Positive close of the quarter for retail sales

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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 September**
- **Retail sales (September): 4.1% yoy; Banorte: 4.0%; consensus: 4.0%; previous: 3.9%**
- **In seasonally adjusted terms, retail sales picked up strong again at 1% m/m, its strongest advance since May and reversing the contraction of the previous month**
- **These numbers imply a 4.5% 3m/3m saar for 3Q18, higher than 2.7% in August**
- **We expect a relative deceleration of consumption in 4Q18 as local uncertainty has increased (impacting the MXN) and as both remittances and wage negotiations have picked up at a more modest pace**
- **Nevertheless, broad fundamentals in terms of unemployment and confidence still suggest that consumption will maintain a healthy pace of growth**
- **Sinaloa showed the highest growth in retail sales during the month, the highest since Apr '17 (6% m/m sa)**

Positive close of the quarter for retail sales. According to *INEGI's* report published today, the income generated by retail sales increased 4.1% yoy nsa in September, marginally above consensus and our own estimate.

In seasonally adjusted terms, retail sales grew 1% m/m, improving relative to the slight contraction of 0.3% in the previous month. In terms of its main components, we highlight the increase in clothing and shoes (5.3%) and motor vehicles and auto parts (+2.1%). Nevertheless, the report suggests a more moderate performance going forward, with weakness in food (-0.5%), supermarket and convenience (-1.0%), and appliances (-0.6%). In our view, retail sales could moderate their dynamism into year-end as the backdrop has turned more uncertain, both locally and externally. Nevertheless, confidence levels remain high and unemployment low, suggesting that consumption will likely remain as the main growth engine of the Mexican economy.

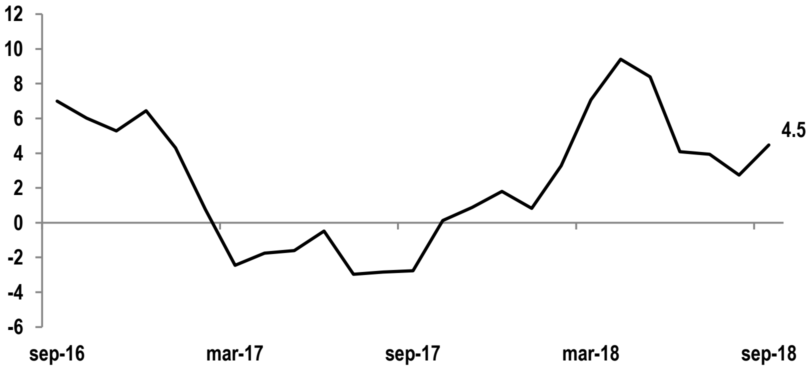
Retail sales: September 2018
% m/m, sa

	Sep-18	Ago-18
Retail sales	1.0	-0.3
Food, beverages, and tobacco	-0.5	0.1
Supermarket, convenience, and departmental stores	-1.0	-2.1
Clothing and shoes	5.3	0.4
Health care products	0.9	-1.3
Office, leisure, and other personal use goods	-1.1	0.6
Appliances, computers, and interior decoration	-0.6	2.6
Glass and hardware shop	2.3	2.2
Motor Vehicles, auto parts, fuel and lube oil	2.1	0.5
Internet sales	-12.9	15.7

Source: INEGI

The 3m/3m saar rate stood at 4.5% from 2.7% in the previous month, its highest level since last May. In this respect, the performance of retail sales during 3Q18 was positive, with a slightly stronger pace of advance relative to the previous quarter at 4.1%. In our view, high optimism among consumers and lower external (particularly on the new trade agreement with the US and Canada) and local (after the electoral process) uncertainty helped retail sales. In this sense, we highlight that the rate of growth in 3Q18 was significantly stronger than the 2.8% advance observed in the same quarter of 2017.

