Retail sales – Modest setback, but still with a positive trend

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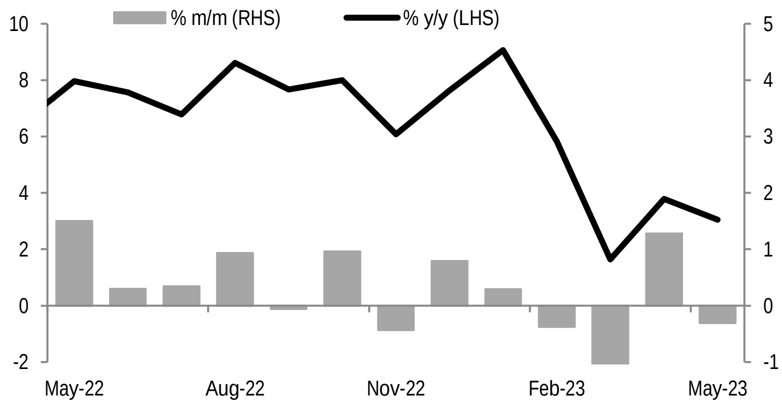
- **Retail sales (May): 2.6% y/y; Banorte: 3.1%; consensus: 3.5% (range: 0.0% to 3.7%); previous: 3.8%**
- **Retail sales fell 0.5% m/m, quite modest considering the 1.3% expansion seen in April. This materialized in a mixed backdrop, with signs of a moderation in fundamentals, but with additional progress on prices**
- **Inside, four of the nine sectors declined. The main setbacks were in internet sales (-15.2%), and vehicles and fuel (-2.3%). Meanwhile, categories to the upside included appliances (4.4%) and office and leisure (2.7%)**
- **We believe the result may be reversed as early as next month, anticipating resilient fundamentals and a further moderation in inflation. In addition, numerous sales (including summer discounts) could provide further support**

Sales keep expanding in annual terms. Retail sales grew 2.6% y/y, lower than consensus (3.5%) but closer to our 3.1% forecast. We believe that overall performance was positive, with a still encouraging outlook and surpassing some constraints such as a negative base effect, but also with mixed developments in consumer fundamentals. Regarding the latter, some jobs were lost, although with the positive note being that wages kept improving. Meanwhile, remittances reached a new all-time high, while consumer loans continued to rise. Lastly, another factor that contributed to the expansion was the moderation in prices, with inflation falling from 6.3% y/y to 5.8%.

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



Source: INEGI, Banorte

Modest contraction in sequential terms, impacted by an adverse base. Sales fell 0.5% m/m, which we believe is not so negative considering the 1.3% advance from the previous month. However, it is consistent with some timely indicators that had a mixed bias, which seem to be reflected in the detail by sector and which could be explained by households' decisions to postpone some purchases until the usual summer sales in June and July.

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In this sense, on the negative side ANTAD figures stand out, with same-store sales at -4.3% y/y in real terms. On the contrary, auto sales rebounded 1.7% m/m, remembering that the normalization of inventory management continues to be an important factor in this sector. In the detail within the report, four of the nine items fell. As such, we highlight the decline in internet sales (-15.2%) and autos and fuel (-2.3%). Nevertheless, in the latter the contraction was explained by fuel at -5.7%, with autos climbing 2.0% –consistent with AMIA figures. Other categories with declines were clothing and shoes and supermarket and departmental stores also declined, -1.2% y -1.1%, respectively. On a more positive note, categories to the upside include appliances (4.4%) and office and leisure goods (2.7%).

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

	% m/m			% 3m/3m
	May-23	Apr-23	Mar-23	Mar-May**'23**
Retail sales	-0.5	1.3	-1.2	-0.6
Food, beverages, and tobacco	1.6	1.1	-1.6	0.7
Supermarket, convenience, and departmental stores	-1.1	4.6	-0.9	4.2
Clothing and shoes	-1.2	0.4	0.0	0.6
Healthcare products	1.6	3.9	-1.4	0.0
Office, leisure, and other personal use goods	2.7	-2.0	1.0	-3.4
Appliances, computers, and interior decoration	4.4	1.6	-1.2	-1.5
Glass and hardware shop	0.3	1.0	-6.3	-3.3
Motor Vehicles, auto parts, fuel and lube oil	-2.3	-0.4	-1.9	-4.8
Internet sales	-15.2	-21.6	32.6	10.2

Source: INEGI

Lower price pressures and resilience in fundamentals will continue to boost consumption in the second half of the year. Despite the contraction in sales in May, we maintain our view that dynamism in consumption –and therefore of retail sales– will continue in 2H23. However, we still are paying attention to the evolution of some risks, mainly external, which could reduce the pace of domestic demand and directly limit household consumption.

In the short-term and with timely data, the outlook is positive. We believe that seasonal discounts (*e.g. Hot Sale*, *Prime Day*, *Temporada Naranja*) will provide a relevant boost. In this regard, it is worth noting these types of promotions typically go hand-in-hand with payment incentives or reimbursements by commercial banks –through several financial products such as credit or debit cards. In this sense, Banxico's transactional data for both types increased 3.3% m/m in real terms (using our-in-house seasonal adjustment model). In addition, according to the Mexican Association of Online Sales (AMVO in Spanish), sales associated to *Hot Sale* discounts increased 29% vs. 2022 –with a relevant presence of completely online shops (*e.g. Mercado Libre* and *Amazon*). On the other hand, ANTAD sales rebounded significantly, with same-store sales at 4.0% y/y in real terms. Meanwhile, car sales climbed 4.3% in sequential terms, adding two months to the upside.

Finally, we continue to believe that price dynamics will be favorable in the short-term, supporting the sector's performance. However, we are somewhat cautious given an increase in risks to the non-core, anticipating higher pressures on agricultural items due to the *El Niño* phenomenon and the recent surge in grain prices due to the war in Ukraine.

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