

Retail sales stay limited in July despite a stronger performance at the margin

- **Retail sales (July): 2.1% yoy; Banorte: 1.6%; consensus: 1.6% (range: 0.4% to 2.4%); previous: 1.0%**
- **In seasonally adjusted terms, retail sales were flat (0.0% m/m), which is relatively weak considering the previous month 0.6% decline**
- **With this result, July's IGAE could be stronger than our estimate of 0.20% yoy (consensus 0.55%) due to a better performance within services**
- **In our view, consumption could accelerate gradually during the rest of the year, albeit likely slower when compared to 2018 as broad economic activity remains modest and uncertainty stays high**
- **Nayarit showed the highest growth since April 2017 at 8.8% m/m**

Retail sales were higher than consensus in July. Income generated by retailers grew 2.1% yoy in the month, higher than our forecast at 1.6%, which coincided with consensus. This result was influenced to the upside by an additional working day in the annual comparison. On the other hand, it should be remembered that the *FIFA World Cup 2018* was still being played during the first half, which made the base effect still somewhat difficult despite not being as harsh as in June. On a year-to-date basis, retail sales have advanced 1.8%.

In the monthly comparison, retail sales were flat (0.0% m/m). In our view, this result is relatively weak considering that they fell 0.6% in June, which was its first decline since March. Taking a look at the breakdown, five out of nine subsectors were positive, highlighting the 20.3% advance in internet sales (most likely influenced by Amazon's *Prime Day* on July 15th and 16th), followed by autos (2.2%), with this sector relatively resilient despite other data suggesting weakness in domestic sales. On contrary, we highlight the 1.1% fall in textiles and the -0.4% in food and beverages, with the latter among the most important subsectors in terms of its total weight and adding three consecutive months in contraction territory.

In our view, retail sales seem to remain limited despite the result surpassing our expectations. Last month, we said that data suggested that a broader slowdown may have been in the cards. Although we believe this still may be the case, we are less concerned after today's report. In our view, performance could improve gradually as government spending accelerates, inflation remains well-behaved and real wages increase at an elevated pace. Nevertheless, high degrees of uncertainty and the broad economic slowdown are likely to remain as headwinds for a stronger acceleration, particularly as purchases of durable goods remain quite weak.

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Retail sales: July 2019

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

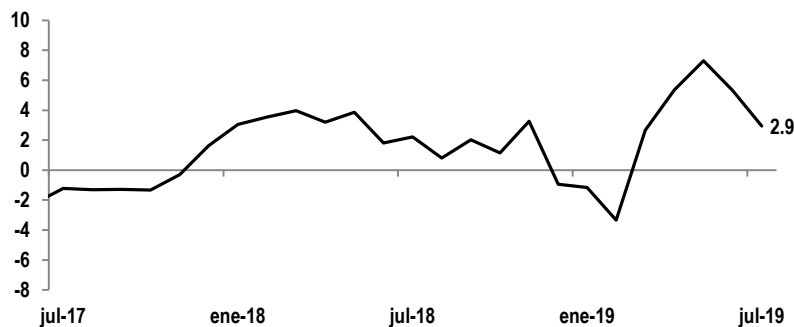
| | % m/m | | | % 3m/3m saar |
|---|--------|--------|--------|---------------|
| | Jul-19 | Jun-19 | May-19 | May - Jul '19 |
| Retail sales | 0.0 | -0.6 | 0.7 | 2.9 |
| Food, beverages, and tobacco | -0.4 | -0.9 | -0.8 | -0.1 |
| Supermarket, convenience, and departmental stores | 0.1 | -0.3 | 0.5 | 1.9 |
| Clothing and shoes | -1.1 | 0.7 | 1.5 | 6.3 |
| Health care products | -0.1 | 0.0 | 0.0 | 5.3 |
| Office, leisure, and other personal use goods | 0.8 | -1.8 | -1.6 | -3.1 |
| Appliances, computers, and interior decoration | -0.1 | -5.7 | 7.2 | 20.3 |
| Glass and hardware shop | 0.3 | 0.6 | -1.0 | 3.6 |
| Motor Vehicles, auto parts, fuel and lube oil | 2.2 | -1.0 | -1.4 | -2.9 |
| Internet sales | 20.3 | -10.5 | 4.7 | 33.9 |

Source: INEGI

The 3m/3m saar rate slowed down to 2.9% from +5.3% in the previous month. As a result, this particular metric reached its lowest print since March, which is explained by the underlying moderation in performance along the shifting impact of base-effects, particularly after the 0.8% advance in April. After a strong rebound in this metric during 2Q19, dynamics seem to suggest a return to more modest growth, which in our view is consistent with other sectors that suggest activity have remained relatively subdued during the period.