Retail sales
% 3m/3m saar



Source: INEGI

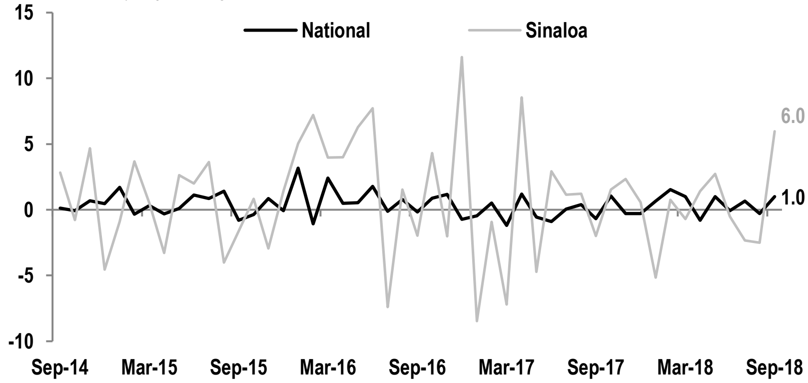
We anticipate a relative deceleration in retail sales during 4Q18, albeit still advancing at a healthy pace. In line with our expectations, consumption had a positive performance in 3Q18, which we believe was driven to a great extent to lower uncertainty in the economy. In our view, the dynamism of retail sales could moderate in 4Q18 in spite of consumer fundamentals that remain quite healthy, including low unemployment and high consumer confidence. In particular, losses in the Mexican peso have been quite strong since mid-October, a situation typically associated by consumers with a more cautious outlook. On the other hand, the pace of growth in remittances has moderated in recent months, while we believe wage negotiations could start to come down as inflation moderates. In spite of the latter, the broad fundamental picture for consumers remains quite healthy, suggesting that consumption will remain as the main growth driver of the Mexican economy.

At the state level

Sinaloa showed the highest growth in retail sales during the month, the highest advance observed since Apr ’17 (6% m/m sa). Retail sales in Sinaloa posted a 6% m/m expansion, which stands as the highest growth observed in the state since April 2017. This result is in part to the heavy consumption made by the inhabitants of different municipalities as a consequence of the floods caused by the tropical depression 19.

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 continue to grow at healthy rates the coming months. Year-to-date, retail sales in the entity showed a 1.1% yoy advance, far below the 6.2% yoy expansion observed in the same period of 2017.

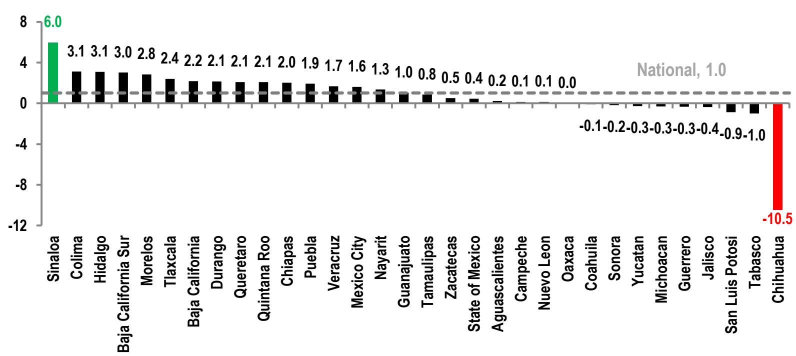
Retail sales in Sinaloa
% m/m; seasonally adjusted figures



Fuente: Banorte; INEGI

As we can see in the following chart, retail sales growth in 16 states including Sinaloa outperformed the national average. In this regard, we highlight the expansion in Colima and Hidalgo (3.1% m/m), Baja California Sur (3%), and Morelos (2.8%). By contrast, retail sales revenues in Chihuahua, fell strongly 10.5% m/m, the worst contraction in the history of the state, as shown in the table below.

Retail sales by state: September 2018
% m/m; sa



Source: Banorte; INEGI

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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
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
Francisco Duarte Alcocer	Analyst	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
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	Analyst, 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