

Retail sales surprise positively in August

October 25, 2019

- **Retail sales (August): 2.6% yoy; Banorte: 1.9%; consensus: 2.0% (range: 1.5% to 2.9%); previous: 2.1%**
- **In seasonally adjusted terms, retail sales were up 0.3% m/m, highest since last May**
- **Fundamentals for retail sales remain positive and seem to have improved further at the margin, including strong remittances and banking credit growth, along lower inflation, supporting real wage gains**
- **We maintain our view that consumption will strengthen in coming months. We forecast 1.3% growth in full-year 2019, lower than the 2.2% observed in 2018**
- **Quintana Roo showed the highest growth of the last 6 months at 2.4% m/m**

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Retail sales favorable at 2.6% in August. Income generated by retailers grew 2.6% yoy in the month, above our forecast (1.9%) and consensus (2.0%). The result is stronger than the 0.4% advance of the sector according to the *Global Economic Activity Indicator* (IGAE), released yesterday. Year-to-date, retail sales have increased 1.9%, higher than the 1.3% during the same period of 2018. We should mention that this figure was observed even with one less working day in the annual comparison.

Adjusting for the latter, retail sales grew 0.3% m/m, highest since last March. The result is more positive than our expectations, particularly given that sales failed to grow in the previous two months despite strong fundamentals. Taking a look at the breakdown, seven out of nine subsectors were positive, highlighting the 1.6% advance in glass and hardware, followed by +1.0% in supermarket, convenience and departmental stores. We should mention that the bulk of the advance within these categories may be signaling a stronger performance in purchases of durables goods, which have remained weak according to the latest available data. On the contrary, autos were down 1.4%, with business organizations in the sector also showing weakness in domestic sales, while internet sales were down 9.8% after surging 22.6% in the previous month –likely related to Amazon’s Prime Day and other internet-based discounts–.

Retail Sales: August 2019

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

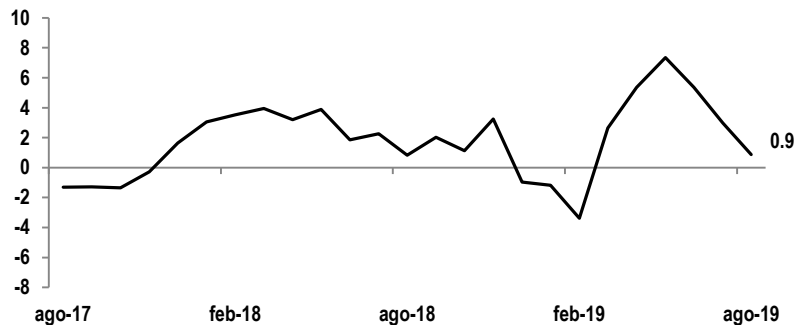
	% m/m			% 3m/3m saar
	Aug-19	Jul-19	Jun-19	Jun - Aug '19
Retail sales	0.8	-0.4	-0.6	0.9
Food, beverages, and tobacco	1.0	0.3	-0.9	-2.3
Supermarket, convenience, and departmental stores	0.9	-1.1	-0.3	3.0
Clothing and shoes	0.1	-0.1	0.7	5.1
Health care products	0.1	0.8	-0.1	2.6
Office, leisure, and other personal use goods	0.1	-0.3	-1.8	-5.7
Appliances, computers, and interior decoration	1.6	0.6	-5.9	-5.2
Glass and hardware shop	-1.4	1.8	0.9	9.7
Motor Vehicles, auto parts, fuel and lube oil	-9.8	22.6	-0.8	-2.3
Internet sales	0.8	-0.4	-9.4	23.4

Source: INEGI

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The 3m/3m saar rate slowed down to 0.9% from 3.0% in the previous month. This metric has declined for three consecutive months, its lowest since March, explained to a great extent by the shifting impact of base-effects and as performance at the turn of the year was particularly weak. In this respect, we believe recent dynamics seem to suggest that retail sales may be improving gradually, which in our view could extend if uncertainty in the economy decreases further.

Retail sales
% 3m/3m saar



Source: INEGI

Retail sales seem to be improving gradually. In our view, today’s report was positive, contrary to the more muted advance observed within services in IGAE. In this respect, fundamentals for consumption remain strong and have even improved at the margin. Among them, we highlight that: (1) Inflation has kept surprising to the downside, with the ‘purchasing power’ component within consumer confidence improving lately as a result; (2) wage negotiations have stayed strong, with a nominal increase of 5.8% year-to-date until September, further supporting real wage gains; (3) banking credit has also been favorable, with consumer credit actually growing 3.2% yoy in August, its highest pace in two years; and (4) remittances keep growing at a very healthy rate, on track towards a new historical high for full 2019.