Retail sales

% 3m/3m saar



Source: INEGI

Retail sales will likely keep climbing, albeit at a more modest pace when compared to 2018. Last month, we said that June suggested the possibility of a more protracted slowdown in domestic demand. Although today's figures and other related data maintain the risk tilted to the downside, we are less concerned than previously on the magnitude of the potential deceleration. Moreover, this result suggests the possibility of a stronger performance in the *Global Economic Activity Indicator* relative to our estimate of 0.20%, to be released on Thursday.

On the positive side, a relatively defensive performance of the Mexican peso (despite some bouts of volatility, particularly in August), low inflation pressures and strength in remittances suggest that fundamentals for consumption remain supportive. On the other hand, confidence indices, both from businesses and consumers, have stayed at relatively low levels when compared to their most recent history. In our view, these reflect a high degree of uncertainty and the gradual fall in optimism in the political front. Indicators such as the IMEF services index suggest some stabilization in services, albeit at more modest levels than last year.

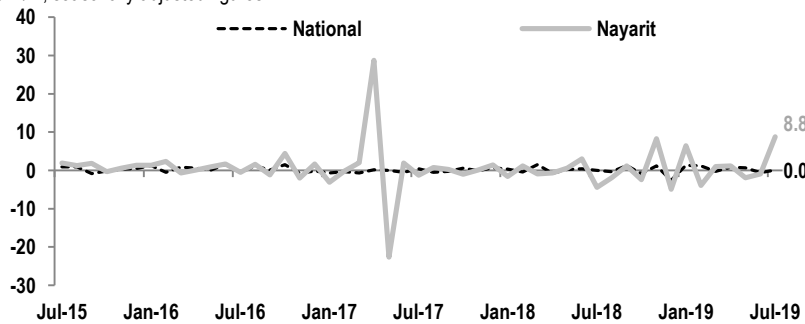
Considering this, we maintain our view that private consumption will grow about 1.4% yoy in 2019, below the 2.2% pace observed in the previous year. We still anticipate social transfers programs to help consumption accelerate by year-end, which along the goal of the Federal Government to increase spending could also have a more positive effect on consumption, at least at the margin, although somewhat dampened by austerity measures that remain in place.

At the state level

Nayarit showed the highest growth since April 2017, at 8.8% m/m. This happened after 2 months of consecutive declines, with considerably higher dynamism vs. the national average. It is explained, among other things, by the increase in the purchasing power of state workers (3.6% yoy) along growth in job creation. On a year-to-date basis, retail sales in Nayarit accumulate a 2.2% growth, 5.3pp higher than in the same period last year.

Retail sales in Nayarit

% m/m; seasonally adjusted figures

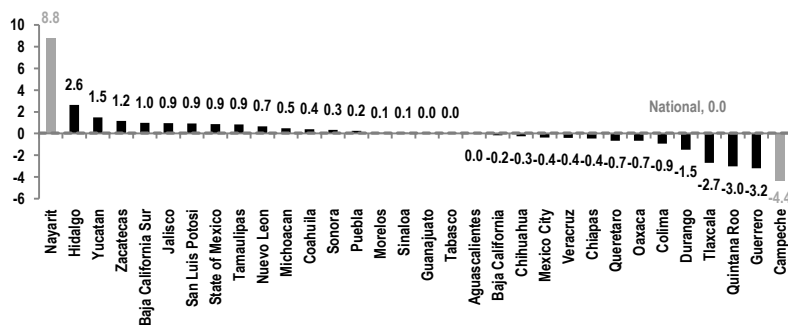


Fuente: Banorte; INEGI

Retail sales growth in 17 states outperformed the national average. Apart from Nayarit, we highlight Hidalgo (2.6% m/m), Yucatan (1.5% m/m), Zacatecas (1.2% m/m), and Baja California Sur (1% m/m). By contrast, retail sales in Campeche fell 4.4% m/m after the 4.9% m/m advance of the previous month, as shown in the following graph.

Retail sales by state: July 2019

% m/m; sa



Source: Banorte; INEGI

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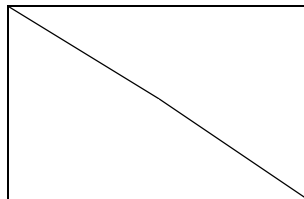
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|---|---|
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