

# Retail sales pick up strongly after its recent batch of weakness

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- **INEGI just published its retail sales report for July**
- **Retail sales (July): 4.2% yoy; Banorte: 2.8%; consensus: 2.8%; previous: 3.7%**
- **In seasonally adjusted terms, retail sales surged 0.6% vs. a flat reading in the previous month**
- **These numbers imply a 4.1% 3m/3m saar from 4.4% in June**
- **In our view, private consumption could show better dynamics in 3Q18, supported by higher confidence levels and a healthy labor market**
- **Nevertheless, higher inflation and the depreciation of the Mexican peso since August could limit the rate of expansion in retail sales**
- **Colima showed the highest growth in retail sales during the month, the highest since Feb '17 (4.8% m/m sa)**

**Retail sales surged in July.** According to *INEGI's* report published today, the income generated by retail sales increased 4.2% yoy nsa in July, above consensus and our own estimate. Moreover, in seasonally adjusted terms, retail sales surged 0.6% vs. a flat reading in the previous month. In terms of its main subcomponents, we highlight the increase in internet sales (5.1%), which could have been supported by online discounts (e.g. Amazon's Prime Day). Other components with a strong performance included health care (+2.9%), and supermarket and departmental stores (+1.1%). In our view, the latter could have been partially boosted by the final rounds of the FIFA World Cup. On the contrary, vehicles and auto parts were the only major category with a contraction, falling by 1%.

**Retail sales: July 2018**  
% m/m, sa

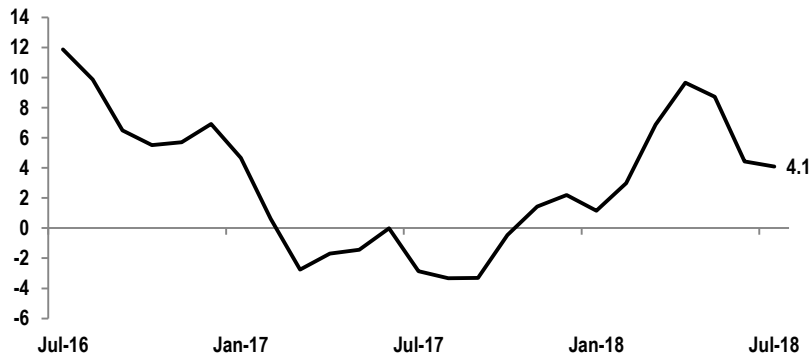
	Jul-18	Jun-18
<b>Retail sales</b>	0.6	0.0
Food, beverages, and tobacco	0.6	0.8
Supermarket, convenience, and departmental stores	1.1	0.7
Clothing and shoes	0.0	1.8
Health care products	2.9	-0.8
Office, leisure, and other personal use goods	0.7	-2.1
Appliances, computers, and interior decoration	0.8	-8.2
Glass and hardware shop	1.6	-0.4
Motor Vehicles, auto parts, fuel and lube oil	-1.0	1.5
Internet sales	5.1	5.6

Source: INEGI

**Despite this strong reading, the 3m/3m saar rate decreased from 4.4% in June to 4.1% in July.** We are not overly concerned about this decrease as it is mostly a result of a relatively more challenging base effect after dropping out data for January. In this regard, we also note that this figure is significantly above the 2.9% contraction observed in the same period of the previous year.

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**Retail sales**  
% 3m/3m saar



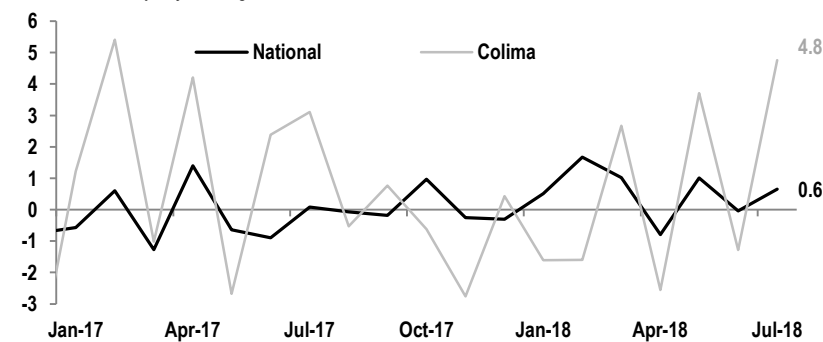
Source: INEGI

**In our view, private consumption is likely to rebound modestly in 3Q18.** We expect consumer confidence and a strong labor market to continue supporting retail sales in coming months, particularly as uncertainty has decreased after the recent resolution of two pressing issues for the Mexican economy: the NAFTA renegotiation and the electoral process. However, we see a relatively modest rebound as some challenges remain. In this regard, inflation has increased in the past few months, particularly in the non-core component, impacting households' real income. On the other hand, global financial conditions have worsened recently as stress has built up in several emerging countries, resulting in a depreciation of the Mexican peso since August, a situation that is typically associated by consumers with a worsening state of the economy.

*At the state level*

**Colima showed the highest growth in retail sales during the month, the highest advance observed since Feb '17 (4.8% m/m sa).** Retail sales in Colima posted a 4.8% m/m expansion, which stands as the highest growth observed in the state since February 2017. 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 post a better dynamism in the coming months. Year-to-date, retail sales in the entity showed a 1.5% yoy advance, far below the 30.2% yoy expansion observed in the same period of 2017.

**Retail sales in Colima**  
% m/m; seasonally adjusted figures

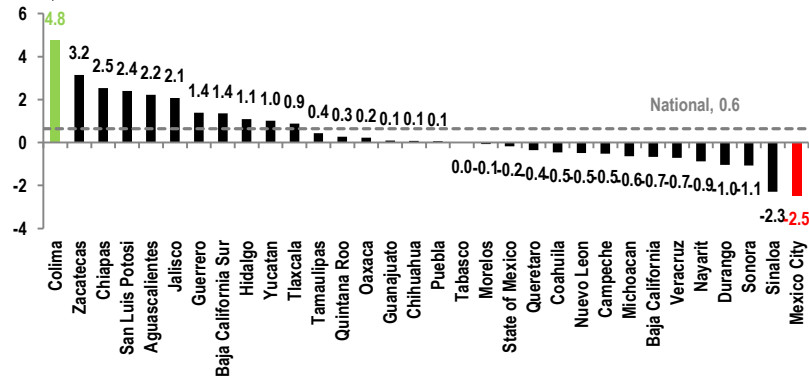


Fuente: Banorte; INEGI

As we can see in the following chart, retail sales growth in 11 states, including Colima, outperformed the national average. In this regard, we highlight the expansion in Zacatecas (3.2% m/m), Chiapas (2.5), San Luis Potosi (2.4%), and Aguascalientes (2.2%). By contrast, retail sales in Mexico City and Sinaloa fell 2.5% and 2.3% m/m, respectively, as shown in the table below.

**Retail sales by state: July 2018**

% m/m; sa



Source: Banorte; INEGI

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