

Retail sales in March start to show shifting consumer patterns due to the pandemic

- **Retail sales (March): -1.3% y/y; Banorte: -2.3%; consensus: -1.0% (range: -5.1% to 1.5%); previous: 2.5%**
- **This represents the first decline in annual terms in little over a year, impacted by the COVID-19 outbreak**
- **In monthly terms, retail sales declined -0.8%, extending the 1.0% fall of the previous month**
- **By categories, we highlight weakness in clothing and shoes (-23.1%), office and leisure (-17.0%), and appliances and computers (-10.6%). On the other hand, supermarket and departmental stores (7.7%) and internet sales (6.5%) were resilient, in line with expectations considering the nature of the economic shock**
- **More timely data points to additional weakness in April, with stronger social distancing measures having a greater impact on the economy**
- **Besides, we expect a broad deceleration even when the pandemic is over, particularly in durable goods sales, given the expected erosion of consumer fundamentals**
- **Tlaxcala showed the highest growth in the country in March, at 3.8% m/m**

Retail sales fall 1.3% y/y in March. This was slightly lower than consensus (-1.3%) but above our forecast (-2.3%). Performance was impacted by the shock stemming from the COVID-19 pandemic, more than erasing the boost from an additional working-day in the annual comparison. Nevertheless, the print was stronger than our expectation considering that ‘Phase 2’ was announced on March 23rd and the sanitary emergency was declared until March 30th, despite some businesses being already impacted since the middle of the month.

In monthly terms, sales fell once again. Retail sales plunged 0.8% m/m, extending the -1.0% observed in February. Inside, five out of nine categories were lower. This was concentrated in non-essential goods, with clothing and shoes declining 23.1%, also noting contractions in office and leisure (-17.0%) and appliances and computers (-10.6%). Moreover, autos and fuel declined 4.4%, highlighting that auto sales were hit the hardest (-10.9%), although slightly compensated by gasoline (0.3%), not quite showing yet the impact from reduced mobility. On the contrary, some essential goods were up, as portrayed by the performance in supermarket and departmental stores (7.7%) and health care products (2.5%). However, performance in the first sector was mixed, with the former climbing 12.0% and the latter contracting 11.9%, in line with ANTAD’s report in terms of direction. Nevertheless, food and beverages were actually lower (-6.6%), which could be related to closure of some stores. Finally, internet sales edged-up 6.5%, benefiting from people staying at home and ordering goods online, and expected to surge further in coming months.

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Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.magal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

Miguel Calvo
Senior Economist, Economic Studies
miguel.calvo@banorte.com

Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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In our view, these results start to show the first effects on consumer behavior of COVID-19, with a worsening outlook for non-essential and durables goods, both due to stores closing as well as increased uncertainty. Performance should worsen in coming months, as more measures were taken to fight the spread and the impact from economic weakness on households' incomes accumulates.

Retail sales: March 2020

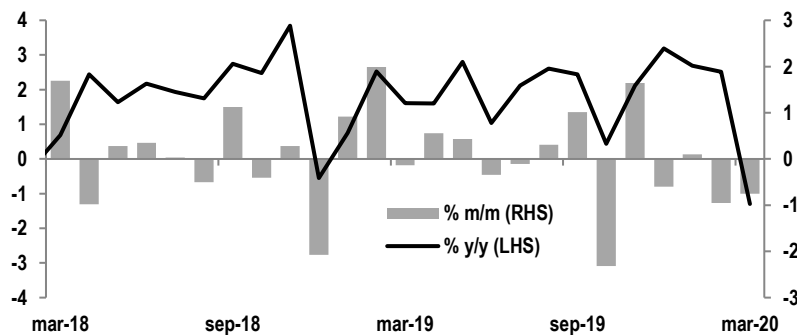
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m
	Mar-20	Feb-20	Jan-20	Jan-Mar'20
Retail sales	-0.8	-1.0	0.1	-0.6
Food, beverages, and tobacco	-6.6	-0.6	-2.0	-5.0
Supermarket, convenience, and departmental stores	7.7	0.2	0.4	3.1
Clothing and shoes	-23.1	-1.4	-0.2	-9.5
Health care products	2.5	0.0	0.2	1.8
Office, leisure, and other personal use goods	-17.0	-2.4	-3.0	-10.1
Appliances, computers, and interior decoration	-10.6	-1.1	0.7	-3.5
Glass and hardware shop	1.1	-2.0	1.9	0.1
Motor Vehicles, auto parts, fuel and lube oil	-4.4	-1.8	2.4	-0.6
Internet sales	6.5	4.1	-8.4	5.0

Source: INEGI

Retail sales

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



Source: INEGI, Banorte

More of the same in store ahead. More timely figures show that sales will fall with more force in April. Same-store sales from ANTAD declined 24.5% y/y in real terms. Looking at the breakdown, supermarkets were relatively resilient at 6.4%, boosted by their product mix as well as the fact that they are still allowed to operate as an essential business. On the contrary, specialized and departmental sales fell 19.2% and 73.3%, respectively. The latter was especially impacted by the decision from flagship stores, such as *El Palacio de Hierro*, *Liverpool* and *Sears*, to close at the start of the month, while others such as *Elektra* and *Coppel* remained open until early May. In autos and fuels, the former fell 64.5% y/y. Meanwhile, the President of the gasoline retailers' chamber (ONEXPO) stated that in some regions fuel sales have plummeted up to 62%. In addition, we also expect sales of other durable goods, as well as some non-essential non-durables, to continue declining heavily.

