Retail sales fall back strongly in October

December 20, 2019

- **Retail sales (October): 0.4% yoy; Banorte: 2.8%; consensus: 2.2% (range: 1.0% to 3.1%); previous: 2.4%**
- **In seasonally adjusted terms, retail sales retraced 2.3% m/m, more than reversing the 1.1% advance observed in September and the weakest print so far this year**
- **Today's print inserts downside risks to our view that consumption will grow 1.3% yoy in 2019. Meanwhile, we continue expecting a modest improvement to 1.8% for next year. A series of factors, such as the minimum wage increase and higher social spending, will likely provide more support going forward**
- **Nevertheless, the advance will likely be limited by the moderation in formal employment, with the unemployment rate also increasing in recent months**
- **Chihuahua showed the highest growth since May'19 at 1.2% m/m**

Retail sales grew barely 0.4% yoy in October. This figure was significantly below our forecast (2.8%) and relative to consensus (2.2%). Moreover, it is the weakest print so far this year, adding to headwinds for the start of the quarter. Year-to-date, retail sales have advanced 1.8% still above the 1.5% during the same period of the previous year.

A strong monthly fall of 2.3%. This print was highly surprising to the downside, even when taking into account that the previous month was revised higher by 0.2%-pts, to 1.1%. Taking a look at the breakdown, Eight out of nine subsectors were negative. We highlight the 3.1% m/m contraction in motor vehicles and fuel, with generalized declines among their components. Moreover, non-discretionary consumption in items such as food (-0.6%) and supermarket (-0.9%) were very weak, contrasting with their recent performance. Regarding durable-goods, appliances plunged 5.5%, the worst among subcomponents. Last month, we said that data suggested the possibility that purchases of this type of items may have bottomed out. Unfortunately, today's report and revisions to the monthly private consumption indicator (up to September, and using data for locally-produced goods) do not support this view. Hence, sales seem to remain impacted by high levels of uncertainty. Going forward, and on a more positive note, preliminary data for November suggests sales during *El Buen Fin* may have been better than expected (Mexico's Black Friday, which took place between November 15-19), with services and tourism business-chamber CONCANACO estimating growth of about 7% yoy (in nominal terms). Other figures already available –including Walmart, ANTAD and AMIA sales– also point in this direction.

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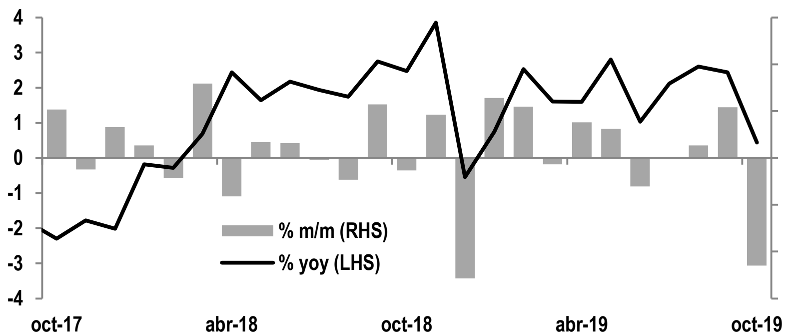
Retail Sales: October 2019
% m/m sa; % 3m/3m saar

	% m/m			% 3m/3m saar
	Oct-19	Sep-19	Aug-19	Aug - Oct '19
Retail sales	**-2.3**	**1.1**	**0.3**	**0.0**
Food, beverages, and tobacco	-0.6	-0.1	0.7	-0.4
Supermarket, convenience, and departmental stores	-0.9	0.5	1.1	5.5
Clothing and shoes	-0.8	1.4	1.0	4.9
Health care products	-0.1	-0.6	0.0	-2.5
Office, leisure, and other personal use goods	0.4	0.5	0.2	2.6
Appliances, computers, and interior decoration	-5.5	4.4	0.2	-3.7
Glass and hardware shop	-1.7	-0.7	1.5	3.2
Motor Vehicles, auto parts, fuel and lube oil	-3.1	1.1	-1.4	-3.0
Internet sales	-0.3	5.5	-9.8	13.1

Source: INEGI

Retail sales
% yoy (nsa), % m/m (sa)



Source: INEGI, Banorte

A cold start for the quarter, despite positive fundamentals and other factors that suggest a stronger outlook in 2020. The report was quite negative, which adds downside risks to our already modest view of GDP in 4Q19, currently at -0.2% yoy. We remain relatively concerned by the lack of strength in durable-goods consumption, which we argue has been influenced by high levels of uncertainty, resulting in lower willingness to spend. Additionally, the unemployment rate increased in October to 3.60% (sa), almost a three year high. Although formal job creation seems to have gathered pace somewhat in recent months, this situation will likely limit the potential advance in consumption going forward

