Retail sales extend higher in July as activity normalized further

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- **Retail sales (July): -12.5% y/y; Banorte: -12.3%; consensus: -12.0% (range: -13.7% to -9.5%); previous: -16.6%**
- **Sales continued to recover in the month on the back of additional reopening efforts, which in our view is clearly reflected in performance despite still showing some distortions in consumption patterns**
- **In monthly terms, retail sales climbed 5.5%, below the +7.8% of the previous month and adding three months on the upside. With this result, the index came is at close to the level observed in late 2014**
- **All sectors improved, highlighting the rebound in non-essential sectors such as clothing (+42.6% m/m), office and leisure (+17.5%), and appliances (+15.5%). In contrast, internet sales increased only by 1.2% after declining 8.7% in June. Overall, results suggest more willingness and availability for consumers to shop at physical stores**
- **Essential categories moderated their advance but stayed positive, including food and beverage (0.7%), supermarkets and departmental stores (0.7%) and an upward surprise in healthcare (10.0%)**
- **Although data still points to additional strength, the pace of the recovery will likely slow down. We maintain our view that the deterioration in consumption fundamentals will limit performance in coming months**

Retail sales fall 12.5% y/y in July. This was below consensus (-12.0%), but closer to our -12.3% forecast. The acceleration relative to the previous month is probably still explained by additional efforts to reopen other economic sectors. For example, shopping malls and other businesses reopened in several states, highlighting Mexico City and the State of Mexico, among others. In our view, this had a positive effect on some non-essential categories such as clothing and shoes (-44.2%) and appliances (-11.0%), which were stronger than in the previous month despite remaining significantly negative. On the other hand, performance in most categories of essential goods remains more stable –evidenced by modest changes in categories such as food and beverages, and supermarkets– except for healthcare products, which surprised to the upside (+12.6%). Nonetheless, the annual comparison remains negative in most categories, consistent with the impact to consumer fundamentals –including less available income for households– and high uncertainty which can make people more risk averse and frugal.

Monthly figures showed the benefit of increased mobility and reopening. Sales increased 5.5% m/m (Banorte: 5.7%), adding three consecutive months in positive territory. In our view, the reopening of more physical stores in some states –as mentioned above– which was coupled with higher mobility (as shown by data from *Apple* and *Google*) helped performance. This was particularly visible in categories such as clothing (42.6% after surging 67.5% in June), and appliances (+15.1%). We believe this also helped supermarkets and departmental stores (+0.7%), although growth was diluted somewhat by the former's essential status.

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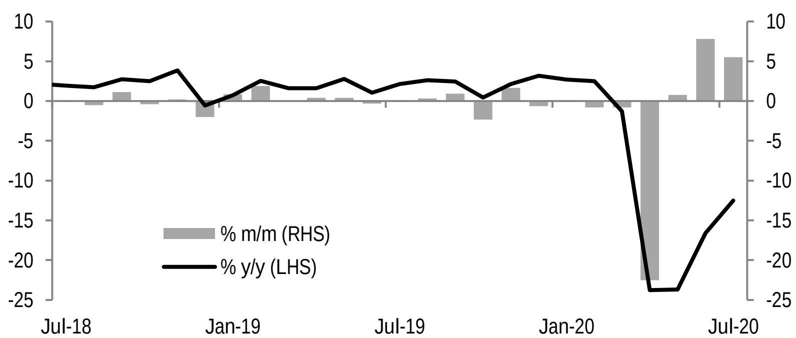
We highlight that internet sales also increased (+1.2%), albeit only after plunging 8.7% in the previous month, which was the period when more activities officially restarted. In that respect, we think that a substitution effect between purchases online and in physical stores can still be seen in the data. Overall, we believe today's report is favorable, considering that all other categories were also up. We also highlight growth in autos and fuel (+5.8%) –among the most vulnerable given that they are considered durable goods while being very sensitive to lockdowns and/or mobility restrictions– and office and leisure (+17.5%). Despite of this, we should mention that the absolute level of activity remains quite low, close to that observed in late 2014.

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

	% m/m			% 3m/3m
	Jul-20	Jun-20	May-20	May-Jul'**20**
Retail sales	5.5	7.8	0.8	-9.8
Food, beverages, and tobacco	0.7	9.2	-6.2	-11.8
Supermarket, convenience, and departmental stores	0.7	6.3	-1.5	-8.2
Clothing and shoes	42.6	67.5	-14.3	-40.6
Health care products	10.0	-1.5	1.8	3.4
Office, leisure, and other personal use goods	17.5	29.3	-7.2	-32.8
Appliances, computers, and interior decoration	15.5	9.1	7.6	-4.9
Glass and hardware shop	1.2	14.5	-0.7	-0.6
Motor Vehicles, auto parts, fuel and lube oil	5.8	11.7	3.1	-11.5
Internet sales	1.2	-8.7	13.8	15.3

Source: INEGI

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



Source: INEGI, Banorte

The recovery will probably continue in coming months, although at a more modest pace. Today's print helps corroborate that the worst for activity has already passed, showing that efforts to reopen the economy have had a positive impact. Considering that additional actions on this front have been taken, we expect activity to keep improving in the following months. Supporting the latter, epidemiological conditions have also been better recently, with more and more states transitioning towards 'orange' and 'yellow' in the traffic-light indicator.

In this context, ANTAD's same-store sales kept recovering in August, coming in at -6.8% y/y in real terms (previous: -12.3%). Inside, the category with the largest improvement was departmental stores, at -5.6% from -25.3% in July. We believe the latter was aided by more states reopening in this segment of the market. Meanwhile, supermarkets decelerated slightly, at -1.9% from -0.5%.

On the other hand, vehicle sales stood at -28.7% y/y, barely up from the -31.3% of the previous month. While this suggests a slight normalization in consumption patterns, we will look if this trend persists or if it is only a one-off.

Other signals are more mixed, with IMEF's non-manufacturing PMI decelerating to 46.1pts, 1.0%-pts lower than the previous figure. Mobility indicators stagnated and are still below pre-pandemic levels. Considering this backdrop and a more difficult base effect, among other factors, we believe the pace of the recovery will decelerate in coming months, albeit probably still in positive territory.

On consumer fundamentals, employment has continued to recover, with figures from IMSS finally turning positive in August, while broader data from INEGI extended gains in July. However, both measures remain considerably below pre-pandemic levels, so they will keep dragging sales down. While remittances are still resilient, signals for August suggest they could also see a slight slowdown, with unemployment benefits in the US reduced drastically during the month, even despite employment gains. All in all, we still expect a slow recovery, with negative prints in the annual comparison extending at least through 4Q20 and with an increasingly higher probability of some sequential declines along the way.

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