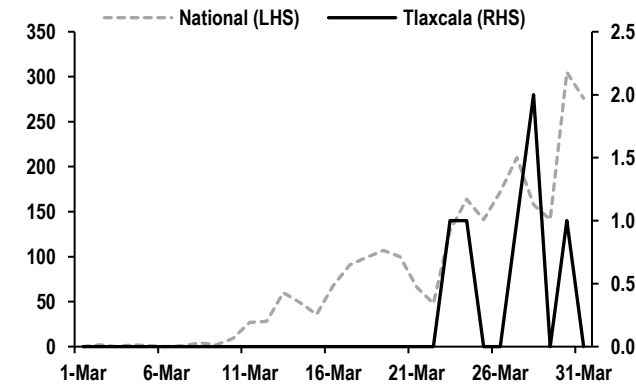
We expect similar dynamics in May as stringent social measures remain in place, with the possibility of extending further down the road according to the [latest plan to reopen the economy](#). In this context, we foresee a 17.1% y/y decline in GDP in 2Q20 (-11.7% q/q), with consumption plunging 16.5% y/y. Moreover, and even if the economy gets going, we expect consumption –and therefore retail sales– to stay weak, as the erosion of fundamentals will take a while to recover.

We focus particularly on employment, as seen in the latest [jobs report for April](#). Although [remittances spiked in March](#) –in our view a strong support for today’s report– the trend should be downwards, as employment conditions in the US have worsened. Considering these factors, we believe the impact will be broad-based. In this sense, we anticipate a 7.2% fall in consumption in full-year 2020.

At the state level

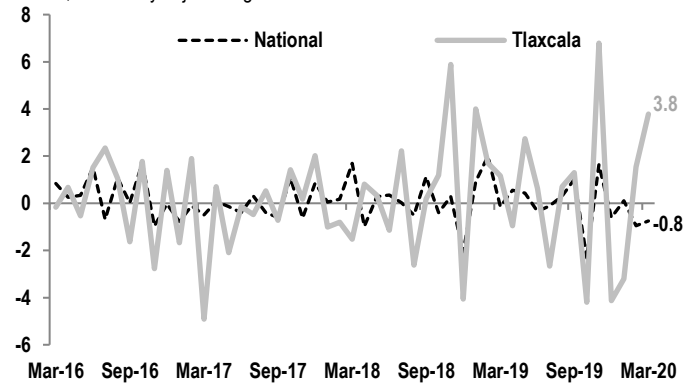
Tlaxcala showed the highest growth in the country in March, at 3.8 m/m. Even before the implementation of *Phase 2* of the pandemic in the country, panic purchases seem to have played a significant role in the state. With only 6 confirmed cases, retail sales registered a strong advance relative to the previous month (1.5% m/m), adding two consecutive months in positive territory. In this context, the state highly outperformed the national average, as shown in the following chart. However, in the first three months of the year, retail sales in Tlaxcala grew only by 0.1% compared to the same period last year, 6.8%-pts lower than in the first three months of 2019.

Coronavirus confirmed cases in March: Tlaxcala
Number of cases



Source: Banorte; Ministry of Health

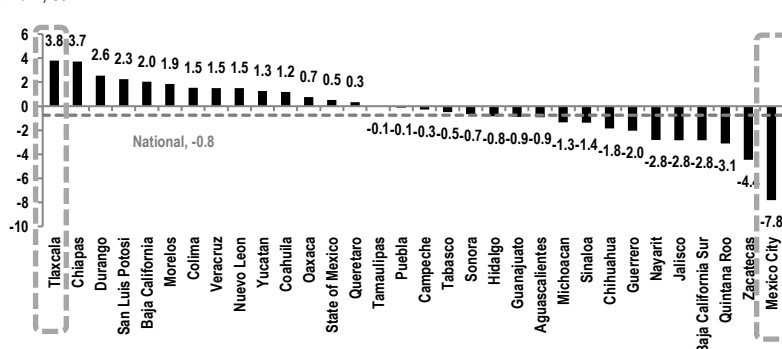
Retail sales in Tlaxcala
% m/m; seasonally adjusted figures



Source: Banorte; INEGI

Nineteen states outperformed the national average. In this regard, it is important to mention that retail stores in only 14 states (including Tlaxcala) showed positive figures. We highlight Chiapas (3.7% m/m), Durango (2.6%), San Luis Potosí (2.3%), and Baja California (2%). By contrast, sales in Mexico City fell 7.8%, as shown in the following chart, its lowest since January 2012.

Retail sales by state: March 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 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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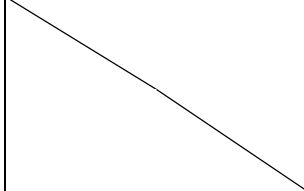
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GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454