Retail sales rebound in June on the gradual reopening of the economy

August 21, 2020

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- **Retail sales (June): -16.6% y/y; Banorte: -16.6%; consensus: -16.6% (range: -20.8% to -12.4%); previous: -23.7%**
- **Performance was stronger relative to the previous two months, driven by the gradual reopening of the economy. Nevertheless, the annual comparison remains weak, still impacted by the effects of the COVID-19 pandemic, including behavioral changes among consumers**
- **In monthly terms, retail sales bounced back 7.8%, a new historical high in the series. However, considering their past performance, the index remains quite low**
- **By sectors, sales in non-essential sectors recovered meaningfully, highlighting clothing (+67.5% m/m), office and leisure (+27.9%), and glass and hardware (+14.1). On the contrary, after a very strong performance in previous months, internet sales backtracked 7.3%**
- **Meanwhile, essential categories had a more mixed performance, with healthcare down (-0.9%), but increases in food and beverage (+10.0%) and supermarkets and departmental stores (+7.0%), with dynamism concentrated particularly in the latter**
- **We expect an additional improvement in coming months, albeit probably at a more modest pace. In this sense, deteriorated consumer fundamentals should remain a drag, resulting in still weak prints in annual terms**

Retail sales fall 16.6% y/y in June, improving after two dismal months. This was in line with consensus, which matched our forecast. The acceleration is probably explained by efforts to reopen the economy, which resulted not only in greater availability of goods and locations to purchase, but also on re-hiring of people, improving overall available income. Nevertheless, conditions on both remain worse relative to pre-pandemic levels, resulting in the persistence of negative prints in the annual comparison. In addition, consumption patterns stayed skewed, still with a better performance in essential categories (which mainly comprises non-durable goods) relative to non-essential (particularly non-durables), reflecting behavioral changes among consumers.

Monthly figures rebound after the reopening of the economy. Sales increased 7.8% m/m (Banorte: 7.8%), driven by the gradual restart of economic activity. Inside, only two of nine categories declined. These were internet sales (-7.3%) and healthcare (-0.9%). It should be mentioned that the former fell only after four consecutive months growing at a brisk pace, benefited by conditions related to the lockdown. Meanwhile, the latter remain relatively strong considering their essential nature. Among the categories with the greatest increases were clothing (+67.5% m/m), office and leisure (+27.9%), and glass and hardware (+14.1). It should be noted these had been some of the most impacted in previous months, with stores closing and the impact to fundamentals having a clear impact on them. Similar to these, appliances and computers rose 8.7%.

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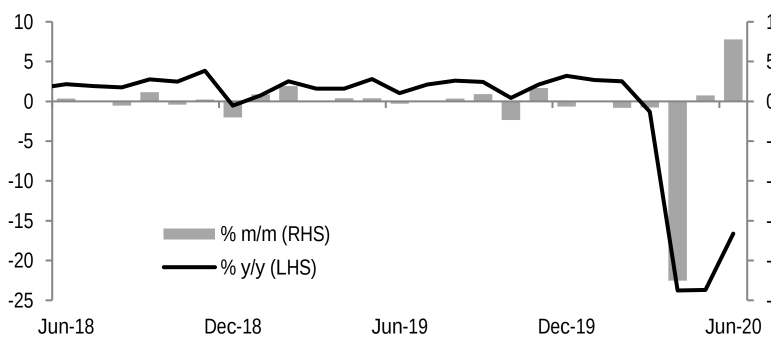
Meanwhile, autos and fuels increased 11.7%, highlighting the rebound in autos (+27.7%), with a more moderate advance in fuels (+5.4%). Finally, supermarkets and departmental stores advanced 7.0%. The first barely advanced 1.4%, although not surprising given that in absolute terms their dynamics have been similar to those before the pandemic. Nevertheless, the latter expanded 34.8%, which is favorable after the gradual restart in activities and taking into account that in some states, such as Mexico City and the State of Mexico, shopping malls did not reopen until early July.

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

	% m/m			% 3m/3m
	Jun-20	May-20	Apr-20	Apr-Jun'**20**
Retail sales	7.8	0.8	-22.5	-20.7
Food, beverages, and tobacco	10.0	-4.1	-15.4	-19.0
Supermarket, convenience, and departmental stores	7.0	-1.4	-18.9	-12.3
Clothing and shoes	67.5	-14.3	-63.4	-66.8
Health care products	-0.9	1.3	-2.3	0.1
Office, leisure, and other personal use goods	27.9	-6.3	-48.4	-53.0
Appliances, computers, and interior decoration	8.7	8.0	-24.7	-24.4
Glass and hardware shop	14.1	-0.8	-13.6	-10.1
Motor Vehicles, auto parts, fuel and lube oil	11.7	3.1	-28.0	-26.4
Internet sales	-7.3	12.6	7.5	20.8

Source: INEGI

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



Source: INEGI, Banorte

Sequential recovery will probably continue in coming months. We believe today's data suggests the worst in terms of activity has already passed, leading us to expect further increases in the next few months. This would happen despite a still challenging context in terms of the pandemic and its evolution –with daily new cases remaining high–, albeit with the government favoring a targeted response in more affected areas, trying to resume activities as conditions allow it. This is supported by mobility data, which is getting closer to pre-pandemic levels.

Consistent with the latter, timelier figures for July also improved further. Vehicle sales came in at -31.3% y/y from -41.1% in June. Meanwhile, ANTAD's same-store sales declined 12.3% y/y in real terms, an 8.3%-pts increase relative to the previous month. Supermarkets were practically unchanged at -0.5% (previous: -0.9%) but departmental stores climbed to -25.3% from -46.4%. We believe this was partially driven by the reopening of shopping malls in the first few weeks of the month. Specifically, this took place in Mexico City and the State of Mexico on July 8th. Considering the latter, we could see an additional improvement in August just for the simple fact that stores would have been open for more days.

Despite these signals, the annual comparison will remain negative for a while, with important headwinds prevailing. Consumers will probably remain cautious given uncertainty about the evolution of the pandemic, with the possibility of additional lockdowns –and therefore new job losses and other adverse factors– still weighing on decisions and until an effective treatment or vaccine is available.

Another relevant challenge is deteriorated consumer fundamentals, limiting the upside until they recover more clearly. Employment is starting to turn positive, with INEGI's report for June showing a creation of 4.7 million jobs in the month. However, this is still 7.4 million down relative to total workers in March. We believe there is a possibility that the remaining jobs take longer to be filled, as some business have closed for good as well and demand remains more muted. On the other hand, remittances have remained strong, even despite a complex labor market in the US, supporting consumption, especially by low-income households. Nevertheless, it is our take that they might slow down in coming months, with migrants' savings exhausted and considering still challenging conditions. All in all, and with a print in line with our expectation, we believe the recovery will be slow, still with a high number of unknown variables going forward.

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