

## Retail sales cooled off in June, possibly reflecting the broader economic slowdown

- **Retail sales (June): 1.0% yoy; Banorte: 2.0%; consensus: 1.8% (range: 0.8% to 2.5%); previous: 2.8%**
- **In seasonally adjusted terms, retail sales fell 0.5% m/m, its first decline since March, and in our view with some tentative signs of a broader negative effect of the slowdown in economic activity**
- **With this result, retail sales grew 1.8% yoy in 2Q19, while inserting slight downside risks to our estimate for services within June's IGAE at -0.8%, to be released on Friday**
- **We expect consumption to advance around 1.4% in full-year 2019, with the possibility of accelerating towards year-end as social transfers programs provide additional support**
- **Guerrero showed the highest growth since December 2018 at 6.4% m/m**

**Retail sales were below expectations in June.** Income generated by retailers grew 1.0% yoy in the month, below our forecast (2.0%) and consensus (1.8%), and also with respect to May at 2.8%. On a year-ago basis, this result was influenced by a relatively challenging base-effect in some categories such as supermarket, convenience, and departmental stores (+8.1% in June 2018) and appliances and computers (11.4%) as Mexico played the first three games of the *FIFA World Cup* in that month. Retail sales advanced 1.8% yoy nsa in 2Q19, higher than the 1.6% of the previous quarter. The comparison is further distorted by the timing of the Holy Week. Nevertheless and when adjusting for this, sales advanced 2.3% vs. 1.4% in 1Q19. Moreover, during the first half of the year, they grew 1.7% yoy.

In the monthly comparison, retail sales fell 0.5% m/m, its first decline since March, with the previous month advance of 0.7% unchanged. Taking a look at the breakdown, only two sectors were positive, including clothing and shoes (0.9%) and glass and hardware (0.6%). On the contrary, we highlight the 10.0% decline in internet sales, along the 0.8% and 0.3% fall in food and beverages and supermarket and departmental stores, respectively, with the latter two among the top three categories in terms of their relative weight. Moreover, motor vehicles and auto parts declined 0.8%, adding two consecutive months in contraction and consistent with weak domestic auto sales.

After a positive performance in the previous two months, retail sales seem to have cooled off. Previous reports had signaled that durable goods purchases had been the weakest link, which in our view was influenced by high levels of uncertainty. Nevertheless, today's data suggests that a broader slowdown may be in the cards, particularly as the food and beverages subsector has fallen for two consecutive months. In this respect, we will wait for more detailed information about this possible trend, particularly relevant in a context in which inflation has been declining higher than expected.

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**Retail sales: June 2019**

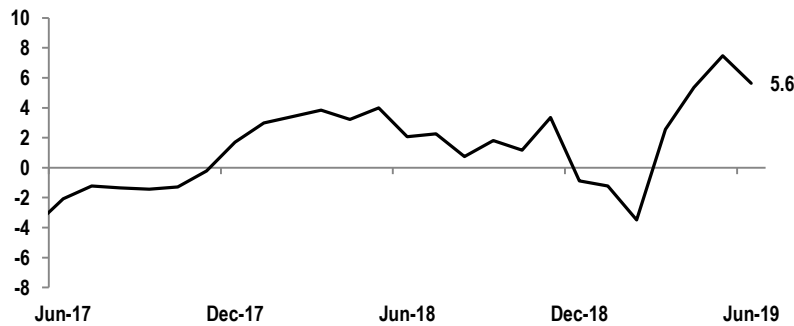
% m/m sa; % 3m/3m saar

	% m/m		% 3m/3m saar	
	Jun-19	May-19	Apr-19	Apr - Jun '19
<b>Retail sales</b>	<b>-0.5</b>	<b>0.7</b>	<b>0.7</b>	<b>5.6</b>
Food, beverages, and tobacco	-0.8	-0.7	-0.7	10.9
Supermarket, convenience, and departmental stores	-0.3	0.6	0.6	5.0
Clothing and shoes	0.9	1.6	1.6	14.7
Health care products	0.0	0.0	0.0	8.0
Office, leisure, and other personal use goods	-1.8	-1.6	-1.6	2.9
Appliances, computers, and interior decoration	-5.4	7.2	7.2	18.4
Glass and hardware shop	0.6	-1.0	-1.0	5.9
Motor Vehicles, auto parts, fuel and lube oil	-0.8	-1.5	-1.5	1.5
Internet sales	-10.0	4.0	4.0	18.0

Source: INEGI

**The 3m/3m saar rate reached 5.6% from +7.5% in the previous month.** Nevertheless, it should be mentioned this fall was likely given that this metric was benefitted until last month by a base-effect due to the weak result observed in December 2018. Despite of the latter, its absolute level is relatively strong, particularly when compared to its recent historical performance, as shown in the chart below.

