

Retail sales decelerated at the start of 4Q18

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- **INEGI just published its retail sales report for October**
- **Retail sales (October): 3.0% yoy; Banorte: 3.5%; consensus: 3.9% (range of estimates: 2.5% to 4.9%); previous: 4.1%**
- **In seasonally adjusted terms, retail sales posted a 1.0% m/m decrease as payback after the considerable 0.9% expansion seen in the previous month**
- **These numbers imply a 1.2% 3m/3m saar growth for Aug-Oct, lower than the 3.8% seen in 3Q18**
- **Today's figures are consistent with our expectation of a deceleration of overall economic activity and consumption in 4Q18, despite favorable levels of confidence, unemployment and credit growth**
- **For 2019 we believe consumption will continue to be the main growth driver supported by a higher minimum wage and more government transfers**
- **Mexico City showed the highest growth in retail sales during the month at 3.7% m/m**

Slowdown in retail sales during October. According to *INEGI's* report published today, the income generated by retail sales increased 3.0% yoy nsa in October, below both the consensus and our own estimate.

In seasonally adjusted terms, retail sales fell 1.0% m/m, in part as payback as the strong expansion of 0.9% in the previous month. In terms of its main components, 7 out of 9 posted a monthly contraction. We highlight the contraction in motor vehicles (-2.7%), hardware (-2.5%) and clothing shops (-1.3%). On the contrary, internet sales and appliances, computers and interior decorations posted significant increases, growing 9.1% and 6.2%, respectively. We believe that today's figures validate our view of a lower dynamism of consumer spending going into 4Q18. Despite the latter, consumer fundamentals such as confidence and unemployment remain at very favorable level, which in turn could continue to support consumption in the face of recent tightening of monetary policy and a more adverse backdrop

Retail sales: October 2018

% m/m sa; % 3m/3m saar

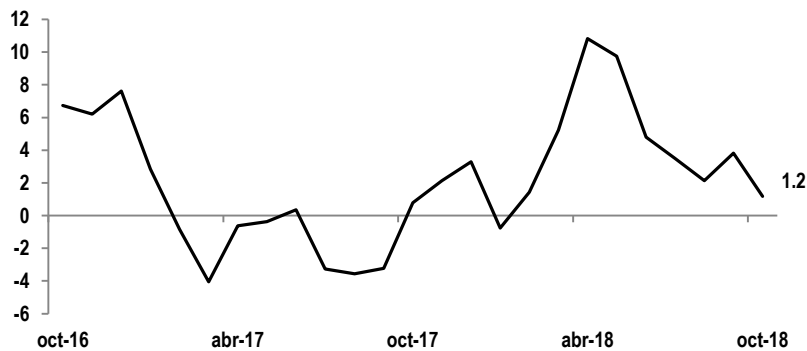
	% m/m			% 3m/3m saar
	Oct-18	Sep-18	Aug-18	Aug-Oct '18
Retail sales	-1.0	0.9	-0.3	1.2
Food, beverages, and tobacco	0.2	-0.5	0.1	1.3
Supermarket, convenience, and departmental stores	-0.5	-0.9	-2.2	-7.4
Clothing and shoes	-1.3	5.2	0.5	18.7
Health care products	-0.8	0.8	-1.5	1.0
Office, leisure, and other personal use goods	-1.1	-1.1	0.3	-4.1
Appliances, computers, and interior decoration	6.2	-0.5	2.7	8.4
Glass and hardware shop	-2.5	2.1	2.0	15.7
Motor Vehicles, auto parts, fuel and lube oil	-2.7	2.5	0.4	4.6
Internet sales	9.1	-12.4	15.2	73.9

Source: INEGI

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The 3m/3m saar rate stood at 1.2%, below the 3.8% seen in the previous month, its lowest level since last February. This slowdown comes after a very strong 3Q18, driven in part by high consumer confidence and a reduction in domestic uncertainty after the presidential election and the commercial agreement with the US and Canada. Nevertheless, at the start of the fourth quarter, retail sales could show a lower dynamism, probably impacted by a renewed increase in uncertainty on top of stress in variables associated by consumers with the economic outlook, such as the exchange rate, which could be partially compensated by lower inflation in the final months of the year.

