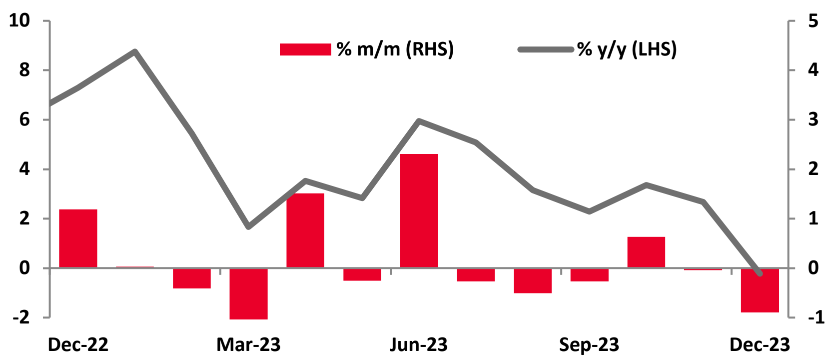
February 21, 2024

Retail sales – Surprising weakness at the end of the year

- **Retail sales (December): -0.2% y/y; Banorte: 2.4%; consensus: 2.4% (range: 1.3% to 2.9%); previous: 2.7%**
- **Sales fell 0.9% m/m, adding two months of declines. The result was somewhat surprising, with higher inflationary pressures likely weighing on dynamism despite positive fundamentals**
- **Inside, five of the nine sectors were down. The most relevant contractions supermarket and departmental stores (-3.7%), and food and beverages (-2.2%). On the contrary, office and leisure (8.7%) and internet sales (5.9%) improved**
- **We expect consumption strength in the first half of 2024, with several drivers at play. However, we remain watchful of the drag that may come from price pressures, along with household consumption decisions due to some distortions driven by the early payment of social programs**

Retail sales turn negative in annual terms at -0.2%. The figure was considerably lower than both consensus and our estimate (2.4%). As such, the full-year increase in 2023 was 3.6%, moderating relative to 2022 (7.2%). In retrospect, we saw less dynamism in the second half relative to the first, even after accounting for constant strength in fundamentals throughout the year –although with higher volatility in some months of the period. Focusing on December, we highlight that some headwinds became more relevant despite the support of wages and employment, as well as remittances and credit. Specifically, inflation accelerated to 4.66% y/y from 4.32%, with strong pressures in fruits and vegetables.

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



Source: INEGI, Banorte

Relevant sequential decline, adding two months down. Sales fell 0.9% m/m. This contrasts with timely figures, which were mostly positive. Among them, ANTAD sales grew marginally (+0.5% y/y in real terms for same stores), while imports of non-oil consumer goods increased 4.2%, continuing with a positive trend. In detail, five of the nine categories backtracked relative to the previous month. Weakness centered in supermarket and departmental stores at -3.7% –with the drag from the former, at -4.8%– along with food and beverages (-2.2%). Another category with a relevant decline was autos and fuel at -1.2%, noting that car sales fell 2.4% –at odds with AMIA's more favorable figures. On a more positive note, office and leisure (8.7%), and internet sales (5.9%), posted large upticks, in our view supported by the period's usual consumption patterns. Further details are presented on the following page.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Retail sales
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m
	Dec-23	Nov-23	Oct-23	Oct-Dec'23
Retail sales	**-0.9**	**0.0**	**0.6**	**0.0**
Food, beverages, and tobacco	-2.2	-1.7	1.9	0.0
Supermarket, convenience, and departmental stores	-3.7	-0.6	1.4	-0.5
Clothing and shoes	0.0	3.9	-5.2	-5.1
Healthcare products	-1.3	-1.6	1.0	-0.4
Office, leisure, and other personal use goods	8.7	-1.4	11.3	7.1
Appliances, computers, and interior decoration	0.2	-1.4	5.1	1.3
Glass and hardware shop	0.7	-3.7	-0.4	-3.4
Motor vehicles, auto parts, fuel, and lube oil	-1.2	0.2	-0.7	-0.3
Internet sales	5.9	1.4	1.2	2.3

Source: INEGI

Consumption will rebound in the first half of 2024. As mentioned in previous reports, our call is that economic activity will accelerate in 1H24. Part of this incorporates a relevant boost from consumption, which we believe will be highly benefited by disposable income growth. On the contrary, some factors in the second part of the year will likely fade out.

Regarding the first semester, the improvement would be driven not only by fundamentals, with other tailwinds such as: (1) The 20% minimum wage increase –which we expect to be complemented by a stronger 'lighthouse effect'; and (2) advance payments related to social programs (*e.g.* with beneficiaries from the elderly pension program receiving resources for two bi-monthly periods between the end of January and mid-February, with the next transfers until July). In addition, we maintain a positive view on employment and remittances. Furthermore, our call about consumer loans is favorable, allowing some households to continue financing their spending. However, we recognize some headwinds that could limit dynamism, including: (1) High interest rates; (2) renewed inflationary pressures –which at the beginning of the year were focused on food, but could also be seen in energy in the short-term; and (3) the negative effect of MXN strength on remittances.

On the other hand, we remain focused on consumption patterns, where we could have two effects: (1) A renewed interest in goods' consumption, considering that services usually have a negative seasonal trend in the first two months of the year; and (2) higher growth in online sales relative to physical stores. On the last point, the *Mexican Association of Online Sales* (AMVO in Spanish) estimates sales growth through this channel in 2024 of 12% y/y. Pierre Blaise, the general director of the association, pointed out that: "*For the first time, Mexico entered the top 10 countries in which e-commerce weights more than the retail channel...*".

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, 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.

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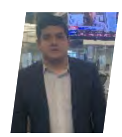

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