 2.0% in October, originally thinking that this was likely driven by delayed consumption in anticipation of retailers' discounts during *El Buen Fin.* On the other hand, growth was more robust in appliances (2.9%), as well as office and leisure (2.0%). In our view, the first may have been helped by the discounts, with reports that computers, TVs, and other household durable goods are among the most demanded articles. Finally, we highlight that vehicles and fuel dropped by 2.0%.

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

	% m/m			% 3m/3m
	Nov-22	Oct-22	Sep-22	Sep-Nov'22
Retail sales	-0.2	0.7	0.7	0.3
Food, beverages, and tobacco	0.2	-0.1	-0.1	-0.8
Supermarket, convenience, and departmental stores	0.4	-0.5	-0.5	1.6
Clothing and shoes	-0.7	0.3	0.3	1.8
Healthcare products	0.6	3.4	3.4	-1.6
Office, leisure, and other personal use goods	2.0	-1.2	-1.2	1.1
Appliances, computers, and interior decoration	2.9	1.1	1.1	-2.6
Glass and hardware shop	-4.6	1.7	1.7	-3.2
Motor Vehicles, auto parts, fuel and lube oil	-2.0	2.0	2.0	-1.4
Internet sales	-2.1	-2.0	-2.0	-3.4

Source: INEGI

Retail sales moderating at the end of 2022, despite mixed timely data. Today's results indicate that consumption in the last month of the year would continue with a deceleration trend and negative rates in sequential terms. These would be justified by: (1) Prevailing pressures in core inflation during the period (mainly in goods); (2) more increases to Banxico's target rate, which we expect to continue in 1Q23; (3) households that may have not taken full advantage of *El Buen Fin*. This would be consistent with our call of a moderation in domestic demand at the end 2022. Timely data has been mixed. First, INEGI's timely indicator of private consumption fell 0.4% in the period. In contrast, vehicle sales according to the AMIA rebounded significantly, up 9.9% m/m (using our in-house seasonal adjusted model). In addition, today's *Timely Indicator of Economic Activity* showed services down 0.6% m/m, indicating a setback for domestic demand. Finally, although data on consumption fundamentals for the month is still scarce, we anticipate that they will remain solid, with employment favored by the holiday season and the 2022 FIFA World Cup, while remittances could have been boosted by the holidays.

All in all, we anticipate that retail sales will extend their deceleration trend at the start of 2023. Typically, consumers are more cautious at the start of the year after high expenditures during the holidays. Coupled with elevated inflation and further signs of less economic dynamism, we believe that confidence levels may decline, further adding to a more cautious behavior. However, and looking further ahead, stronger inertia and more modest price pressures –highlighting the relief in some energy items, especially LP gas– could imply that consumption remains resilient. Finally, the entry into force of the 20% minimum wage hike and '*vacaciones dignas'* –implying an indirect increase in the wages– could provide an additional boost to household spending throughout 2023.

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