

Very weak retail sales in February, with further pressures ahead

- **Retail sales (February): 2.5% y/y; Banorte: 3.9%; consensus: 2.8% (range: 1.6% to 4.5%); previous: 2.7%**
- **Despite coming in low, it should be noted that the annual figure was skewed to the upside by the positive leap year effect, adding a day relative to the previous year. Adjusting for this, sales actually fell 0.2% y/y**
- **In monthly terms, retail sales declined 1.1%, more than reversing the 0.4% increase of the previous month**
- **By categories, we highlight weakness in leisure and office goods (-3.0%) and glass and hardware (-3.6%). On the other hand, there were relevant increases in internet sales (3.8%) and appliances (0.6%)**
- **More timely data points to additional weakness in March, particularly in categories related to autos and other non-essential goods, while food and beverages outperformed considerably**
- **However, significant pressures should prevail in coming months, as the fallout from the stoppage in economic activity permeates not only to durable goods, but also to non-durable goods sales**
- **For the second consecutive month, Zacatecas showed the highest growth in the country in February, at 4.2% m/m**

Retail sales grow 2.5% y/y in February. This was lower than consensus (2.8%) and further away to our forecast (3.9%). We consider this to be a very weak print, as figures for the month were skewed upwards by the positive effect stemming from the leap year, which, although it didn't add a working-day in the annual comparison, it did so for the weekend, benefiting supermarket and departmental sales the most (+7.1% y/y nsa). Adjusting for this effect using seasonally adjusted figures, sales actually fell 0.2% y/y.

Strong weakness in monthly terms. Retail sales plunged 1.1% m/m, more than reversing the +0.4% observed in January. Inside, six out of the nine categories were lower. Regarding durable goods, performance was mostly down, with leisure and office falling 3.0%, with additional weakness in glass and hardware (-2.6%) and autos and fuel (-1.2%). Nevertheless, appliances managed a 0.6% increase. Moreover, categories related to non-durable goods were slightly better, albeit also still mostly negative, including food and beverage (-0.5%), clothing (-0.5%) and healthcare (-0.1%). Supermarkets were practically unchanged at +0.1%, while internet sales were considerably more favorable at 3.8%. Overall, these results suggest the relative stagnation of economic activity continued at the start of the year, with durable goods sales still underperforming relative to non-durables. Moreover, the overall trend going forward should be downwards, with fundamentals for consumption eroded significantly by uncertainty and the shock to the economy from the COVID-19 pandemic.

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Retail sales: February 2020

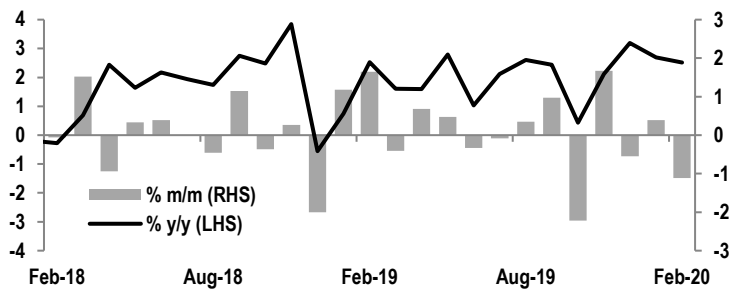
% m/m sa; % 3m/3m sa

	% m/m		% 3m/3m	
	Feb-20	Jan-20	Dec-19	Dec'19-Feb'20
Retail sales	-1.1	0.4	-0.6	-0.3
Food, beverages, and tobacco	-0.5	-1.6	-0.1	-1.9
Supermarket, convenience, and departmental stores	0.1	-0.1	-0.7	-0.2
Clothing and shoes	-0.5	-0.5	-0.7	-1.1
Health care products	-0.1	0.1	0.7	1.0
Office, leisure, and other personal use goods	-3.0	-2.6	0.5	-2.3
Appliances, computers, and interior decoration	0.6	1.0	-0.1	0.5
Glass and hardware shop	-2.6	2.0	-0.9	-1.6
Motor Vehicles, auto parts, fuel and lube oil	-1.2	1.8	-2.0	0.1
Internet sales	3.8	-8.7	10.9	10.1

