# A step back in December's retail sales on a series of negative factors

- **Retail sales (December): -5.9% y/y; Banorte: -5.8%; consensus: -5.6% (range: -10.0% to 1.7%); previous: -5.1%**
- **Sales lost dynamism in the period. In our view, two main factors drove performance: (1) Payback from the previous month, after discounts in '*El Buen Fin*'; and (2) new lockdowns given deteriorating conditions. However, this was partly offset by a positive calendar effect**
- **With this, retail sales fell 9.3% in 2020, with the pandemic influencing heavily the dynamics across sectors. As a result, internet sales surged 51.9%, while healthcare products went up 5.9%, the only two categories with annual gains**
- **In monthly terms sales declined 2.4%, not enough to reverse last month's increase. With this, the index stands 5.5% below its level in February, before the virus struck**
- **We highlight the contraction in categories in which discounts were among the highest in November, including clothing and shoes (-6.7%) and departmental (-3.4%). This supports our thesis of some 'payback' after '*El Buen Fin*'. On the contrary, internet sales (4.5%) remain very strong, while appliances and computers rebounded (2.2%)**
- **Although today's results are probably skewed to the downside, we remain cautious on activity at the start of the year, with additional headwinds throughout January and February**

**Retail sales declined 5.9% y/y in December.** This was below consensus and virtually matched our -5.8%. This print marks the end of a six-month streak of higher results in the annual comparison. In our view, dynamics were impacted by two relevant factors. The first is some payback after November's strong expansion due to *El Buen Fin* (Mexico's Black Friday). It is our take that consumers brought forward some purchases to boost their real available income, taking advantage of unusually high discounts in 2020. The second stems from an additional deterioration in epidemiological conditions in the month, forcing authorities to move Mexico City and the State of Mexico back to 'red' in the traffic light indicator, suspending non-essential activities. However, this was partly offset by a positive calendar effect, adding two working days in the annual comparison. As a result, seasonally adjusted figures are more telling, with activity falling 6.2% from -4.7% in the previous month.

In this context, retail sales plunged 9.3% y/y in 2020, lowest since the series is available (2009). Performance was highly affected by the pandemic, especially during the lockdown months (April and May), falling close to 25%. There were also sharp differences among sectors, with internet sales clearly outperforming (+51.9%) while weakness was mainly seen in clothing (-35.2%) and office and leisure (-32.0%). Meanwhile, health care (+5.9%), glass and hardware (-1.8%) and supermarkets & departmental (-1.3%) were more stable, supported by their essential status.

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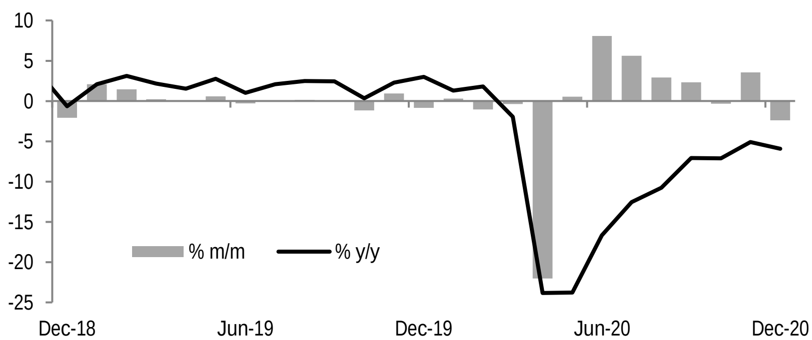
**Clear differentiation among categories in the monthly comparison.** Total sales declined 2.4% m/m, partially reversing the 3.6% increase in November (which was revised higher by about 30bps). In line with our expectations, this seems to have been a result of 'payback' from attractive discounts in the previous month due to '*El Buen Fin*' (Mexico's Black Friday) along shopping mall closures due to COVID-19, as mentioned above. In this respect, we highlight that clothing and shoes contracted the most, at -6.7%, followed by departmental stores (-3.4%). Among other categories in which we observed relevant declines we noted autos and gasolines (-1.0%) –affected by being durables, and despite mobility indicators not falling sizably in the period– and food and beverages (-0.8%). Regarding the latter, we also observed supermarket sales diminishing by 1.0%. On a more positive note, appliances and computers (2.2%) reversed its previous month decline, which was quite surprising as TVs and mobile phones were among the most demanded goods during the discounts season. In addition, internet sales gathered pace at 4.5%, which we speculate that may be related to its substitute status given the closure of physical stores due to COVID-19.

Retail sales
% m/m sa; % 3m/3m sa

| | % m/m | | | % 3m/3m |
|---|---|---|---|---|
| | Dec-20 | Nov-20 | Oct-20 | Oct-Dec '**20** |
| Retail sales | -2.4 | 3.6 | -0.3 | 3.7 |
| Food, beverages, and tobacco | -0.8 | 0.6 | 0.8 | 4.2 |
| Supermarket, convenience, and departmental stores | -2.4 | 2.9 | -1.3 | 2.4 |
| Clothing and shoes | -6.7 | 3.7 | 2.9 | 19.4 |
| Health care products | 0.3 | 1.6 | 0.3 | -1.4 |
| Office, leisure, and other personal use goods | -0.3 | 0.5 | -4.9 | 7.7 |
| Appliances, computers, and interior decoration | 2.2 | -1.3 | -1.0 | -2.2 |
| Glass and hardware shop | -0.7 | 4.0 | 1.4 | 4.3 |
| Motor Vehicles, auto parts, fuel and lube oil | -1.0 | 3.1 | 0.4 | 3.9 |
| Internet sales | 4.5 | 1.0 | 7.8 | 12.8 |

Source: INEGI

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




Source: INEGI, Banorte

**Risks abound at the start of the year.** Considering the abovementioned distortions in today's print, we believe results were not as bad as suggested by the figures alone. Nevertheless, these also suggest that November's print was also not as positive as previously thought. All in all, evidence of lingering weakness in domestic demand persists. On the other hand, we remain concerned about performance at the turn of the year, with relevant risks exacerbating, and some new ones surfacing.

Among the former, the main one is related to an additional deterioration in epidemiological conditions, from three states in 'red' at the end of December to ten by late January. Despite some measures taken to limit the economic effect from distancing measures (*e.g.* allowing for some restaurants to offer outdoor service since mid-January), the impact looks harsh according to timely data. Among them, ANTAD's total sales declined 6.3% y/y in real terms, worsening considerably relative to the -3.8% in December. The breakdown shows somewhat similar dynamics to those in the lockdown months, with departmental stores down 19.3% and supermarkets stronger, at 5.2%. In addition, durable goods sales remain under pressure, with auto sales at -22.6% y/y, worsening relative to December (-19.4%).

There has likely been some relief in February, with a sharp decline in the number of states in 'red', towards two at the last fortnight. In addition, in the first day of the month, the State of Mexico allowed shopping malls to reopen at limited capacity, among other measures, followed by Mexico City a week later. Nevertheless, this might be dampened by the effect from cold weather and blackouts in northern states, the most important new shock to performance. While the effects might be more modest on overall sales, the total hit on economic activity will have a negative spillover effect. In this sense, we will remain on the look for additional indicators that can provide more information on this, such as IMEF's PMIs, business confidence and aggregate trend indicators, which will be released next week.

In the medium-term, we believe dynamism will gradually pick up as conditions regarding the virus start to improve, with a more forceful effect from vaccination efforts gathering steam. The positive spillover effect from strong external demand and resilient remittances inflows should also boost consumption. It is our take that this acceleration will be more evident in 2H21, resulting in a total increase of 6.2% for consumption in the year.

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