

Retail sales surprise to the upside in May

- **INEGI just published its retail sales report for May**
- **Retail sales (May): 2.8% yoy; Banorte: 1.2%; consensus: 1.4% (range of estimates: 0.8% to 2.6%); previous: 1.6%**
- **In seasonally adjusted terms, retail sales were up 0.7% m/m, while the previous month figure was revised from 0.7% to 0.9%, adding two consecutive months in positive territory after a mild decline in March**
- **Retail sales held up relatively strong despite more muted activity in other sectors, a situation which may be positive for services ahead of tomorrow's IGAE, particularly as the latter sector has contracted for two consecutive months in a row**
- **We view the report as positive considering more modest dynamics in consumption fundamentals such as formal job creation and remittances growth, among others. Considering the latter, we expect a less positive performance of domestic demand**
- **Chiapas showed its highest growth since February 2016 at 3.8% m/m**

Retail sales stayed strong in May. Income generated by retailers grew 2.8% yoy nsa in the month, above both our forecast at 1.2% and consensus at 1.8%. It should be noted also that all analysts' estimates were below the actual figure. As a result, retail sales have advanced 2.2% yoy nsa so far in 2Q19, higher than the 1.6% observed in the previous quarter. Nevertheless, this comparison is distorted by a calendar effect associated with the Easter Holiday. Adjusting for this effect, sales have advanced 2.5% yoy sa, also better than 1Q19 at 1.4%. Therefore, we believe that the report is positive, particularly when considering the recent slowdown observed in services according to IGAE data.

Retail sales picked-up 0.7% m/m, its second consecutive month in positive territory after a mild decline of 0.1% in March. Moreover, it should be noted that data from the previous month was revised higher, from 0.7% to 0.9%. Taking a look at the breakdown, results were more mixed, with only four out of nine sectors advancing, while one stood flat. The strongest advance was observed in appliances and computers (6.9%), followed by internet sales (4.7%) and clothing and shoes (1.6%). On the contrary, we highlight the 1.4% decline in motor vehicles and auto parts –consistent with weak data on domestic auto sales– and the 0.5% fall in food and beverages, which is among the most important categories.

In our view the report was favorable despite mixed results at the sector level, along with other indicators that suggest that high uncertainty is having an impact on consumers, particularly in terms of purchases of durable goods. Moreover, confidence seems to be gradually trending downwards, albeit as we have mentioned previously, this indicator seems to be more highly correlated with political sentiment. Nevertheless, the purchasing power component is the lowest among all the subindices.

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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

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Retail sales: May 2019

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

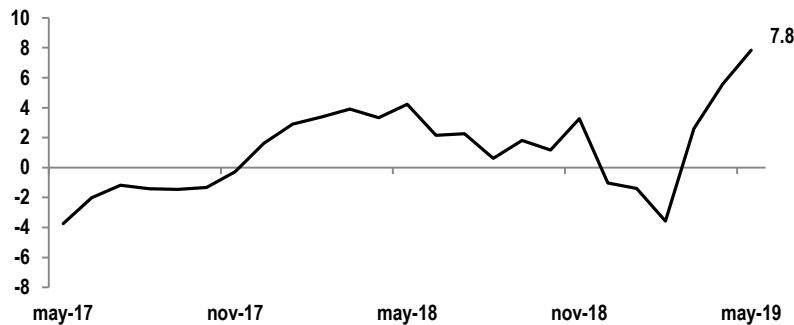
	% m/m			% 3m/3m saar
	May-19	Apr-19	mar-19	Mar - May '19
Retail sales	0.7	0.9	-0.1	7.8
Food, beverages, and tobacco	-0.5	2.5	-0.5	6.8
Supermarket, convenience, and departmental stores	0.6	0.2	0.4	12.6
Clothing and shoes	1.6	-0.1	-0.1	11.8
Health care products	0.0	2.4	-0.8	4.8
Office, leisure, and other personal use goods	-1.3	2.4	0.2	0.4
Appliances, computers, and interior decoration	6.9	1.3	2.8	17.6
Glass and hardware shop	-1.0	3.4	-2.2	3.0
Motor Vehicles, auto parts, fuel and lube oil	-1.4	1.6	-0.8	8.2
Internet sales	4.7	5.8	-0.2	50.6

Source: INEGI

The 3m/3m saar rate reached 7.8%, accelerating relative to the +5.6% of the previous month. As a result, this metric added three consecutive months in positive territory, still benefited by a base effect due to weakness in December nonetheless improving at the margin. We remain cautious of not overstating the recent acceleration, expecting it to drop by the end of the quarter. Nevertheless, overall results have once again been better than expected, which is welcome in the midst of other data showing a muted dynamism of economic activity extending through the second quarter of the year.

