Retail sales stayed strong in February

April 25, 2019

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.macal@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

Miguel Calvo
Regional Analyst
miguel.calvo@banorte.com

- ***INEGI* just published its retail sales report for February**
- **Retail sales (February): 1.8% yoy; Banorte: 0.3%; consensus: 0.1% (range of estimates: -0.5% to 1.8%); previous: 0.9%**
- **In seasonally adjusted terms, retail sales rebounded 1.2%, adding two consecutive months in positive territory but decelerating relative to the 2.7% observed in January, which was revised significantly higher**
- **The report shows that retail sales maintained a positive trend, contrasting with earlier reports that suggested a more modest performance**
- **In this respect, consumption has shown stronger-than-expected dynamism, likely with real wage gains more than compensating for the deceleration in the pace of job creation**
- **Guanajuato showed the highest growth in retail sales during the month (4.1% m/m)**

Retail sales remained strong in February. The income generated by retail sales increased 1.8% yoy nsa in February, significantly above consensus at 0.6% and our estimate of 0.3%. In seasonally adjusted terms, retail sales grew 1.2% m/m, up for second consecutive month but more modest than the 2.7% observed in January. It is worth mentioning that the series revision implied a much higher expansion in the previous month, originally at only 1.9%. The report shows that after plunging at the end of 2018, private consumption has been growing at a strong place in spite of a slowdown at the margin in the pace of formal job creation and a higher unemployment rate. In this respect, we believe that this has been more than compensated by strong real wage growth which stood at 2.9% yoy in February, its highest pace since December 2003.

In annual terms, six out of nine subsectors were positive during the month. In particular, we highlight that the performance of the auto sector surprised positively as it grew 1.1%. The report shows an expansion of 1.2% in autos and 1.9% in gasoline, both of which contrasted with more timely data which stood at -5.5% (according to *AMIA*) and -6% (according to Pemex), respectively.

In the monthly comparison, only two sectors contracted, including appliances (-3.7%) and internet sales (-1.9%). Nevertheless, it should be noted that these sectors grew very strongly in the previous month, so the decline was not enough to reverse these gains. More positively, autos were up 3.4% and clothing 2.1%. Moreover, key sectors in terms of their relative weight, such as food and supermarket and departmental sales, were also positive at 0.9% and 1.1%, in the same order. Overall, stronger than expected results since the start of the year point to an even better outlook for consumption in coming months.

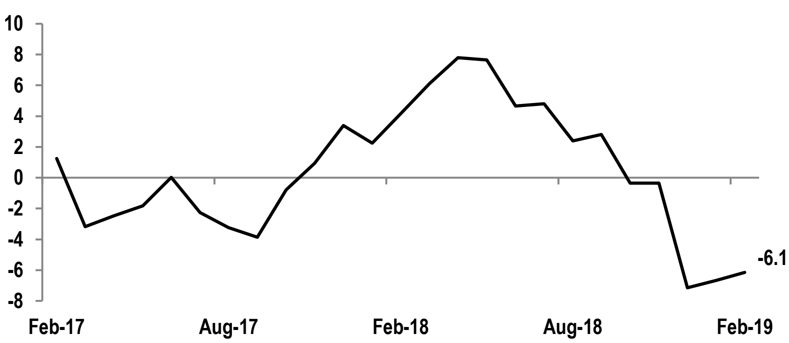
Retail sales: February 2019
% m/m sa; % 3m/3m saar

	% m/m			% 3m/3m saar
	Feb-19	Jan-19	Dec-18	Dec '18 - Feb '19
Retail sales	**1.2**	**2.7**	**-3.5**	**-6.1**
Food, beverages, and tobacco	0.9	-0.1	-0.4	-4.6
Supermarket, convenience, and departmental stores	1.1	3.7	-4.1	0.2
Clothing and shoes	2.1	0.6	-3.1	-12.6
Health care products	0.3	-0.4	-0.6	-2.0
Office, leisure, and other personal use goods	1.1	2.5	-2.6	-1.3
Appliances, computers, and interior decoration	-3.7	7.9	-11.0	-24.5
Glass and hardware shop	1.4	1.8	0.3	-2.2
Motor Vehicles, auto parts, fuel and lube oil	3.4	2.9	-3.8	-7.4
Internet sales	-1.9	33.4	-21.8	-15.5

Source: INEGI

The 3m/3m saar rate stood at -6.1%, improving from the previous of -6.7%. The negative rate is highly influenced by the deep decline in December, which will be eliminated next month. In that sense, performance in 1Q19 is very likely to shift to positive, as the first two months were good and no significant shock was experienced in March. As a result, our conviction that retail sales' growth at the turn of the year would likely decelerate has waned significantly. Contrary to our previous expectations, we believe that recent supply shocks did not have a sizable impact in terms of the overall consumption trend.