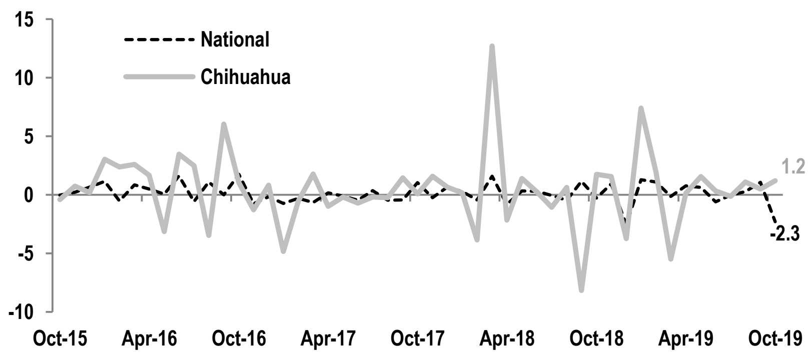
Despite of this and as we have stated recently, fundamentals for consumption remain positive, including dynamism in remittances, low inflation, and resilient growth in consumer credit. In this respect, we hope for a rebound in November and December based on anecdotal and advanced data, although today's weakness points to the need of remaining cautious about the outlook. Overall, we remain more positive about private consumption in 2020, anticipating a 1.8% yoy advance. In this respect, we highlight two recent events that we believe will likely support consumption, at least in the short term: (1) The announcement of the 20% minimum wage increase; and (2) The Federal Government's approved budget, which favors social spending in some signature programs of this administration. Moreover, we expect USMCA to be approved early next year in the US and Canada, after changes were agreed, which could also help reduce uncertainty that has had negative effects in overall economic activity.

Consumer confidence has remained relatively strong considering recent news, although we believe it is also necessary to observe a better performance in business confidence, which although is more necessary for investment, it is our take that it should also be important for employment dynamics to accelerate going forward.

At the state level

Chihuahua showed the highest growth in retail sales since May '19, at 1.2 m/m. This advance adds to the previous month's 0.5% expansion, with a considerably higher dynamism vs. the national average. It is explained, among other things, by the increase in purchasing power of state workers (6.8% yoy). Nevertheless, retail sales in Chihuahua accumulate a 0.3% advance, 6.7pp lower than in the same period last year.

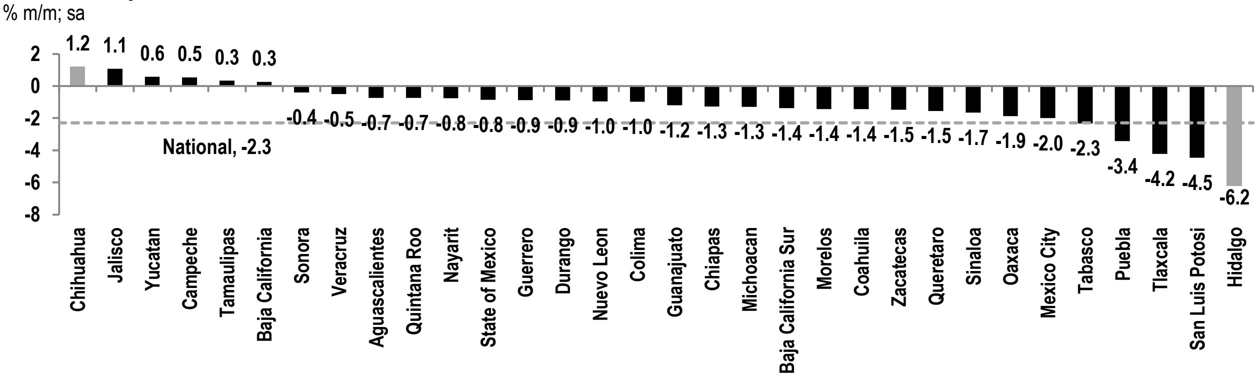
Retail sales in Chihuahua
% m/m; seasonally adjusted figures



Fuente: Banorte; INEGI

Twenty-seven states outperformed the national average. In this regard, it is important to mention that retail sales in only 6 states showed positive figures. Apart from Chihuahua, we highlight Jalisco (1.1% m/m), Yucatan (0.6%), Campeche (0.5%), and Tamaulipas (0.3%). By contrast, sales in Hidalgo fell 6.2%, adding 2 consecutive months in contraction, as shown in the following graph.

Retail sales by state: October 2019
% m/m; sa



Source: Banorte; INEGI

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