Retail sales

% 3m/3m saar



Source: INEGI

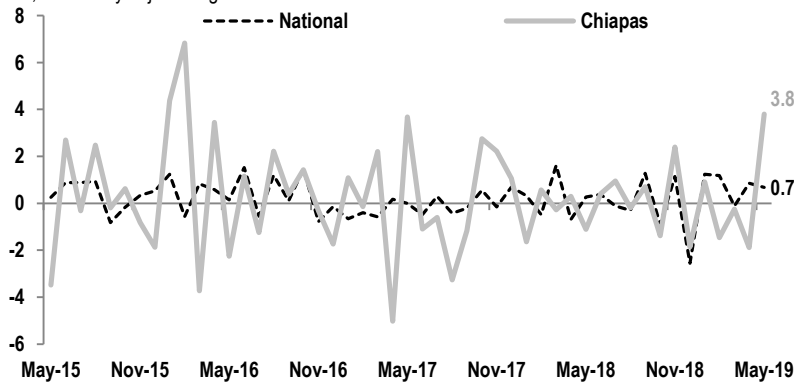
Retail sales stay resilient despite an economic slowdown. In this respect, we believe that the report has skewed to the upside expectations about the *Global Economic Activity Indicator* for May to be released tomorrow, currently estimated by consensus at -0.8% yoy (Banorte: -0.4%). Even accounting for the latter, we believe that private consumption will grow at a more modest pace than previously anticipated, at 1.4% yoy for full-year 2019. For details, see: “Mexico - Economic activity decelerates more than expected”, <[pdf](#)>, published on July 22, 2019. In this respect, we have seen signs of a moderation in domestic demand, including the persistent downtrend in the pace of job creation and remittances, among others. Nevertheless, this has been at least partially compensated by the still healthy advance of real wages and the moderation in inflation. Moreover, we have also observed a recent slowdown in non-oil consumption-goods imports, adding three consecutive months in negative territory in the annual comparison and at -2.2% yoy in May, for which we will also be focused on in tomorrow’s trade balance report of June.

At the state level

Chiapas showed the highest growth since February 2016 at 3.8% m/m. This happened after 3 months of consecutive declines, posting a considerably higher dynamism vs. the national average and representing its highest advance since February 2016. However, on a year-to-date basis, retail sales in Chiapas accumulate a 0.2% fall, 0.9pp higher than the same period of last year.

Retail sales in Chiapas

% m/m; seasonally adjusted figures

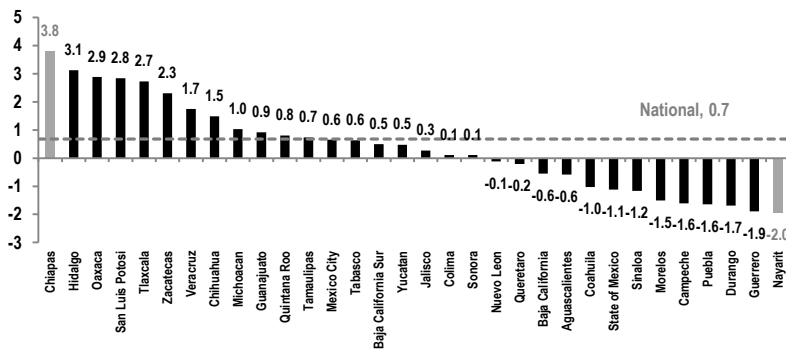


Fuente: Banorte; INEGI

Retail sales growth in 12 states outperformed the national average. Apart from Chiapas, we highlight Hidalgo (3.1% m/m), Oaxaca (2.9% m/m), San Luis Potosi (2.8% m/m), and Tlaxcala (2.7% m/m). By contrast, retail sales revenues in Nayarit fell 2%, as shown in the following graph, the worst contraction of the past three months.

Retail sales by state: May 2019

% 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 Godínez	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
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	hugo.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.cebillos@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
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454