

## Strong retail sales in January, with a challenging outlook for the rest of the year

- **Retail sales (January): 2.7% y/y; Banorte: 2.8%; consensus: 2.8% (range: 0.5% to 3.9%); previous: 3.2%**
- **In seasonally adjusted terms, retail sales picked-up 0.5% m/m, completely reversing the 0.4% fall of the previous month**
- **By categories, we highlight strength in autos and fuel (1.6%) and glass and hardware (1.4%). On the other hand, there were relevant declines in categories such as food (-1.7%) and internet sales (-9.7%)**
- **More timely data suggests that the good performance extended through February, with an additional support in annual terms due to the leap-year effect**
- **Nevertheless, the outlook for the rest of the year is very challenging, with a strong shock likely in durable goods purchases as a result of the COVID-19 outbreak**
- **Zacatecas showed the highest growth in the country in January at 2.7% m/m**

**Retail sales advance 2.7% y/y in January.** This figure was an inch lower than consensus, which coincided with our forecast of 2.8%. The lower print relative to the 3.2% of the previous month is mainly explained by a more challenging base effect, remembering that sales increased 0.7% in the same period of 2019, and that there were no additional working days in the annual comparison.

**A relatively strong rebound in monthly terms.** Retail sales increased 0.5% m/m, more than reversing the -0.4% observed in December. In absolute terms, the index is relatively high, which we see as favorable and suggests a positive start for 2020. Inside, those categories related to durable goods showed a quite good performance, as portrayed by motor vehicles and fuel (1.6%), glass and hardware (1.4%, strongest in six months), and appliances and computers (0.5%). On the contrary, foods and beverages (-1.7%), supermarkets (-0.1%) and clothing and shoes (-1.8%) were on the downside. Internet sales plunged 9.7%, although this category is typically very volatile. Overall, these results suggest that confidence among consumers may have been starting to induce purchases of higher-ticket items as signaled by performance in durable goods, which lagged considerably last year (according to aggregate demand data).

Available data for February –such as those from retailers gathered in ANTAD, and Walmart– look favorable to us, despite acknowledging that they are biased to the upside because of the additional day due to the leap-year effect. Figures for auto sales, in which we believe the latter effect is more modest, also suggest a recovery as they turned out positive for the first time in one year.

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## Retail sales: January 2020

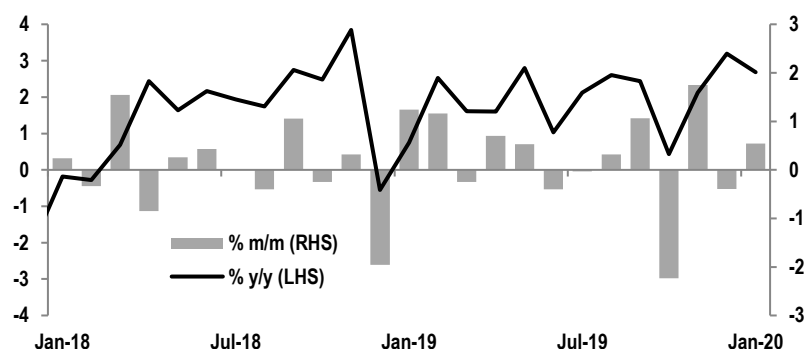
% m/m sa; % 3m/3m sa

	% m/m			
	Jan-20	Dec-19	Nov-19	Nov'19-Jan'20
<b>Retail sales</b>	<b>0.5</b>	<b>-0.4</b>	<b>1.7</b>	<b>0.5</b>
Food, beverages, and tobacco	-1.7	0.2	-0.2	-1.1
Supermarket, convenience, and departmental stores	-0.1	-0.7	1.3	0.4
Clothing and shoes	-1.8	-0.4	0.7	-0.2
Health care products	0.1	0.7	0.4	0.6
Office, leisure, and other personal use goods	-2.4	0.5	-0.2	-0.3
Appliances, computers, and interior decoration	0.5	0.6	2.0	0.3
Glass and hardware shop	1.4	-0.3	-1.0	-2.2
Motor Vehicles, auto parts, fuel and lube oil	1.6	-1.7	3.8	1.2
Internet sales	-9.7	9.8	6.8	12.4

Source: INEGI

## Retail sales

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



Source: INEGI, Banorte

**Despite a good start for 2020, the outlook for the rest of the year is quite challenging due to COVID-19.** Even with today's positive report, as well as available forward-looking data already outlined above, the scenario is negative. So far, we think most of the impact from the Coronavirus pandemic to our country has been through supply-chain disruptions. Nevertheless, March and April figures should start to be affected by social-distancing measures. We believe high uncertainty related to this episode will have a greater effect on durable goods purchases, with consumer backing down as they favor essential goods.

