Retail sales – A modest setback in February, but maintaining a positive trend

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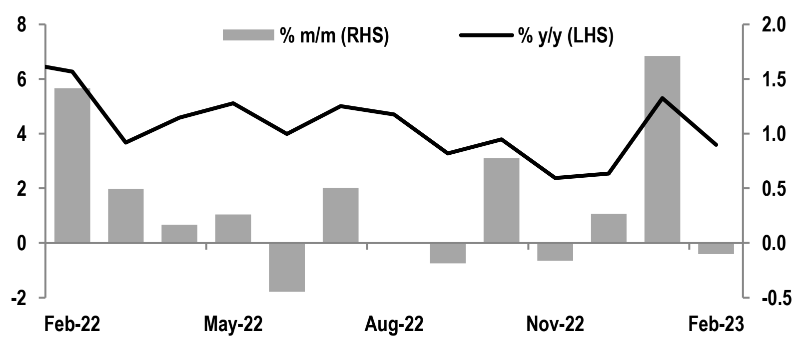
- **Retail sales (February): 3.4% y/y; Banorte: 3.6%; consensus: 4.2% (range: 2.3% to 5.5%); previous: 5.3%**
- **Retail sales declined 0.3% m/m, not surprising considering January's 1.7% increase. As such, we believe the result still signals some resilience in the sector, supported by strong fundamentals and a moderation in price pressures**
- **Inside, we observed relevant contractions in appliances (-2.5% m/m) and vehicles and fuel (-1.8%). On the contrary, strength was seen in healthcare (3.0%) and office and leisure (1.9%)**
- **We expect consumption to remain strong in coming months, underpinned by domestic conditions and a key factor behind our 2.0% GDP forecast**

Strength in sales continued in February. Retail sales rose 3.4% y/y, lower than consensus (4.2%) but closer to our estimate (3.6%). The moderation is largely driven by a more challenging base effect. As such, we believe that sales continue to be supported by several factors, including: (1) Strong fundamentals, mainly employment and remittances; (2) the continuation of social program payments; (3) solid economic activity, surprising to the upside so far in the quarter; and (4) relatively good dynamics in banking credit. In addition, there was a moderation in prices across key categories –more evident in March– which likely helped household's real disposable income. As such, the sector looks poised to keep posting good results in coming months.

Modest sequential decline, impacted by a challenging base effect. Sales fell 0.3% m/m, albeit only after an accumulated gain of 2.0% in the two previous months (highlighting January's +1.7%). ANTAD sales slowed down (with same-stores back in negative territory in real terms), probably affecting the result as other data was mostly positive –noting AMIA car sales and transactional data from Banxico. However, considering the magnitude of the decline, we believe the result is resilient, if not outright strong.

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



Source: INEGI, Banorte

Five out of nine categories fell, consistent with the headline result. Losses were concentrated in appliances and computers (-2.5% m/m), and vehicles and fuel (-1.9%). Within the latter, autos were the main drag at -4.3%, contrasting with AMIA’s gains. Other sectors with notable declines were glass and hardware (-1.7%), clothing and shoes (-1.6%), and food and beverages (4.8%). On the contrary, outperformers included healthcare products (3.0%) and office and leisure (1.9%), both helped by a less challenging base effect.

Retail sales
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m
	Feb-23	Jan-23	Dec-22	Dec’22-Feb’23
Retail sales	**-0.3**	**1.7**	**0.3**	**1.5**
Food, beverages, and tobacco	-1.6	0.7	-1.3	-1.4
Supermarket, convenience, and departmental stores	1.1	1.4	-0.2	1.3
Clothing and shoes	-1.6	2.9	1.2	2.2
Healthcare products	3.0	-3.9	-0.2	-0.4
Office, leisure, and other personal use goods	1.9	-0.7	1.6	2.9
Appliances, computers, and interior decoration	-2.5	4.5	-3.4	0.3
Glass and hardware shop	-1.7	0.1	4.5	2.3
Motor Vehicles, auto parts, fuel and lube oil	-1.8	5.8	0.3	2.9
Internet sales	0.1	2.9	4.3	4.5

Source: INEGI

Consumption will maintain an upward trend in coming months, playing a key role in 2023’s GDP. Despite of the slight setback, we believe the sector remains in a position of strength, poised to extend gains in coming months. Some jitters might persist in the short-term, at least according to timely data. In this sense, ANTAD sales decelerated further, with same-store sales at -2.8% y/y in real terms –its lowest level since early 2021. However, auto sales kept recovering, up 1.6% m/m (using our in-house adjustment model), likely benefiting from improved availability as progress on supply chains has continued. In addition, transactional data from the central bank shows a marginal progress. As mentioned previously, price pressures kept moderating, which we expect to have a positive spillover on spending.

Further ahead, we believe consumption –and to the same extent, retail sales– will consolidate further as one the main drivers for GDP this year. In this sense, we recently revised our full-year forecast, now expecting a 2.0% expansion (previous: 1.5%), with private consumption up 2.6%. We believe this is quite important as risks from abroad remain as a challenge for growth. As uncertainty tied to the banking sector turmoil in the US and Europe seems to have been left behind, it is more likely that global central banks will push through with additional monetary tightening, impacting the outlook for growth. In addition, the announcement from OPEC+ to cut production could impact global supply chains again and may well be an additional speedbump. Despite of this, the outlook ahead seems more favorable, underpinned by solid fundamentals, along additional support from remittances and banking credit.

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