Retail sales
% 3m/3m saar



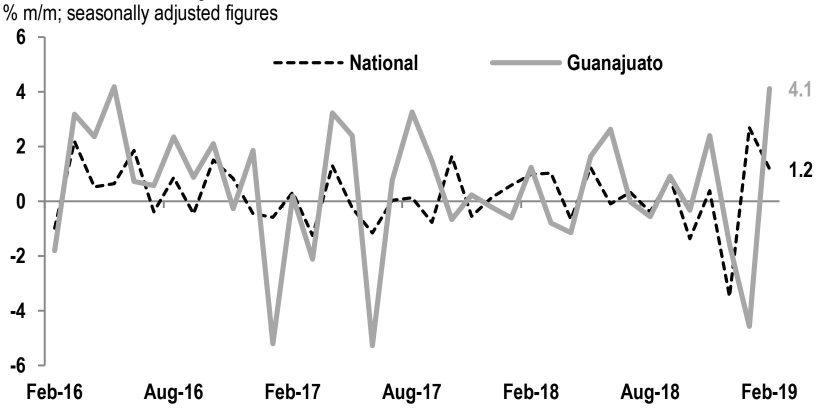
Source: INEGI

The report suggests stronger activity in February. The upside surprise in retail sales today significantly increases upside risks to our estimate for economic activity in February according to *IGAE* (to be published tomorrow) at 0.8% yoy, particularly in the tertiary sector. Additionally, we modify our expectation that consumption will decelerate in 1Q19 relative to the previous year. In this respect, real wage gains seem to be more than compensating for the deceleration in the pace of job creation (to 2.8% in March from 2.9% in February). Results for the last month of the quarter could still be positive as the Easter Holiday distorts annual growth rates, remembering that this year it took place until April instead of March. Nevertheless, this could be partially compensated by less dynamism in supermarket and departmental stores in March, which according to ANTAD fell -3.3% yoy (from -0.6% in February) and Walmart at +0.4% (from 1.4%). Tomorrow's data on consumption goods imports and next week's credit and remittances, with the latter two also decelerating modestly at the margin in the first two months of the year, will also be relevant to gauge dynamism during the month.

At the state level

Guanajuato showed the highest growth in retail sales during the month (4.1% m/m). This happened after the 4.6% fall in the previous month and posting a considerably higher advance vs. the national average. This represented the highest growth rate in the state since May 2016.. It is important to highlight that in the first two months of 2019, retail sales in Guanajuato registered a 1% growth, 2pp below the one observed in the same period last year.

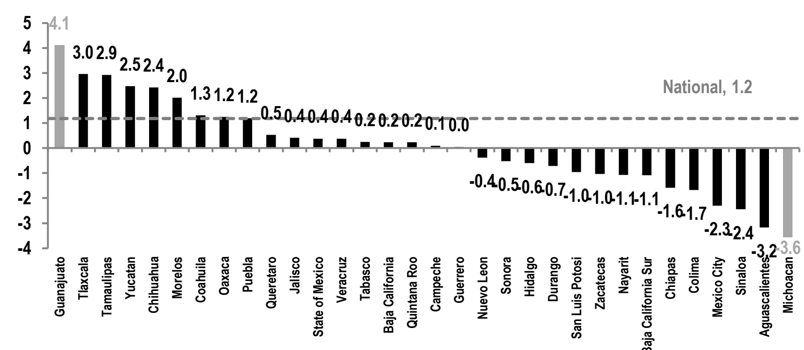
Retail sales in Guanajuato
% m/m; seasonally adjusted figures



Fuente: Banorte; INEGI

Moreover, retail sales growth in 8 states, including Guanajuato, outperformed the national average. In this regard, we highlight the expansion in Tlaxcala (3% m/m), Tamaulipas (2.9%), Yucatan (2.5%) and Chihuahua (2.4%). By contrast, retail sales revenues in Michoacán fell 3.6%, as shown in the table below, the worst contraction in the state since February 2018.

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



Source: Banorte; INEGI

Disclaimer

Analyst Certification.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer, Jorge Antonio Izquierdo Lobato and Leslie Thalía Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting investment clients of Casa de Bolsa Banorte Ixe and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	*When the share expected performance is greater than the MEXBOL estimated performance.*
HOLD	*When the share expected performance is similar to the MEXBOL estimated performance.*
SELL	*When the share expected performance is lower than the MEXBOL estimated performance.*

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454