Historical decline in April's retail sales, below market expectations

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- **Retail sales (April): -23.8% y/y; Banorte: -22.6%; consensus: -20.4% (range: -25.0% to -3.5%); previous: -1.3%**
- **This is the strongest contraction in the history of the series, shocked by the COVID-19 pandemic, also triggering relevant shifts in consumption patterns**
- **In monthly terms, retail sales plunged 22.4%, also a new low and adding three consecutive months in decline. In this sense, the index fell to a level not seen before, given that the series is available only since 2008**
- **As expected, weakness centered in non-essential categories such as clothing and shoes (-63.5%), office and leisure (-48.7%), and vehicles and fuel (-28.0%). On the other hand, healthcare (-2.3%), along food and beverages (-15.9%) showed some relative resiliency, although also very weak. Finally, internet sales outperformed strongly (7.0%), in our view explained by a substitution effect**
- **Timelier data suggests a sequential recovery in May, although we believe it would be modest. We continue to anticipate broad weakness ahead, as consumer fundamentals will remain fragile, particularly impacting non-essential and durable goods' purchases**

Retail sales fall 23.8% y/y in April, a new historical low. This was lower than consensus (-20.4%) but closer to our forecast (-22.6%). Performance was heavily hit by the COVID-19 pandemic, not only resulting in a steep decline but also inducing relevant changes in consumption patterns. This is evidenced by sector performance, with relative strength of essential categories, mainly related to healthcare, as well as food and beverages. Internet sales surged, likely favored as it was used as a substitute for shopping on-site. On the contrary, those categories more susceptible to weakness, not only because of closed locations, but also from lower economic activity and their non-essential status (such as durable goods) saw very strong contractions.

Monthly figures clearly show the impact from the pandemic. Retail sales plunged 22.4% m/m, also lowest in history. Inside, only internet sales (7.0%) out of nine categories was positive. We believe this is explained by the ease in which they can be done in the midst of the outbreak, given that they do not require leaving home and involve minimum human contact. On the contrary, and broadly in line with our expectations, the most impacted sectors were non-essential, such as clothing and shoes (-63.5%), office and leisure (-48.7%), vehicles and fuel (-28.0%) and home appliances (-25.1%). In particular, we believe dynamics within these are explained by two factors: (1) The impossibility to purchase goods since stores are closed; and (2) in case they were open, consumers postponing the acquisition of expensive items given prevailing uncertainty, favoring the purchase of staples.

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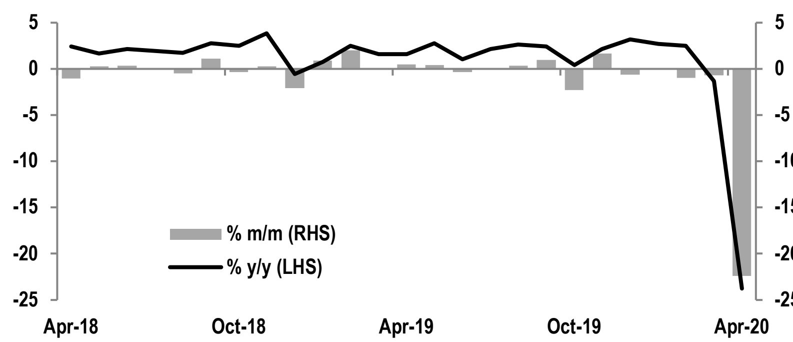
Meanwhile, categories of essentials such as healthcare (-2.3%), as well as food and beverages (-15.6%) were relatively stronger, although still impacted by lower income and the pickup in uncertainty. Finally, supermarkets and departmental stores declined 18.9%, which we believe is partly explained by a more challenging base effect as they increased 9.3% in the previous month, as seen in the table below. Inside, although both categories were lower, supermarkets were more modest at -12.0%, resenting preemptive purchases in March (previous: +14.5%). Nevertheless, departmental store sales plunged 61.2%, extending the 12.0% decline of the previous month.

