January's retail sales inch higher, influenced by COVID-19 dynamics

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- **Retail sales (January): -7.6% y/y; Banorte: -8.5%; consensus: -8.1% (range: -9.0% to -4.7%); previous: -5.9%**
- **In our view, the main driver was the worsening of epidemiological conditions, limiting growth. However, we note that there was a negative calendar effect behind these figures**
- **In monthly terms, sales inched higher by 0.1%. This was positive at the margin, considering that stricter lockdowns in key states were in place during the full period. With this, the index stands 5.8% below its level in February, before the virus struck**
- **We highlight that healthcare products surged 4.7% m/m, along the advance of 2.0% in internet sales. In our view, this was likely related to worse COVID-19 dynamics. Food was up 0.8%, while all other categories contracted. In the latter, clothing and shoes (-7.4%) and appliances (-2.2%) were among the weakest**
- **While today's results clearly reflect a more challenging backdrop, we see a better outlook for retail sales ahead as new infections drop, the labor market recovers gradually, and income is boosted by strong remittances, among other factors**

Retail sales declined 7.6% y/y in January. This was stronger than consensus (-8.1%) and our -8.5%. This figure was skewed down by a negative calendar effect, subtracting two working days in annual terms (vs. +2 in December). As a result, seasonally adjusted figures mark a 7.2% y/y contraction, lower than the -6.3% of the previous month. This is consistent with the further deterioration in epidemiological conditions, resulting in additional lockdowns in more key states. By the end of the month, 10 states were in 'red' according to the 'traffic light' indicator. Another relevant factor is that some relief measures (*e.g.* indoor dining at limited capacity, reopening of shopping malls with restrictions) did not come into play until February, in our view also limiting the recovery.

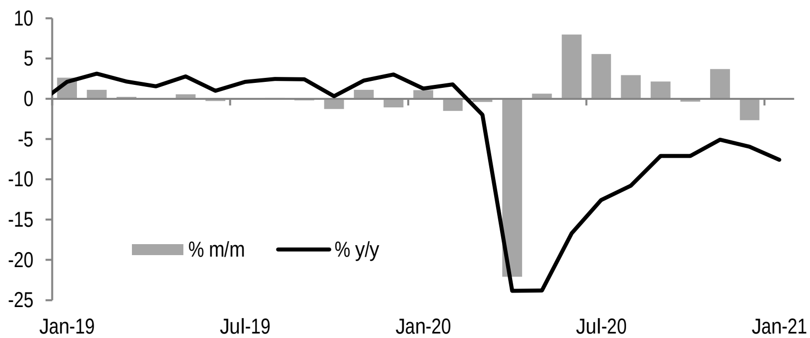
Monthly performance influenced by the pandemic. Total sales inched higher by 0.1% m/m. This is higher than December's -2.7% (revised about 30bps lower relative to the first release), albeit the latter was likely distorted by the shift in timing of consumption due to *El Buen Fin* (Mexico's Black Friday). Hence, sales contracted 2.6% in the last two months, not enough to reverse November's 3.7% advance. In our view, the main highlight is that performance by category seems to have been heavily influenced by COVID-19 dynamics, turning consumers more cautious. Specifically, there were less places to purchase goods (due to lockdowns) and increased uncertainty about the hit to employment and family income, possibly increasing precautionary savings. In this respect, we highlight that healthcare products surged 4.7% m/m, along the advance of 2.0% in internet sales. Food, which is essential, was up 0.8%. In contrast, all other categories contracted. Specifically, departmental stores fell 13.9%. Moreover, clothing and shoes (-7.4%) and appliances (-2.2%) were among the weakest.

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

	% m/m			% 3m/3m
	Jan-21	Dec-20	Nov-20	**Nov'20-Jan'21**
Retail sales	0.1	-2.7	3.7	2.4
Food, beverages, and tobacco	0.8	-0.7	0.7	2.6
Supermarket, convenience, and departmental stores	-3.2	-3.1	3.0	-0.2
Clothing and shoes	-7.4	-7.5	3.6	4.5
Healthcare products	4.7	0.5	1.8	3.1
Office, leisure, and other personal use goods	-1.8	-0.4	0.3	1.2
Appliances, computers, and interior decoration	-2.2	2.1	-1.6	-2.7
Glass and hardware shop	-1.2	-1.0	3.8	3.2
Motor Vehicles, auto parts, fuel and lube oil	0.0	-1.2	3.3	3.0
Internet sales	2.0	5.2	1.2	11.3

Source: INEGI

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



Source: INEGI, Banorte

Signals turn more positive, correlated with improving virus conditions. It is our take that today's results clearly reflect the deterioration in the epidemiological front at the start of the year. However, things turned more positive at the second half of February. Specifically, the total number of states in 'red' dropped from 13 to 2, with better trends for both new contagions and deaths. This was also reflected in mobility data, with a steady improvement once conditions were better. In this sense, ANTAD's data showed a 3.2% y/y contraction in real terms in total sales, much better than the -9.5% seen in January despite the leap-year effect. This was mostly driven by the outperformance in departmental stores, at +1.9% (previous: -22.1%). This is consistent with malls reopening but could be suggesting that pent-up demand was released, with some precautionary savings being used as uncertainty decreased. Since the pandemic started, retail sales seem to have been influenced strongly by the status of the 'traffic light' indicator, suggesting that the population indeed modifies its behavior based on its level.

Despite of better pandemic conditions in February, purchases of big-ticket items are still being delayed, as portrayed by auto sales remaining weak at -28.8% y/y. We warn that there might be other drivers behind the latter, such as supply chain issues due to the lack of semiconductors. On the other hand, we believe the impact from cold weather –resulting in blackouts and lack of natural gas– was relatively modest for this sector and overall services. However, and as flagged in other publications, we consider the hit to industry was more relevant.

In the medium-term, the outlook looks more positive, with potential spillovers from the boost in external demand helping sales. Among them, we highlight very high and resilient growth in remittances, likely with some resources of the new fiscal stimulus package influencing flows starting in March. Moreover, we believe that the possibility of harsh lockdowns in coming months has declined modestly, mainly due to: (1) The end of winter, which may reduce the contagion rate; and (2) the advance of vaccinations, which could help limit hospitalizations –one of the factors that determine the level of the 'traffic light' indicator–. On the contrary, we recognize the important risk stemming from virus mutations, with a possible fallout of new lockdowns and restrictions. This is especially relevant as some experts have warned that we could see an uptick in cases after the *Easter* holiday. In this sense we will remain on the look over developments in this front and its possible effect on overall activity. Despite these caveats, we maintain a more favorable view towards 2H21, with further progress on the vaccine, the gradual recovery of employment and an additional adaptation to the 'new normality', resulting in higher dynamism for consumption ahead.

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