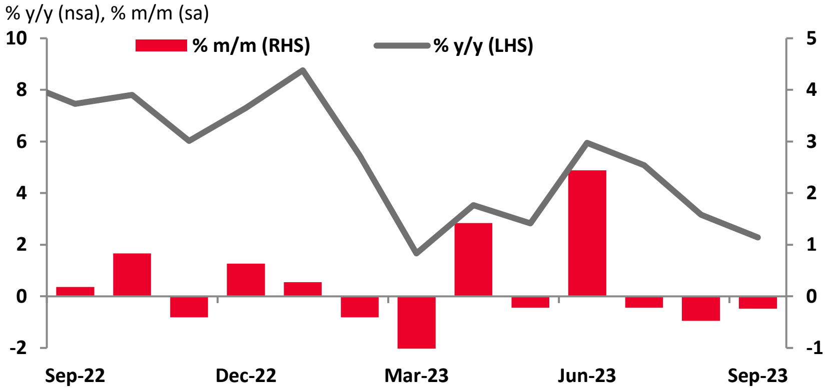
November 22, 2023

Retail sales – Weakness extends to September, with diverging trends within

- **Retail sales (September): 2.3% y/y; Banorte: 3.6%; consensus: 3.7% (range: 2.5% to 5.0%); previous: 3.2%**
- **Sales fell 0.2% m/m, declining for a third consecutive month. We find this somewhat surprising considering the positive trend in fundamentals, on top of acknowledging a moderation in inflationary pressures**
- **By categories, five of the nine sectors contracted. We note weakness in office and leisure (-8.1%) and internet sales (-5.6%). On the contrary, we highlight improvements in vehicles and fuel (1.4%) and health care products (1.0%)**
- **Timely data shows mixed signals for October, not ruling out that consumers are holding back their purchases for the last two months of the year. In addition, we remain on the look to different sales' drivers, including fundamentals, inflation, and the exchange rate, among others**

Sales grew 2.3% y/y in September. This was lower than consensus (3.7%) and our estimate (3.6%). The sector has started to show some signs of moderation after a positive trend for the last couple of years. Nevertheless, we believe figures for this month may be affected by an unfavorable seasonality. This is relevant considering that fundamentals remain strong and should continue to support sales. In this regard, wages registered relevant gains, while the unemployment rate continued to decline despite job losses. Remittances accelerated significantly, while consumer loans kept expanding. Inflation moderated in both annual and monthly rates, with much of the performance explained by positive surprises in the non-core component, with some pressures persisting in core services. On the other hand, the MXN depreciated during the month. Nevertheless, we believe that the effect on sales was quite limited based on the magnitude of the move.

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



Source: INEGI, Banorte

Sequential decline for a third month in a row. Sales fell 0.2% m/m, accumulating a 0.9% decline in the last three months. The result comes despite a positive base effect and contrasts with timely figures. On these, ANTAD sales rose 0.3% y/y in real terms. Non-oil consumer goods imports continued to increase, albeit at a more modest pace. Within the report, five of the nine categories declined. The largest contractions were in office and leisure (-8.1%) and internet sales (-5.6%). On the positive side, motor vehicles and fuel stood out at +1.4%, supported by vehicles –in line with AMIA's timely data. Another sector with a relevant increase was healthcare products at +1.0%. For further details see the table on the following page.

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

	% m/m			% 3m/3m
	Sep-23	Aug-23	Jul-23	Jul-Sep'23
Retail sales	**-0.2**	**-0.5**	**-0.2**	**0.9**
Food, beverages, and tobacco	0.4	-0.5	1.7	2.0
Supermarket, convenience, and departmental stores	0.3	-1.1	-1.7	0.5
Clothing and shoes	-2.6	-1.5	0.9	1.7
Healthcare products	1.0	-0.7	-1.9	-2.1
Office, leisure, and other personal use goods	-8.1	-1.1	-1.3	-2.4
Appliances, computers, and interior decoration	-3.7	0.7	4.2	3.3
Glass and hardware shop	-0.7	0.4	-2.4	-1.0
Motor vehicles, auto parts, fuel, and lube oil	1.4	-0.7	0.7	0.8
Internet sales	-5.6	6.6	-4.1	10.0

Source: INEGI

Fundamentals will continue driving consumption, although we do not rule out headwinds that could limit its performance in the short-term. The trend in retail sales throughout the year has shown more moderate rates relative to the previous year, even considering that the strength of fundamentals has been a constant. Possible explanations for this include: (1) Changes in consumption patterns, with a bias towards services that may have taken hold after the end of the pandemic; (2) some persistence in inflationary pressures –especially in the core component; and (3) the current monetary policy cycle that is keeping interest rates at high levels. Under this scenario, we believe that the start of year-end deals in mid-November will provide a relevant boost to retail sales. This, added to the support of employment, credit, remittances, and other monetary transfers (*e.g.* Christmas bonuses) for households, will translate into an acceleration in growth for this sector.

Consistent with this, timely data at the start of 4Q23 show mixed figures, with ANTAD figures down –with same-store results at -1.3% y/y in real terms. Figures reported by the AMIA revealed that sales fell 0.8% m/m. Meanwhile, consumer confidence showed its first drop in six months. Considering that positive factors for the sector continue, we believe that the push will materialize more strongly in the last two months of the year. In this context, estimates for *El Buen Fin 2023* (Mexico's Black Friday) are encouraging. According to the study "Mexican consumer behavior during *El Buen Fin*, comparative study 2020-2023" by *Planning Quant*, average planned spending is expected to be $7,700 per household, with a focus on apparel, footwear, and home appliances, followed by cell phones, furniture, toys, electronics, computer equipment, video games, and cosmetics. In addition, the National Alliance of Small Retailers estimated that 12% of formal workers will receive their Christmas bonus (in full or partially) around these dates. Furthermore, they anticipate that around 33% of the population that will make purchases during this period will defer their payments to 12 months without interest, with 43% deferring it to 6 months. For its part, the consultant Nielsen IQ estimates that *El Buen Fin* will represent 35% of digital revenue for retail sales during the year-end season. Finally, Concanaco Servytur estimates an approximate economic spillover of $141.0 billion, with the participation of at least 45 thousand establishments. As such, we are still expecting some preliminary figures at the time of this publication.

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