In this context, a temporary pick-up in food, supermarket and health-care products sales in March is highly likely, as preemptive purchases surged before the announcement of more stringent measures. These, as well as internet sales, could be the subsectors less impacted by the outbreak, with the first three a necessity while the last one allows to reduce direct contact with other people. On the contrary, gasoline sales will likely fall even with lower prices. Leisure goods could also be highly affected, with families increasing their savings on precautionary grounds on the possibility of facing higher health care costs.

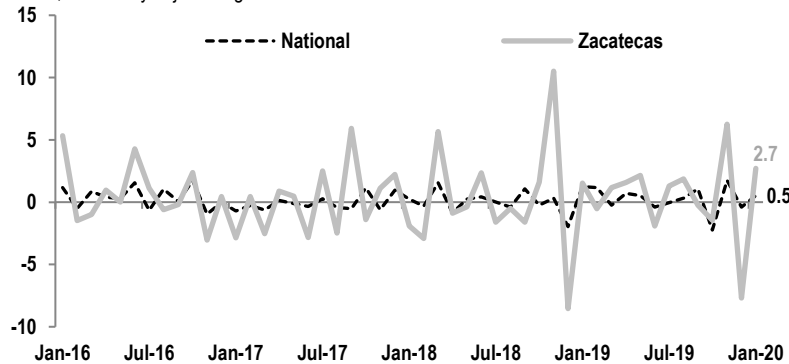
As economic activity and employment levels are hit, families' purchasing power would decline, in our view unlikely to be compensated by strategies such as discounts, higher government transfers and/or direct purchases (*e.g.* some sort of fiscal stimulus). Broadly speaking, we think that despite of relatively strong signals in terms of consumer fundamentals, the impact in terms of economic growth—which we recently revised down to -3.5% for 2020—will be negative for consumption in the year.

At the state level

**In January, Zacatecas showed the highest growth in retail in the country, at 2.7 m/m.** This dynamism occurs after the sharp fall observed in the previous month, highly outperforming the national average (as seen in the following chart). This was observed despite news about disruptions in some local primary-sector products, such as scarcity in bean production that the entity underwent throughout the month. For context, sales in Zacatecas grew 5.4% in full-year 2019, 4.2pp above the national average.

**Retail sales in Zacatecas**

% m/m; seasonally adjusted figures

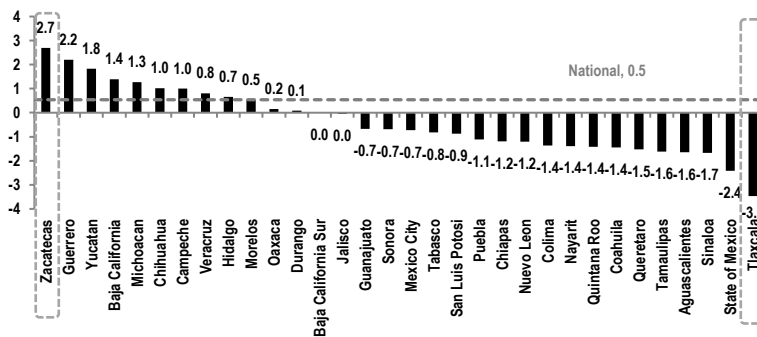


Source: Banorte; INEGI

Just nine states outperformed the national average. In this regard, it is important to mention that retail stores in only 12 states (including Zacatecas) showed positive figures. Apart from Zacatecas, we highlight Guerrero (2.2% m/m), Yucatan (1.8%), Baja California (1.4%), and Michoacán (1.3%). By contrast, sales in Tlaxcala fell 3.5%, as shown in the following graph. This occurs after registering the highest growth of the country in the previous month.

**Retail sales by state: January 2020**

% m/m; sa



Source: Banorte; INEGI

## Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, 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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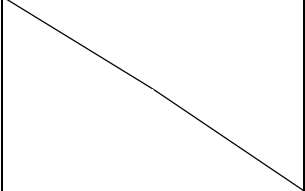
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