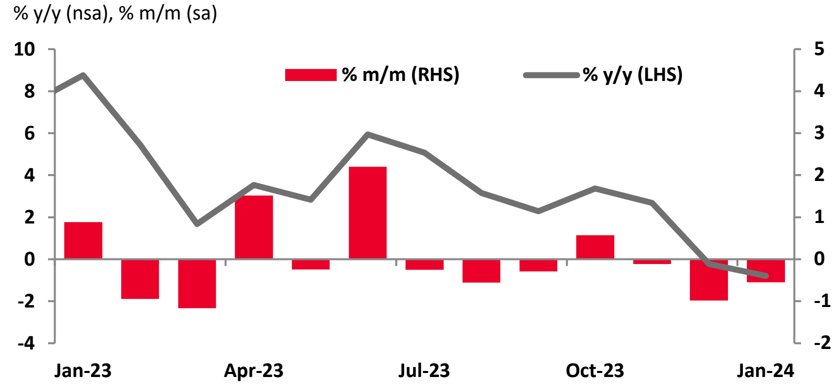
March 21, 2024

Retail sales – Weakness extended to the turn of the year

- **Retail sales (January): -0.8% y/y; Banorte: 0.9%; consensus: 1.2% (range: 0.7% to 1.8%); previous: -0.2%**
- **Sales fell 0.6% m/m, adding three months of declines. We believe sales were limited by challenges from higher inflationary pressures and more mixed fundamentals**
- **Inside, five of the nine sectors declined. The most relevant setbacks were in office and leisure (-12.9%), and clothing (-6.6%). On the contrary, some improvements were seen in healthcare (3.6%), and motor vehicles and fuel (1.5%)**
- **Despite of the negative surprise, we expect consumption to accelerate in coming months, recognizing several positive drivers. Nevertheless, the outlook towards the second half of the year holds more risks**

Retail sales remain negative in the annual comparison. The figure showed a 0.8% drop in January, below consensus (1.2%) and our estimate (0.9%). The result is negative, extending a bout of weakness likely compounded by an unfavorable seasonal effect, with the 'January slope' weighing on household spending. Fundamentals were somewhat mixed. Wages advanced sharply –driven by the minimum wage adjustment– while remittances declined sequentially. Credit moderated at the margin, albeit remaining strong. A major drag was the significant acceleration in inflation, reaching 4.88% due to a significant increase in non-core inflation.

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



Source: INEGI, Banorte

Another sequential decline. Sales fell 0.6 m/m, adding three months to the downside. Timely data were somewhat mixed, consistent with the sectoral performance. ANTAD same-store sales returned to negative (-1.3% y/y in real terms), with auto sales down 1.0% m/m. On a more positive note, non-oil consumption goods imports kept climbing (0.7% m/m). In detail, five of the nine categories backtracked relative to the previous month, with some base effects at play. Weakness was centered in office and leisure at -12.9% –noting a sharp decline in entertainment articles–, with clothing and shoes (-6.6%), and internet sales (-6.1%) also lower. To the upside, healthcare climbed 3.6%. There were also 1.5% expansions in both 'autos and fuel' and 'supermarket and departmental stores'. It is important to note that, in the former, strength centered in cars and trucks, contrasting with AMIA's figures. In the latter, sales in departmental stores declined, with a mild rebound in supermarkets. For further details, see the table below.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Retail sales
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m
	Jan-24	Dec-23	Nov-23	Nov'23-Jan'24
Retail sales	**-0.6**	**-1.0**	**-0.1**	**-0.7**
Food, beverages, and tobacco	-1.4	-2.3	-1.9	-2.5
Supermarket, convenience, and departmental stores	1.5	-3.2	-0.7	-1.4
Clothing and shoes	-6.6	-0.1	2.3	-4.1
Healthcare products	3.6	-0.7	-1.4	0.3
Office, leisure, and other personal use goods	-12.9	6.3	-2.2	0.5
Appliances, computers, and interior decoration	0.0	0.3	-1.4	0.6
Glass and hardware shop	-0.6	0.7	-3.7	-4.2
Motor vehicles, auto parts, fuel, and lube oil	1.5	-1.0	0.2	0.1
Internet sales	-6.1	5.5	1.1	1.3

Source: INEGI

Despite negative signals recently, we expect an acceleration in coming months. We believe consumption could accelerate in the short-term, which would contribute to our positive view for the first half of the year. Specifically, we see several drivers in the short-term, although the most relevant –at least in the next couple of months– will be different social programs' payments that were made in advance to comply with electoral restrictions. For example, payments to senior citizens corresponding to the March-April and May-June periods were disbursed between January 29th and February 23rd, with similar schemes adopted for other programs.

In this context, some timelier figures do suggest greater dynamism. ANTAD sales accelerated significantly in February (+4.6% y/y in real terms for same-stores), with Banxico's transactional data reporting a 1.5% m/m increase in credit and debit card transactions during the month. However, we believe that wage gains –in a context of low labor market slack– and banking credit strength will also be relevant catalysts. At the margin, we also saw some respite in inflation –noting the positive seasonality in the tomato prices–, albeit with risks ahead still skewed to the upside. Finally, on the exchange rate, we recognize the positive impact on imported goods, although we remain vigilant about the adverse effect to remittances in local currency.

Finally, and as we have mentioned previously, we remain very attentive to possible changes in consumption patterns. We believe services could remain relatively strong –with estimates from different business chambers, mainly in tourism, predicting positive results–, although we do not rule out that price pressures could subtract some momentum. In goods, high growth rates in imported goods are likely to continue, taking advantage of MXN strength. In addition, we will be on the lookout for challenges in the second half of the year, considering a more complicated economic outlook due to both external and domestic factors.

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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, 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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