Retail sales plunge strongly in December

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- ***INEGI* just published its retail sales report for December**
- **Retail sales (December): -1.3% yoy; Banorte: 2.5%; consensus: 2.7% (range of estimates: 1.5% to 4.0%); previous: 3.4%**
- **In seasonally adjusted terms, retail sales plunged 3.2% m/m, strongly reversing the +0.3% increase of the previous month and its weakest in more than five years**
- **These numbers imply a 7.4% 3m/3m saar quarterly contraction, significantly lower than the +2.8% of the previous quarter**
- **Taking these numbers into account, retail sales grew 2.4% in 2018, with slower dynamism in recent data suggesting that weakness will likely extend at least to 1Q19**
- **For 2019, we expect consumption to continue growing, albeit moderating when compared to the previous year**

Retail sales in December surprised strongly to the downside. The income generated by retail sales fell 1.3% yoy nsa in December, significantly below consensus at 2.7% and our estimate of 2.5%. In seasonally adjusted terms, retail sales plunged 3.2% m/m, more than reversing the +0.3% observed in the previous month. As a result, retail sales fell 1.9% q/q. in 4Q18. In our view, the figure shows even higher weakness than expected by the end of last year, a situation we believe is likely to extend further into 1Q19.

In terms of its components, 8 out of 9 contracted, showing that the decline was broad. We highlight the -20.5% m/m in internet sales, along the -11.2% in appliances. In our view, part of this fall could be explained by a change in the timing of consumption patterns, with some consumers shifting their holiday purchases to November to take advantage of higher discounts. In our opinion, promotions in web-based services have increased in popularity despite the fact that the *Good Weekend* has been around for some time. In this respect, categories that in our view are less susceptible to this factor (with more inelastic demand), such as health-care and food, declined more modestly (both at -0.6%). Nevertheless, the magnitude of the decline is significant enough that this shift alone is not likely to be the only responsible behind the contraction.

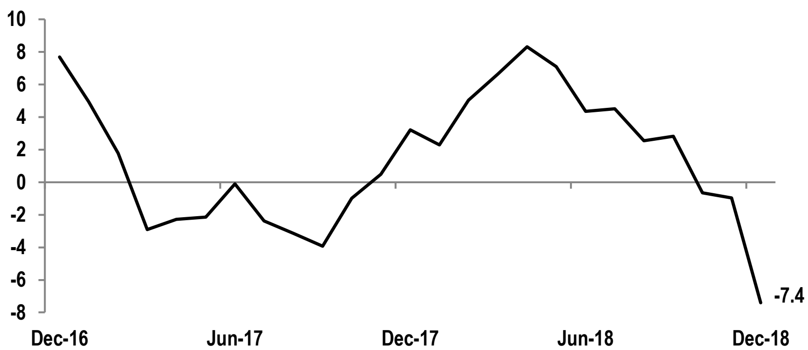
Retail sales: December 2018
% m/m sa; % 3m/3m saar

	% m/m			% 3m/3m saar
	Dec-18	**Nov-18**	**Oct-18**	**Oct-Dec '18**
Retail sales	**-3.2**	**0.3**	**-1.4**	**-7.4**
Food, beverages, and tobacco	-0.6	-1.6	-0.2	-7.5
Supermarket, convenience, and departmental stores	-4.7	2.4	-0.6	-6.7
Clothing and shoes	-3.7	-0.5	-1.9	0.5
Health care products	-0.6	0.9	-0.8	-2.1
Office, leisure, and other personal use goods	-2.8	0.7	-1.2	-9.5
Appliances, computers, and interior decoration	-11.2	-1.8	6.2	6.0
Glass and hardware shop	0.1	-1.9	-3.6	-10.2
Motor Vehicles, auto parts, fuel and lube oil	-3.7	-0.3	-3.1	-10.5
Internet sales	-20.5	-3.4	8.1	-21.1

Source: INEGI

The 3m/3m saar rate stood at -7.4%, weakest since February 2013. In this respect, this figure is below the 2.8% of 3Q18, surprising to the downside even after taking into account our expectation of a moderation in the pace of growth. Given the magnitude of the decline, we are more skeptical that retail sales will maintain a strong performance this year. Considering this, today's report is significantly negative, in contrast with the previous report and other indicators suggesting resiliency in consumption. In particular, we highlight very high levels in terms of consumer confidence –which the index actually reached a high since December 2006 during the same month– but that seems to be decoupling further from actual performance.

Retail sales
% 3m/3m saar



Source: INEGI

More conviction on our view of a deceleration in retail sales in 2019. Retail sales decelerated even more than expected, a situation that we attribute in part to a potential shift in the timing of purchases (as mentioned above) but also to the slowdown in the pace of formal job creation, which has been coupled with a higher unemployment rate. Regarding the latter figure, we expect a monthly increase of 5pbs to 3.62% in January when using seasonally-adjusted data, with this data point to be released tomorrow.

In this context, it is our take that consumption will maintain positive growth in 2019, albeit with the possibility of decelerating when compared to the previous year. Today's data gives credence to this view, so we will be on watch of the underlying trend in coming months. Along weaker global and domestic activity in recently published figures, we believe it is likely that the sector exhibits a transitory and negative effect due to fuel distribution problems at the start of the year. Nevertheless, consumption fundamentals remain relatively strong. Among them, credit keeps flowing and inflation has recently surprised to the downside, providing support to real wage growth. On the other hand, at least three additional factors could be supportive: (1) The increase in the minimum wage; (2) the start of several Federal government transfers to vulnerable groups, despite possible delays in implementation; and (3) the fiscal stimulus at the Northern Border. In general, these could help in a more challenging environment going forward, especially on the external front as the US decelerates, which could also impact remittances' growth.

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