Retail sales take a tumble in June, albeit with mixed dynamics inside

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- **Retail sales (Jun): 17.7% y/y; Banorte: 18.4%; consensus: 20.4% (range: 17.1% to 23.8%); previous: 29.7%**
- **In monthly terms, sales backtracked 0.6%, erasing the 0.5% m/m expansion seen in May. Epidemiological conditions worsened through the month, resulting in some restrictions by the end of the period**
- **Performance inside was mixed, with five out of nine sectors lower. There were hefty losses in supermarket and departmental stores (-1.1%), healthcare products (-1.2%) and glass and hardware (-0.9%). On the contrary, internet sales surged 7.4%, likely boosted by Amazon's *Prime Day* along other promotions**
- **We expect consumption to remain resilient despite higher uncertainty due to the rebound in COVID-19 cases and other short-term risks, backed mainly by relatively strong fundamentals**

Retail sales up 17.7% y/y in June. This was below consensus (20.4%) but closer to our 18.4% estimate. Since March, the annual rate is strongly skewed to the upside due to the start of the pandemic in the same period last year. There were also slight differences in labor days. Correcting for the latter with seasonally adjusted figures, activity rose 18.1% y/y. Another important issue to remember is that the economic reopening started in this period during 2020. Nevertheless, restrictions on non-essential businesses remained relatively harsh, resulting in large differences between them and essentials. Although additional restrictions were more limited (with only a few reported by the end of the period), it is our take that higher caution due to the beginning of a renewed rise in COVID-19 cases may have dampened growth. Nevertheless, consumer confidence and mobility levels were resilient during the month, with the latter in our view still a key factor for retail sales dynamics despite the high likelihood for a higher share of purchases made through the internet.

Monthly performance negative, albeit with mixed results inside. Total sales declined 0.6% m/m, erasing the +0.5% of the previous month. While at a first glance the result seems quite negative, performance inside still showed some bright spots. The contraction was centered in five subsectors, with three carrying the weight of the decline, these being supermarket and departmental stores (-1.1%), healthcare products (-1.2%) and glass and hardware (-0.9%). In our view, the former shows a heavy drag from departmental, down 7.5%. Concurrently, internet sales rose 7.4%. We believe that a trade-off might have occurred between categories, with promotions like Amazon's *Prime Day* taking traffic for the latter. Among other relevant categories, motor vehicles and fuel sales declined 0.4%, albeit with fuel alone up 0.5%, consistent with mobility figures.

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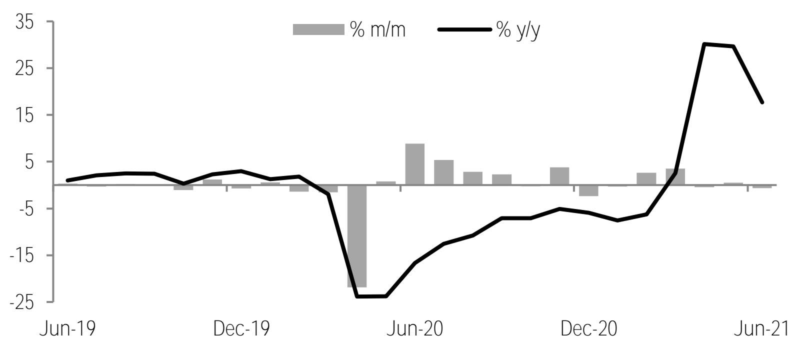
Retail sales
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m
	Jun-21	May-21	Apr-21	Apr-Jun'21
Retail sales	-0.6	0.5	-0.4	2.9
Food, beverages, and tobacco	0.0	-0.3	-2.8	1.8
Supermarket, convenience, and departmental stores	-1.1	-0.1	0.9	2.5
Clothing and shoes	0.9	2.6	1.8	10.8
Healthcare products	-1.2	-0.9	1.1	-0.8
Office, leisure, and other personal use goods	2.0	0.6	3.2	8.9
Appliances, computers, and interior decoration	3.3	-2.5	-3.4	4.4
Glass and hardware shop	-0.9	1.3	-1.0	2.6
Motor Vehicles, auto parts, fuel and lube oil	-0.4	2.0	0.3	5.6
Internet sales	7.4	8.3	-5.2	3.1

Source: INEGI

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



Source: INEGI, Banorte

Short-term risks lingering for retail sales. As mentioned in the previous month, it is our take that the surge in COVID-19 cases is an important risk to the outlook, albeit with some caveats. Specifically, consumers' behavior may become increasingly cautious because of this, in turn potentially impacting dynamism. This is somewhat different from previous waves, in which this may have also played a role, but it was accompanied by harsher restrictions in terms of capacity, permission to operate and opening times, among others. Overall, we do not rule out an adverse effect, although it will likely be more modest. In this respect, more timely data may be pointing towards some weakness ahead, including: (1) Vehicle sales in July according to AMIA, which reached 82.1 thousand units from 87.0 thousand in the previous month; and (2) ANTAD's total sales at 10.6% y/y from 16.3% in real terms, respectively. Nevertheless, we are cautious about reading too much into these as both are very distorted, the former because of supply constraints and the latter given the departure of several stores from the association. Lastly, consumer confidence was unchanged from the previous month in July, dragged by those components related to expectations and more modest given the accumulated rebound that started with the reopening last year.

Another key issue is persistent price pressures, particularly at the core, as well as in some food and energy items. On the latter, it will be very important to see if LP gas –which has been consistently higher for several months– responds to the government's ruling of establishing price ceilings to this good. In our view, strong evidence will be available as soon as in tomorrow's inflation for the 1st half of August.

Our call of a relevant price reduction (at -9.5% 2w/2w) may have both positive direct and indirect effects, providing some relief to consumers' real income and to other categories. Nevertheless, we should be cautious as international prices remain high, albeit in a consolidation pattern since early July.

Looking further ahead, we think fundamentals will continue supporting performance, although we will focus on upcoming prints to assess if there is an impact from COVID-19. Among them, the most positive are remittances, which have stayed very strong. Our take is that US economic dynamism will continue to be a significant tailwind. In the short-term though, it will be very relevant to see if the expiration of additional unemployment benefits –which started in June in some states and will be eliminated nationwide in early September– affects the trend. In addition, we expect employment to extend its recovery, although the latest report for June provided some warning signs as there were job losses both in industry and manufacturing. Moreover, data distortions may be in store due to the upcoming implementation of the outsourcing reform. On the other hand, the plan to return to in-person classes in September may help as an important number of people –especially women– are forced to stay at home to take care of their children. In banking credit, consumer loans have shown a mild upward trend since March, although still in deeply negative territory in annual terms while these rates are still heavily skewed by base effects.

We maintain our GDP forecast of 6.2% this year and 3.0% in 2022. Although we see and upward revision to 2Q21 in the final print this week (to 1.7% q/q from 1.5% in the preliminary estimate), overall conditions into the second half of the year seem to have become more challenging. Nevertheless, we believe more hard data is needed to assess if there is an impact from higher contagions. Our current call is more optimistic, in the sense that we expect less of a drag given people's fatigue and the progress achieved so far in vaccination campaigns.

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