February's retail sales rebound on a gradual improvement in local conditions

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Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

- **Retail sales (February): -6.3% y/y; Banorte: -5.8%; consensus: -5.7% (range: -6.7% to -3.5%); previous: -7.6%**
- **Although there is a positive calendar effect relative to January –despite the leap year in 2020–, it is our take that the main reason behind the improvement was more favorable conditions around the pandemic, along some measures to boost commerce**
- **In monthly terms, sales rose 1.6%, their largest expansion since November. We believe this is quite positive, possibly with an additional boost due to pent-up demand in the previous month**
- **We highlight that non-essential categories were among the strongest, including departmental stores (13.9%), clothing and shoes (5.8%) and office and leisure (5.1%). In contrast, the only contraction was in healthcare products (-3.5%). This is consistent with the economic reopening and higher mobility levels**
- **We consider that today's results are in line with other recent signals of an economic reactivation, coupled with a better performance for domestic demand**

Retail sales fell 6.3% y/y in February. This was below consensus (-5.7%) and our estimate. Despite the leap year in 2020 (which subtracted one day in the annual comparison), working days were unchanged, mitigating their impact. In this sense, seasonally adjusted figures showed a 3.8% y/y contraction, much better than the -7.1% in January. This is consistent with better pandemic conditions, especially in the second half of the month, in which we saw a steep decline in the number of new cases and a substantial improvement in the nation's traffic light indicator. Moreover, we think figures were also aided by programs in some states to try to boost commerce. These included the State of Mexico –which allowed shopping malls to reopen at a reduced capacity, among others– in the first day of the month, followed by Mexico City days later.

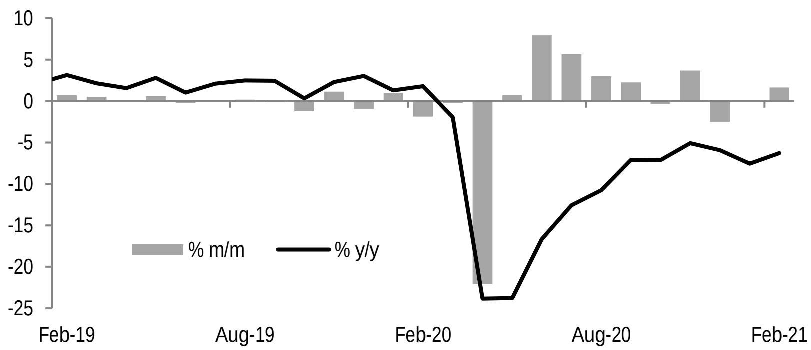
Monthly performance with an important expansion. Total sales rose 1.6% m/m, considerably above the 0.0% in January and the largest uptick since November. On top of the abovementioned factors, an additional boost may have come from pent-up demand in previous months. Specifically, people could have disbursed some savings –either from precautionary reasons or less options to spend– given a larger offering of places to carry out purchases. Moreover, employment gains and still high remittances inflows were likely also important drivers. In this context, we highlight that non-essential categories were the most benefited, consistent with businesses reopening and increased mobility. In this sense, departmental stores rose 13.9%. In addition, clothing and shoes (5.8%) and office and leisure (5.1%) showed good results. The remaining categories improved, except one. The laggard was healthcare products (-3.5%), although not that negative given the 4.8% expansion of the previous month, while also signaling an improvement in epidemiological conditions.

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

	% m/m			% 3m/3m
	Feb-21	Jan-21	Dec-20	**Dec'20-Feb'21**
Retail sales	1.6	0.0	-2.5	0.3
Food, beverages, and tobacco	2.6	0.5	-0.1	1.8
Supermarket, convenience, and departmental stores	4.0	-3.4	-2.9	-2.4
Clothing and shoes	5.8	-6.2	-7.5	-7.3
Healthcare products	-3.5	4.8	0.4	3.8
Office, leisure, and other personal use goods	5.1	-2.5	-0.1	-1.5
Appliances, computers, and interior decoration	-0.3	-2.1	2.1	-0.8
Glass and hardware shop	0.6	-1.2	-0.7	1.6
Motor Vehicles, auto parts, fuel and lube oil	0.7	0.5	-1.3	1.7
Internet sales	1.7	2.2	4.7	10.3

Source: INEGI

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



Source: INEGI, Banorte

Signals of optimism widening, with several factors driving the outlook. Considering that adverse conditions prevailed during the period –virus dynamics in the first half, as well as blackouts and the lack of natural gas– we judge today's result as quite positive. Moreover, this figure helps validate our hypothesis that performance seems highly correlated to the traffic light indicator. In this sense, the latest data suggests the outlook kept improving, with cases extending lower and vaccinations gathering steam. In addition, we estimate an additional boost from remittances, remembering that US$1,400 one-time payments in the US to people earning less than $75,000 a year started to get disbursed in March. This may already be exemplified by recent ANTAD figures. Specifically, an although they are starting to show distortions because of the pandemic in 2020, total sales increased 3.9% y/y in real terms, with departmental stores surging (37.9%). Moreover, auto sales picked up to 9.1% y/y.

So far in April, conditions seem even better, with additional dynamism due to the *Easter* holiday and an improvement on the virus. The latest traffic light indicator (for the 12th to the 25th of April) showed no states in 'red', 5 in orange 'and 19 in 'yellow'. Moreover, vaccinations in the last seven days (on April 22nd) came in at 359.5 thousand inoculations. In this context, mobility has trended up, nearing pre-pandemic levels. Nevertheless, the next few weeks will be critical given the possibility of a spike in cases after the holiday period and the acceleration in other parts of the world.

In the medium term, we still see higher dynamism in external demand, albeit with some signs of a broader domestic reactivation. We still recognize risks, including another wave of contagion, supply chain disruptions (*e.g.* lack of semiconductors, delays in global shipments) and additional price increases, especially on energy. Nevertheless, we expect positive factors to dominate, resulting in a more substantial acceleration in 2H21 as vaccinations progress further and stimulus from abroad permeates even more.

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454