Source: INEGI

Retail sales

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



Source: INEGI, Banorte

Signs of a deep contraction started to surface in March. On top of the slowdown in today's report, more timely figures show that sales will fall forcefully in the coming month at least in some key sectors. Same-store sales from ANTAD edged-down 2.1% y/y in real terms. Nevertheless, looking at the breakdown, supermarkets were up 18.1%, boosted by precautionary purchases at the 'early' stage of the COVID-19 pandemic. On the contrary, departmental and specialized sales fell 21.5% and 6.1%, respectively. Moreover, reports from several gasoline retailers' chambers point to a 50% plunge in fuel sales in the last weeks of March, which coupled with the 25.5% contraction in auto sales, should result in a considerable impact to auto-sector figures. In addition, we also expect sales of other durable goods, as well as some non-essential non-durable goods, to decline heavily.

In general, we expect to see a relatively similar dynamic during the rest of the quarantine months, which so far includes April and most likely May, according to advice from health authorities. Nevertheless, it is likely that despite remaining high, food and beverages, as well as supermarket sales, will decelerate, even when considering a shift in consumption patterns due to social distancing measures.

As the fallout from the sharp decline in economic activity starts to impact employment and overall family incomes, we expect not only durable, but also non-durable goods to be increasingly impacted. In addition, there will also probably be an additional shock from lower remittances –as employment in the US has also taken a hit–, especially affecting low-income families which are highly dependent on these transfers.

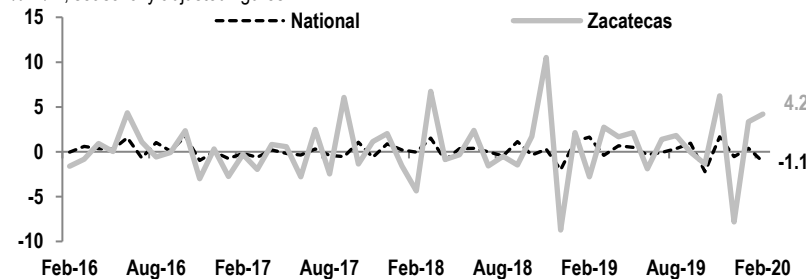
In this sense, we will also need to be on the look if different programs established by the Federal Government to boost credit to SMEs and other sectors have an impact in bridging financing needs. If these are effective, they could help mitigate part of the downfall in consumption, which we now estimate at -7.0% y/y for 2020, consistent with our new -7.8% GDP forecast.

At the state level

For the second consecutive month, Zacatecas showed the highest growth in the country, at 4.2 m/m. This means 2 consecutive months with positive rates, highly outperforming the national average (as seen in the following chart). We believe that part of the advance is due to various cultural events in different locations throughout the state, to boost sectors such as tourism. It is noteworthy that panic purchases caused by the Coronavirus disease are not yet reflected in the state. For context, sales in Zacatecas grew 8.5% in the first two months of the year, 3.3%-pts higher than the same period last year.

Retail sales in Zacatecas

% m/m; seasonally adjusted figures

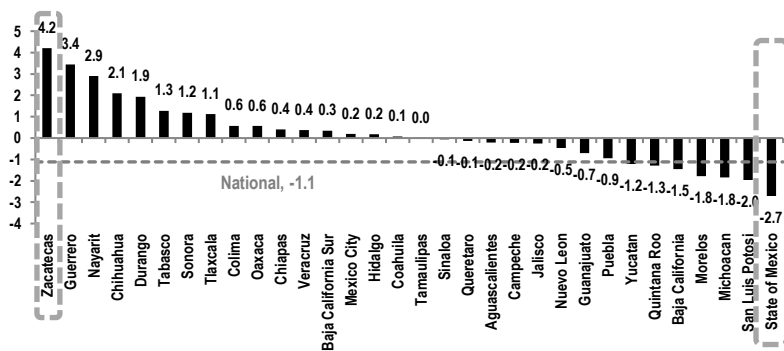


Source: Banorte; INEGI

Twenty-five states outperformed the national average. In this regard, it is important to mention that retail stores in only 16 states (including Zacatecas) showed positive figures. In this respect, we highlight Guerrero (3.4% m/m), Nayarit (2.9%), Chihuahua (2.1%), and Durango (1.9%). By contrast, sales in the State of Mexico fell 2.7%, as shown in the following graph. With this, the state adds two months in a row with negative prints.

Retail sales by state: February 2020

% m/m; sa



Source: Banorte; INEGI

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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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