

Retail sales surprise higher again in September

- **Retail sales (September): 2.4% yoy; Banorte: 2.1%; consensus: 1.7% (range: -1.0% to 3.0%); previous: 2.6%**
- **In seasonally adjusted terms, retail sales were up 0.9% m/m, highest since February and third consecutive month in positive territory**
- **We have tweaked slightly our view about consumption for the rest of the year, expecting growth of 1.3% in full-year 2019. As a result of this and other factors, yesterday we downgraded our GDP estimate from 0.3% to -0.1% yoy**
- **The report suggests consumers may be exhibiting higher willingness to spend, with a series of fundamental factors still favorable despite elevated uncertainty, while reaffirming our view that the economy is not in recession despite the deceleration in activity**
- **Sinaloa showed the highest growth since November '18 at 1.9% m/m**

Retail sales grew 2.4% yoy in September. Income generated by retailers grew 2.4% yoy in the period, slightly higher to our forecast (2.1%) and consensus (1.7%). It should be mentioned that the month had the same number of working days in the annual comparison, albeit with a long weekend not present in 2018 as this year's remembrance of *Independence Day* was on Monday. With this result, retail sales have advanced 1.9% year-to-date, higher than the 1.4% during the same period of the previous year.

Moreover, when using seasonally-adjusted figures, retail sales were strong as they grew 0.9% m/m, highest since February and its third consecutive month in positive territory. Taking a look at the breakdown, seven out of nine subsectors were positive, same as in the previous month. We highlight the 1.2% advance in motor vehicles and auto parts, along the +1.4% in clothing and shoes. Internet sales, which are quite volatile, surged 5.6%. In our view, the former advance is important as the durables-goods component within the monthly indicator of consumption in the domestic market (up to August) showed positive annual growth for the first time since almost one year. In this respect, these dynamics may be signaling that purchases of this type of goods may have bottomed-out, although additional information is needed. On the other hand, we noted slight declines in health care products (-0.5%) and glass and hardware (-0.2%)

It is our take today's result opens the door more broadly to the possibility of a pickup in private consumption during the final months of the year, with the last three months actually surprising us and the market on the upside. In this respect, fundamentals have been positive for quite some time now. These include real wage gains, low inflation levels, growth in banking credit and remittances, among the most relevant. Nevertheless, private consumption has struggled to accelerate, a situation we attribute mostly to high uncertainty that has induced higher savings on precautionary grounds. If the latter decreases, it is our take that consumption could likely improve, a situation we are relatively optimistic to be clearer next year, particularly in 1H20 as the US election may impact sentiment again in the second half.

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Retail Sales: September 2019

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

	% m/m			% 3m/3m saar
	Sep-19	Aug-19	Jul-19	Jul - Sep '19
Retail sales	0.9	0.3	0.1	1.8
Food, beverages, and tobacco	0.1	0.8	-0.4	-2.7
Supermarket, convenience, and departmental stores	0.6	1.1	0.5	6.2
Clothing and shoes	1.4	1.1	-1.1	4.6
Health care products	-0.5	0.0	-0.2	-1.7
Office, leisure, and other personal use goods	0.3	0.1	0.9	-2.8
Appliances, computers, and interior decoration	3.4	0.2	-0.1	-2.2
Glass and hardware shop	-0.2	1.5	0.4	6.5
Motor Vehicles, auto parts, fuel and lube oil	1.2	-1.3	1.9	1.6
Internet sales	5.6	-9.6	22.6	50.0

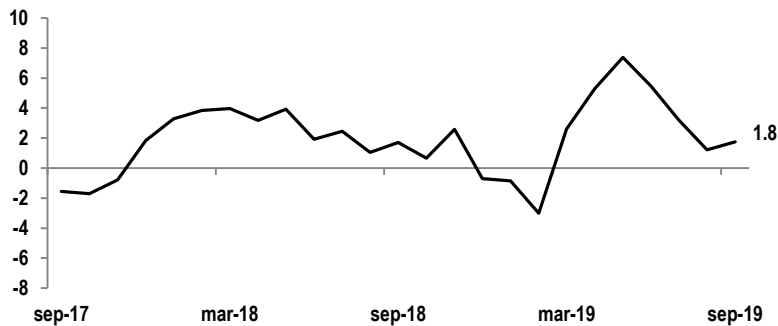
Source: INEGI

The 3m/3m saar rate improved to 1.8% from 1.2% in the previous month.

This metric had declined for three consecutive months to its lowest since February, in our view suggesting also that the slowdown in consumption may have bottomed-out. As a result, this metric signals a similar situation than the monthly performance, with retail sales possibly improving gradually, which in our view could extend if uncertainty decreases further.