Despite of the latter, economic activity has stagnated, which is not favorable in terms of the outlook for a steeper acceleration going forward. Moreover, data up to July shows that purchases of durable-goods remains weak, falling at double-digit rates on an annual basis. It is our take that a signal of a stronger underlying improvement would be a rebound in this category. In our view, this may be related to a more cautious stance among consumers due to high levels of uncertainty, inducing greater savings. In this respect and according to INEGI, savings in the domestic economy during 1H19 amounted to 21.8% of GDP, its highest share for an equivalent period since 2012. This situation is also reflected in the sizable adjustment in the current account deficit, from US\$ 13.7 billion in 1H18 (2.3% of GDP) to only US\$ 3.4 billion (0.5%) in the same period of this year. In this context, we recently downgraded our outlook for consumption growth, estimating a full-year advance of 1.3% from 1.4% previously, significantly below the 2.2% observed in the previous year. For details, see: “Mexico – A slightly more constructive view on growth for 2020”, <[pdf](#)>, October 22, 2019.

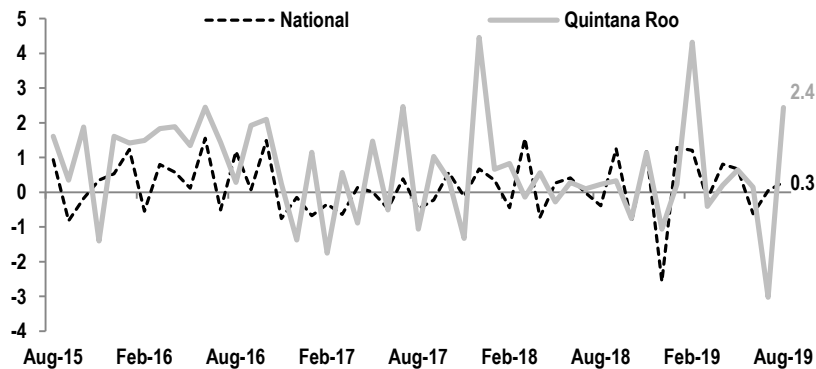
Regarding uncertainty, we believe some positive signals have started to emerge, both globally and domestically. Regarding the former, trade tensions have eased between the US and China, while recent reports suggest USMCA ratification could be approved in the US as soon as next month. Domestically, business confidence has started to increase, while the Federal Government has been taking steps in order to accelerate spending, public-private partnerships for infrastructure projects, and to provide more credit to consumers, among others, despite austerity measures that remain in place. Moreover, it is our take that the central bank has started an easing cycle, expecting Banxico to cut the reference rate towards 6.00% by year-end 2020, which could help ease financial conditions for consumers. Overall, these signals support our view of a slight acceleration in the second half of the year, although we must remain cautious on the outlook as a result of the recent performance of the broad economy.

At the state level

Quintana Roo showed the highest growth in retail sales of the last six months, at 2.4 m/m. This happened after last month's 3.0% fall, with a considerably higher dynamism vs. the national average. It is explained, among other things, by the increase in the purchasing power of state workers (5.8% yoy in real terms), as well as the meteorological change that almost completely cleared the sargassum problem, situation that reactivated the internal consumption with the arrival of both local and foreign tourists. On a year-to-date basis, retail sales in Quintana Roo accumulate a 4% growth. Nevertheless this dynamism was 3.2pp lower than in the same period of last year.

Retail sales in Quintana Roo

% m/m; seasonally adjusted figures

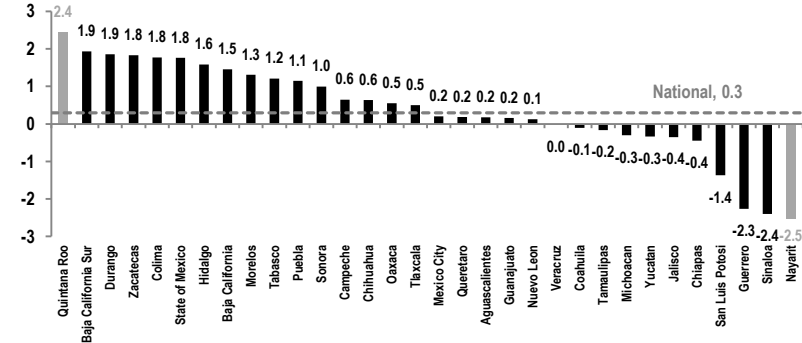


Fuente: Banorte; INEGI

Retail sales growth in 16 states outperformed the national average. Apart from Quintana Roo, we highlight Baja California Sur and Durango (1.9% m/m each), Zacatecas and Colima (1.8%). By contrast, retail sales in Nayarit fell 2.5% after the 8.8% advance of the previous month, as shown in the following graph.

Retail sales by state: August 2019

% m/m; sa



Source: Banorte; INEGI

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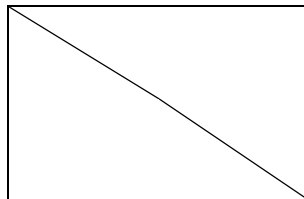
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