Retail sales continue improving, albeit at a more modest pace

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- **Retail sales (August): -10.8% y/y; Banorte: -10.5%; consensus: -9.7% (range: -10.5% to -6.5%); previous: -12.5%**
- **Sales remain negative in annual terms but still improving at the margin, consistent with advanced data suggesting that more reopening efforts and fatigue due to the length of the pandemic yielded additional benefits, mainly to the informal sector**
- **In monthly terms, retail sales climbed 2.5%, up for the fourth consecutive time. With this result, the index stands now close to levels seen in early 2015**
- **All but one of the sectors improved, this being healthcare (-2.8% m/m), possibly related to its previous resiliency. Meanwhile, gains were once again centered in non-essential sectors, such as office and leisure (+10.2%) and internet sales (+6.1%) which may have been boosted by the return to school, which was mostly remote**
- **More essential categories –excluding healthcare– kept improving, highlighting food and beverages (0.4%) and supermarkets and departmental stores (1.8%), albeit with the latter driving the increase for a second month in a row**
- **We believe gains are likely to continue, underpinning in part our recent adjustment higher in estimated GDP for this year**

Retail sales declined 10.8% y/y in August. This was lower than consensus (-9.7%), but closer to our -10.5%. Although still quite negative, it represents the fourth consecutive month with an improvement in annual terms and is broadly consistent with more advanced data. Overall, results are showing the gradual normalization of economic activity, including: (1) More reopening efforts in several states on the back of the relative improvement in epidemiological conditions, based on the 'traffic light' indicator; and (2) people's fatigue about restrictions due to the length of the pandemic, as reflected in the increase in mobility indicators. On a year-to-date basis, retail sales accumulate a 10.6% y/y decline, unchanged relative to metrics until July.

Monthly data keep showing a rebound in non-essential categories. Specifically, sales increased 2.5% m/m, more modest than the 5.9% in July, which was revised higher from an original estimate of 5.5%. We recall that, in said period, some non-essential categories such as clothing and appliances surged as the economic reopening widened. In our view, these dynamics remained at play. However, and considering past increases, these two sectors were more moderate, at 1.3% and 2.5%, respectively. On a more positive note, we flag the 10.2% advance in office and leisure and 6.1% in internet sales. We believe some of this performance, as well as appliances (which include computers), might be related to the return to school, with some households increasing spending in these categories to gear-up for remote classes.

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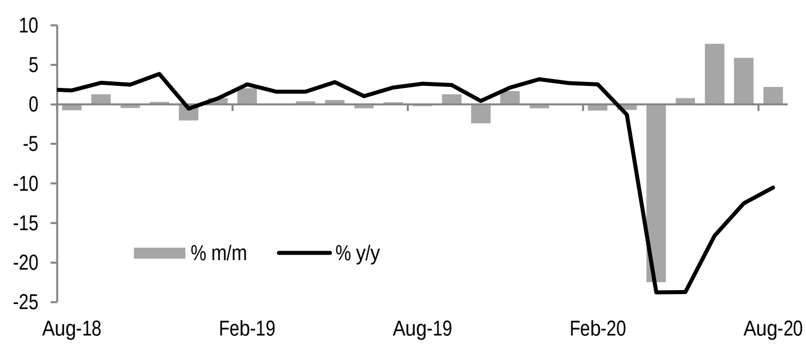
Motor vehicles and fuel stood at 3.0%, although after advancing 6.5% in July, with the performance mainly driven by auto sales and fuel unchanged relative to the previous month. In contrast, categories that have not suffered as strongly because of the pandemic remained more stable, such as food and beverages (0.4%) and healthcare (-2.8%), with the latter declining after an important increase in the previous month (see table below). Finally, supermarket and departmental stores edged-up 1.8%. For a second month in a row, gains were centered in departmental stores (+22.1%), probably related to improving conditions in the epidemiological front and fatigue, as mentioned previously. Given recent sequential gains, the absolute level of sales is now around levels last seen in early 2015.

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

	% m/m			% 3m/3m
	Aug-20	Jul-20	Jun-20	Jun-**Aug'20**
Retail sales	2.5	5.9	7.6	3.5
Food, beverages, and tobacco	0.4	0.7	9.2	0.0
Supermarket, convenience, and departmental stores	1.8	0.9	6.6	-1.0
Clothing and shoes	1.3	43.3	67.6	21.5
Health care products	-2.8	9.9	-1.6	4.4
Office, leisure, and other personal use goods	10.2	18.1	30.2	9.3
Appliances, computers, and interior decoration	2.5	15.3	9.1	15.2
Glass and hardware shop	2.9	1.4	14.8	10.7
Motor Vehicles, auto parts, fuel and lube oil	3.0	6.5	11.8	6.6
Internet sales	6.1	1.7	-7.8	5.7

Source: INEGI

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



Source: INEGI, Banorte

The recovery in retail sales will probably continue, albeit with risks towards 4Q20. In line with our expectations, the sequential recovery in sales extended through August, although at a more modest pace. This was not only due to a more challenging base effect, but also because of a lower quantity of activities that can reopen as the normalization process keeps going. About today's report, we think it is very positive that non-essential goods still grew at a relatively brisk pace. This supports the hypothesis that consumption fundamentals, although hit, have not been impacted as much as we originally thought. Moreover, it was one of the drivers behind our recent upward revision to GDP estimates, to -9.0% this year and +4.1% in 2021.

For September, data already available suggests that sales' growth probably continued. Among them, ANTAD's same-store sales stood at -4.1% y/y in real terms (from -6.8% in August), with departmental stores again improving relatively more. According to AMIA, a similar situation happened with vehicle sales. In addition, the IMEF non-manufacturing indicator went up to 49.3pts, with the main surprise being the strong rebound in the domestic sector flagged by this result. Lower inflation and further employment gains, with the strongest advance in September in the formal sector, along higher consumer confidence, also suggest that sales could maintain their upward trend.

Despite of the latter, there are other warning signs. We highlight the 9.7% y/y consumer credit contraction in real terms in August, weakest since May 2010. In the US, the lack of additional fiscal stimulus represents risks to the downside for remittances, which have surprised very favorably. Nevertheless, and in our view potentially more important, the Deputy Health Secretary, Hugo López-Gatell, stated recently that tentative evidence exists of a second wave of COVID-19. Although this is like other regions of the world, the problem could exacerbate as winter approaches. If this materializes, we do not rule out new restrictions, despite likely being more focalized. In this backdrop, we believe a very relevant signal about 4Q20 could be sales performance during *El Buen Fin* (Mexico's Black Friday), which will take place from November 9th to 20th –extended to 12 from 4 days typically due to the pandemic–. Although the extension of this discount period will distort the interpretation of the results, we think dynamics could provide relevant information both on the effect of the epidemiological situation and the underlying purchasing power of consumers.

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