Retail sales

% 3m/3m saar



Source: INEGI

In our view, the report helps the case of a potential improvement in domestic demand by the end of the year. As already mentioned, it is our take that the report is broadly positive and suggests a possible pickup in consumption dynamics. In this respect, it will be very important to evaluate details about non-oil consumption goods imports within the trade balance and unemployment rate for October, both of which will be released tomorrow. Regarding the latter, we expect a downtick to 3.52% (seasonally-adjusted) to its lowest since April, with formal job creation in the last couple of months showing a relatively better performance. On the contrary, business confidence has reversed some of its earlier gains and remains muted, a situation that in our view has to improve more decisively for employment dynamics to accelerate.

Despite of this, services –which are relatively more related with domestic demand when compared to the goods-producing sector– have failed to strengthen even with broadly positive fundamentals. As a result, yesterday we have downgraded slightly our view on both services (in terms of aggregate supply) and tweaked slightly our estimates for consumption (aggregate demand).

For details, see: “3Q19 GDP – A slight improvement despite temporary shocks on the horizon”, <pdf>, November 25th, 2019. Overall, we think consumers have stayed cautious, inducing higher savings and limiting some of the upside suggested by fundamentals. Nevertheless, the report reaffirms our view that the Mexican economy is not in recession, despite indeed observing an important deceleration of activity.

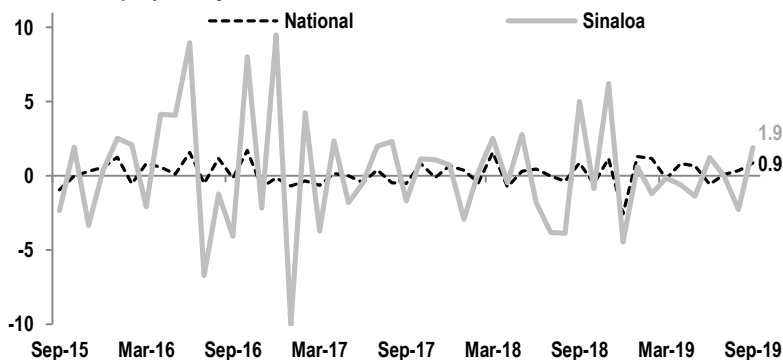
Therefore and going forward, we believe it is key to see a further reduction in uncertainty. In this respect, we should mention that trade tensions have been advancing in the path towards a resolution, both between the US and China and regarding the approval of USMCA. Nevertheless, nothing has been settled yet, with the situation very fluid in a context of political infighting ahead of next year’s US presidential election. Locally, other measures have also started to be taking place. Among them, we highlight that the Federal Government has worked more decisively to accelerate spending, although austerity measures in place keep affecting sentiment in the private sector. On the other hand, the central bank started an easing cycle which is highly likely to continue into 2020, estimating Banxico to cut the reference rate towards 6.00% by the end of next year. We believe this could help ease financial conditions for consumers and reduce the incentive to save. Overall, this combination of factors suggests a more positive performance of consumption in 2020.

At the state level

Sinaloa showed the highest growth in retail sales since November ‘18, at 1.9 m/m. This happened after last month’s 2.3% fall, with a considerably higher dynamism vs. the national average. It is explained, among other things, by the increase in purchasing power of state workers (2.3% yoy). Nevertheless, retail sales in Sinaloa accumulate a 1.7% fall year-to-date, 3.5pp lower than in the same period last year.

Retail sales in Sinaloa

% m/m; seasonally adjusted figures

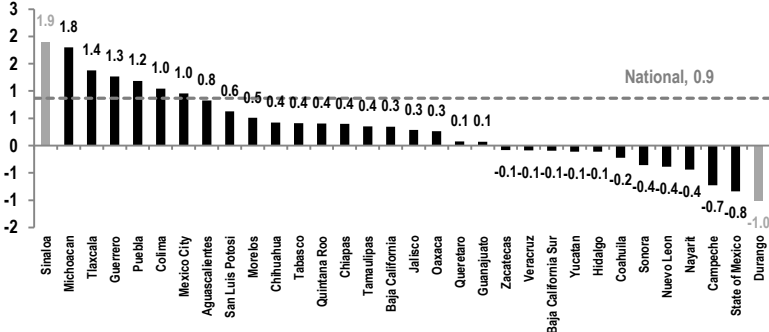


Fuente: Banorte; INEGI

Only 7 states outperformed the national average. Apart from Sinaloa, we highlight Michoacan (1.8% m/m), Tlaxcala (1.4%), Guerrero (1.3%), and Puebla (1.2%). By contrast, sales in Durango fell 1% after the 1.8% advance of the previous month, as shown in the following chart.

Retail sales by state: September 2019

% m/m; sa



Source: Banorte; INEGI

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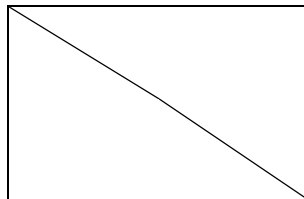
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