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



Source: INEGI

**Retail sales may be resenting the broader slowdown in economic activity.** According to our estimates, the report has skewed slightly to the downside consensus' expectations about the *Global Economic Activity Indicator* for June, to be released on Friday, a situation we have already taken into account (at least partially) given our forecast of -0.8% yoy, below consensus at -0.6%.

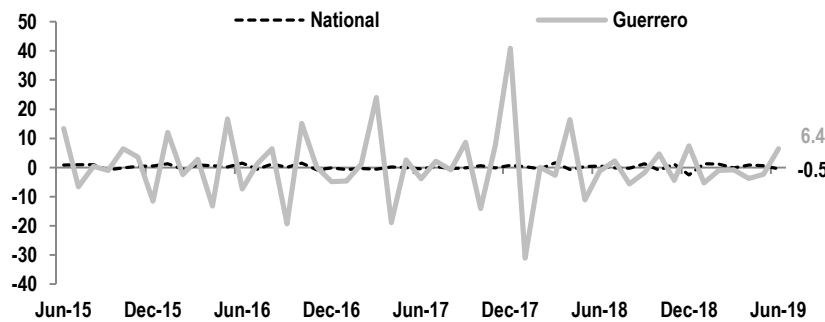
We believe that signs of a more protracted slowdown in domestic demand remain in place, as shown by the most recent available surveys. Among them, we have noted the decline of the “purchasing power” component within July’s consumer confidence, reaching lows since last November after five consecutive months of declines. This has been observed despite downward surprises in inflation that have been supporting the advance in real wages. In our view, this is a reflection of a more modest pace of formal job creation, high local uncertainty and the deceleration in other sectors of the economy. On the other hand and going to the supply-side, the *IMEF* services index has stayed in contraction, with the employment subcomponent below the 50pts threshold for sixth month in a row. Other drivers for consumption, such as remittances, continue growing despite decelerating in their annual comparison.

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, with key projects such as apprenticeship for the youth (*Jóvenes Construyendo el Futuro*) already reaching its membership goal for 2019, according to the Labor Ministry. Nevertheless, austerity measures remain in place despite recent announcement of a relative acceleration in government spending for the rest of the year.

*At the state level*

**Guerrero showed the highest growth since December 2018, at 6.4% m/m.** This happened after 5 months of consecutive declines, with a considerably higher dynamism vs. the national average. However, on a year-to-date basis, retail sales in Guerrero accumulate an 8.7% yoy fall, 4.4pp lower than the same period last year (-4.3%).

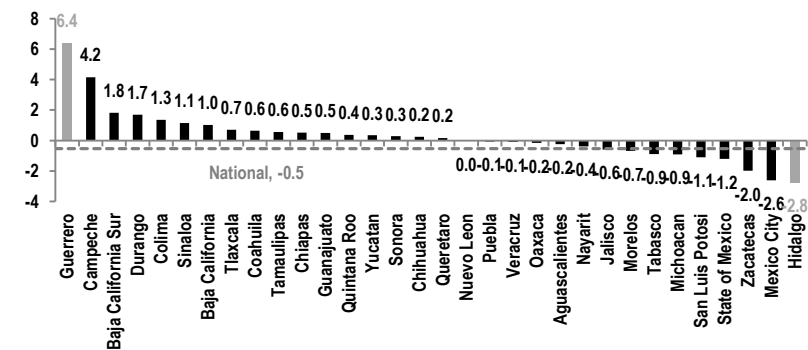
**Retail sales in Guerrero**  
% m/m; seasonally adjusted figures



Fuente: Banorte; INEGI

Retail sales growth in 23 states outperformed the national average. Apart from Guerrero, we highlight Campeche (4.2% m/m), Baja California Sur (1.8% m/m), Durango (1.7% m/m), and Colima (1.3% m/m). By contrast, retail sales in Hidalgo fell 2.8% m/m, as shown in the following graph.

**Retail sales by state: June 2019**  
% m/m; sa



Source: Banorte; INEGI

However, in the second quarter of the year, retail sales in Baja California registered the best performance in the country (+13% yoy), while Guerrero showed a 11.8% yoy fall. On a year-to-date basis, retail sales in Baja California registered a 11.6% increase. In contrast, Guerrero declined 9%.

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