Retail sales: April 2020
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m
	Apr-20	**Mar-20**	**Feb-20**	**Feb-Apr'20**
Retail sales	**-22.4**	**-0.7**	**-1.0**	**-8.9**
Food, beverages, and tobacco	-15.6	-6.6	-0.6	-11.0
Supermarket, convenience, and departmental stores	-18.9	9.3	0.2	-0.8
Clothing and shoes	-63.5	-23.1	-1.5	-33.1
Health care products	-2.3	2.8	-0.1	1.4
Office, leisure, and other personal use goods	-48.7	-16.9	-2.6	-28.2
Appliances, computers, and interior decoration	-25.1	-10.3	-1.1	-15.0
Glass and hardware shop	-13.6	1.1	-1.9	-4.7
Motor Vehicles, auto parts, fuel and lube oil	-28.0	-4.4	-1.8	-12.7
Internet sales	7.0	7.1	4.5	9.7

Source: INEGI

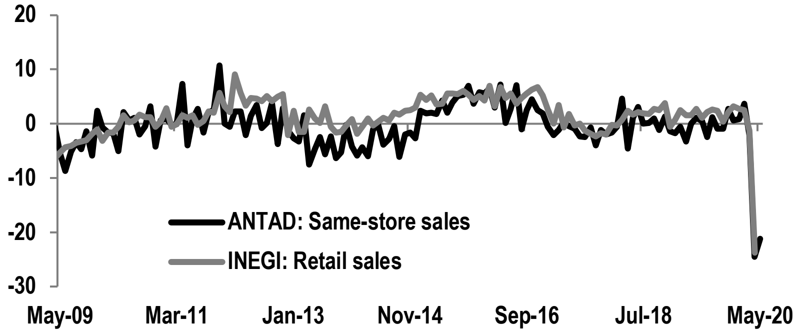
Retail sales
% y/y (nsa), % m/m (sa)



Source: INEGI, Banorte

Possible sequential recovery, albeit with weakness likely lingering around the rest of the year. Similar to hints coming from the supply side, timelier figures on consumption –such as vehicle and ANTAD's same store sales– suggest we could see a slight rebound in month-over-month figures starting in May, despite the annual comparison likely remaining very low (see chart below). On the former, INEGI informed of a 59.0% y/y contraction, improving relative to April's -64.5%. The latter came in at -21.2% y/y in real terms (vs. -24.5% in the previous month), better in both departmental at -51.0% (previous: -73.3%) and specialized stores at -18.6% (previous: -19.2%). Supermarkets decelerated slightly but stayed positive, printing at 4.0% (previous: 6.4%). Today's figures reinforce the signal of a shift in consumption patterns, with consumers not only spending less but also more carefully. In addition, the President of the gasoline retailers' chamber (ONEXPO) stated fuel sales also improved to around -20% y/y in the fifth month of the year, better than -60% in April.

ANTAD same-store sales and INEGI retail sales
% y/y in real terms, nsa



Source: ANTAD, INEGI

Despite these, overall conditions for consumption remain challenging, helping explain the downward adjustment in our updated GDP forecast of -9.8%. We now expect consumption to fall even more steeply in 2Q20 and 3Q20, at -17.0% and -14.8% y/y, respectively, improving only by the last quarter (-3.7%). This would be not only because of the delay in the reopening of the economy –affecting services relatively more, in our view– but also on our expectation of a higher unemployment rate. In particular, we are forecasting an additional increase in coming months, with a year-end forecast of 8.0%. In this respect, the formal sector showed additional losses in May, estimating around 1.3 million jobs lost in 2020. Although wages data have actually improved, this result was likely because of job losses concentrated in the lower part of the distribution, skewing the average higher. In this context, we expect total payrolls to keep declining, which would be an additional drag. Moreover, remittances have started to show signs of deceleration, with April's figures already contracting in the annual comparison in dollar terms, albeit more than compensated for by the depreciation of the Mexican peso. We expect the downward trend to continue, resulting in further losses in household's income. Finally, and also very important, we believe uncertainty will remain a key driver. As already mentioned, this could result in higher savings for those still employed. We consider this environment could prevail until we see meaningful advances in employment and/or regarding the global fight against the virus. Considering these, risks to the downside remain for our whole-year consumption estimate of -9.0% y/y.

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