Retail sales
% 3m/3m saar



Source: INEGI

We anticipate retail sales to decelerate in coming months. After the strong performance of retail sales in 3Q18, we believe that the pace of growth will moderate in coming months as uncertainty faced by consumers has increased again, which is coupled with the possibility of higher frictional unemployment, particularly in the public sector as the new administration begins. Moreover, GDP growth expectations have moderated while financial conditions have tightened as a result of rate hikes by Banxico. This moderation has started to be seen in indicators such as September’s GFI, October’s net exports and business confidence levels.

Despite these headwinds, consumer fundamentals remain healthy, including consumer confidence and credit growth. As a result, we don’t expect the moderation to be very deep. In general terms, economic indicators for 4Q18 released so far are still consistent with our quarterly GDP growth forecast of 2.1% yoy (0.3% q/q sa), below the 2.5% (0.8% sa) expansion seen in the previous quarter.

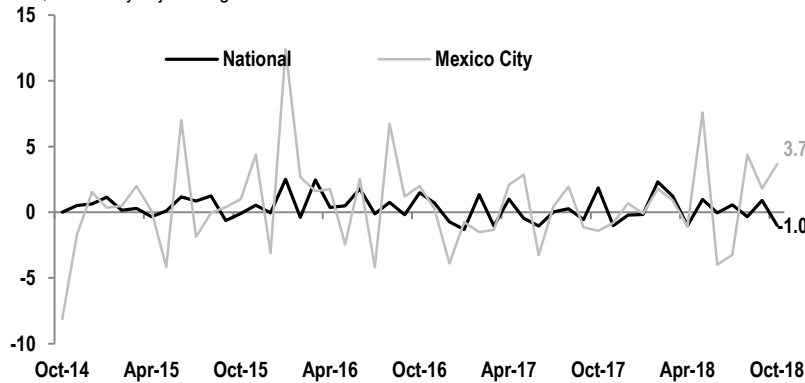
Going into 2019, we expect consumption to remain as the main growth driver of the Mexican economy. Besides what we mentioned about employment and confidence, the minimum wage increase (see: “*The National Commission for Minimum Wages agreed on a 16.2% increase for 2019*”, published on December 17th, [<pdf>](#)) and the expectation of higher government transfers (see: “*New administration presents a fiscally responsible budget for 2019*”, published on December 17th, [<pdf>](#)) could provide support for internal demand in spite of a likely deceleration in economic growth, driven by both internal factors and a more challenging global backdrop.

At the state level

Mexico City showed the highest growth in retail sales during the month at 3.7% m/m. This happened after the slight 1.8% m/m growth observed in the previous month. As we can see in the following chart, retail sales in the state have shown signs of recovery, leading us to believe that consumption could continue growing at healthy rates in the coming months. Year-to-date, retail sales in the entity showed a 3.6% yoy advance, far above the 1% yoy expansion observed in the same period of 2017.

Retail sales in Mexico City

% m/m; seasonally adjusted figures

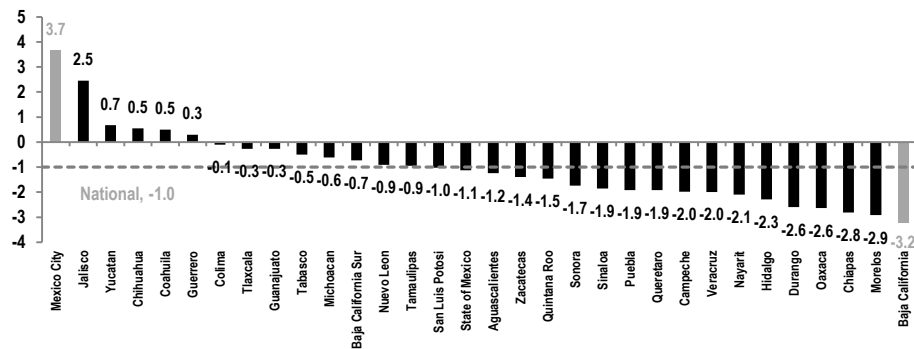


Fuente: Banorte; INEGI

Moreover, retail sales growth in 14 states including Mexico City outperformed the national average. In this regard, we highlight the expansion in Jalisco (2.5% m/m), Yucatan (0.7% m/m), Chihuahua and Coahuila (0.5% m/m respectively). By contrast, retail sales revenues in Baja California fell 3.2% m/m, as shown in the table below, the worst contraction in the state since January 2017.

Retail sales by state: October 2018

% m/m; sa



Source: Banorte; INEGI

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