Retail sales back to the recovery path in May

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- **Retail sales (May): 29.7% y/y; Banorte: 29.3%; consensus: 28.5% (range: 23.2% to 38.7%); previous: 30.1%**
- **Annual figures remain distorted by the pandemic, with wide differences across sectors as consumption patterns changed dramatically during the first months after the shock**
- **In monthly terms, sales advanced 0.6%, more than making up for the 0.2% decline of the previous month. In our view, this was helped by continuing improvements in virus' conditions and vaccinations, as well as strong fundamentals, among other factors**
- **Performance across categories was mostly positive, with five out of nine sectors up. This was led by internet sales (7.1%) –on the back of online discounts– and clothing (2.5%). In contrast, appliances plunged 3.4%, probably reflecting the scarcity of semiconductors**
- **We expect consumption to grow 8.2% in full-year 2021, with a positive view despite lingering risks due to the evolution of the virus**

Retail sales up 29.7% y/y in May. This was above consensus (28.5%) but closer to our estimate (29.3%). As in the previous month, the annual rate is highly distorted by the halt in economic activity at the start of the pandemic, as well as differences in labor days. Correcting for the latter with seasonally adjusted figures, activity rose 29.6% y/y. We should mention that there are large differences between essential categories –such as supermarkets and pharmacies– which didn't have to close, and those non-essential –*e.g.* departmental stores, clothing and recreational, among others. The latter showed strong increases on very favorable bases. We think that the environment remained positive for the recovery, as suggested by the improvement in the epidemiological 'traffic light' indicator and extension upward in mobility levels, albeit they remain below pre-pandemic levels. Fundamentals also kept improving, among them remittances, job market gains and confidence levels.

Monthly performance recovers previous month's loss, resuming the recovery. Total sales advanced 0.6% m/m, more than compensating for the -0.2% of the previous month. On top of the factors already mentioned, we do not rule out a larger availability to carry out purchases, considering that restrictions in several states decreased. Looking at the breakdown, internet sales surged 7.1% –on the back of online discounts, mainly *Hot Sale*–, while clothing also rose strongly, at 2.5%. In contrast, appliances fell 3.4%, probably reflecting the scarcity of semiconductors. Regarding the possible effects of COVID-19 on sales, healthcare declined 0.9% –which may also be related to warmer weather– and motor vehicles and fuel grew 2.0% as mobility levels improved.

Retail sales

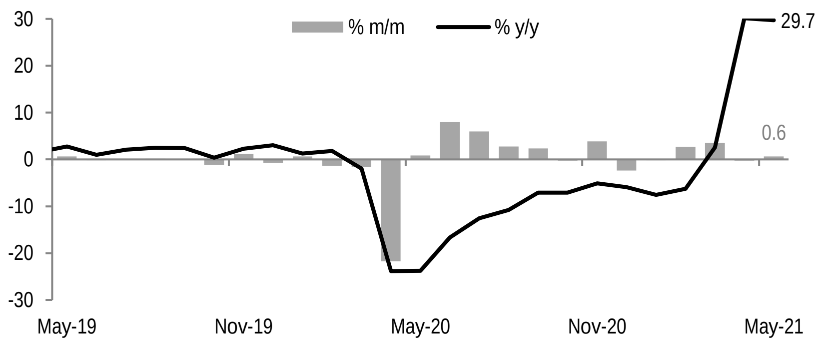
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m
	May-21	Apr-21	Mar-21	Mar-May'21
Retail sales	0.6	-0.2	3.5	5.3
Food, beverages, and tobacco	-0.3	-2.7	6.2	6.5
Supermarket, convenience, and departmental stores	0.0	1.0	0.9	3.5
Clothing and shoes	2.5	1.4	5.2	10.9
Healthcare products	-0.9	1.1	0.7	0.2
Office, leisure, and other personal use goods	-0.3	3.2	2.2	8.5
Appliances, computers, and interior decoration	-3.4	-3.3	12.7	9.2
Glass and hardware shop	1.2	-1.1	4.2	3.9
Motor Vehicles, auto parts, fuel and lube oil	2.0	0.3	5.7	7.5
Internet sales	7.1	-5.8	0.4	-1.2

Source: INEGI

Retail sales

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



Source: INEGI, Banorte

We expect dynamism to continue in coming months despite risks due to the deterioration from the pandemic. In our opinion, data seems to corroborate a close relation between the performance of the sector and conditions on the epidemiological front. Therefore, the recent deterioration in contagions represents a relevant risk going forward. Specifically, we have seen a rebound since the second half of May, with latest figures surpassing the high from the 'first wave' (from February to September 2020). On the other hand, we note that the Ministry of Health changed the way the 'traffic light indicator' will be calculated. In our opinion this is relevant given that we believe people do modify their behavior based on it. Therefore, correlation so far could decrease given that it will not be comparable to previous data. In addition, Deputy Health Minister, Hugo López-Gatell, mentioned that there will not be massive lockdowns despite the 'third wave', arguing that "people are tired" of the pandemic. Although this could represent a risk in terms of the path of contagions, we believe it should be positive for activity. This comes on top of comments from President López-Obrador about the return to classes, reaffirming that conditions exist to make it so in an in-person basis. If this happens, we believe it could be an additional driver for the recovery in employment, given that an important number of people –especially women– has been forced to stay home to take care of the children. Despite of the latter, we expect consumption to keep recovering. In this backdrop, we will be following closely the evolution of fundamentals. So far, news have been favorable. Among them, employment continues to recover, while remittances could be more stable at the margin –considering progress in the vaccination and reopening process in the US– but will likely remain quite high. Regarding the latter, we believe that fiscal support in said country remains as a key support.

On the other hand, optimism –as reflected in confidence levels– should remain elevated. Among potential drivers for this we include the resumption of payments from social programs after the electoral period. Resources will resume in June for programs such as *Sowing Life* (including May's payment), the apprenticeship program for students and pensions for the elderly (which will resume their bi-monthly schedule in July). In addition, the Federal Government plans to increase eligibility and the amount disbursed for the latter program next year and until the end of the presidential term, in 2024. Lastly, reports suggest that the government is seeking an 18% increase to the minimum wage in 2022, a situation that could provide an additional boost to sales of essential goods (with the official decision likely to be made in December).

In more timely data, auto sales in June were relatively stable at 87.1 thousand (previous: 85.7 thousand), albeit with the annual comparison moderating to 38.5% on a more challenging base effect. Meanwhile, total sales from ANTAD grew 16.3% y/y in real terms vs. 28.9% in the previous month. Nevertheless, and as we mentioned before this print, these figures are probably skewed down given the departure of several stores from the association, including *OXXO* stores –which are similar to 7-Eleven and with a very high presence across the country.

Considering all these factors and despite renewed risks due to the pandemic, we recently revised our 2021 GDP forecast, to 6.2% from 5.9% previously. We also adjusted our call for private consumption, expecting strong growth at 8.2%. In the aggregate, the reactivation will probably be supported by a sooner than expected recovery in domestic demand, more than offsetting for other risks in the horizon.

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