Modest retail sales rebound in September, helped by better virus conditions

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- **Retail sales (September): 5.9% y/y; Banorte: 6.8%; consensus: 5.9% (range: 4.5% to 6.8%); previous: 7.2%**
- **In monthly terms, sales rebounded just 0.2%. We consider performance was positive but somewhat limited, in turn helped by the improvement on the epidemiological front, albeit with mixed signals regarding fundamentals and price pressures**
- **Sector dynamics were mixed. On the positive side, we saw strength in clothing and shoes (+9.7%), leisure (7.0%) and glass and hardware (2.4%). Nevertheless, there was meaningful weakness in motor vehicles and fuel (-1.7%) and appliances (-1.3%). We think it is likely that the latter categories remained affected by the scarcity of semiconductors, probably also impacting prices higher**
- **The short-term outlook seems more encouraging, suggesting a recovery in consumption in the last quarter of the year, even with several risks on the horizon**

Retail sales up 5.9% y/y in September. This was in line with consensus (5.9%), but below our estimate (6.8%). The period did not have substantial calendar effects in the annual compassion, resulting in 5.6% y/y using seasonally adjusted figures. As in previous months, annual figures continue to lose dynamism as base effects turn less favorable. Despite of this, we believe better performance in the period is mostly explained by an improvement in the epidemiological front, with the number of daily cases decreasing from the highs in August, favoring higher mobility. Specifically, this boosted sentiment –reflected in higher consumer confidence–, as well as a rebound due to accumulated demand in previous months, more than offsetting for some adverse factors, such as additional employment losses and a marginal moderation in remittances.

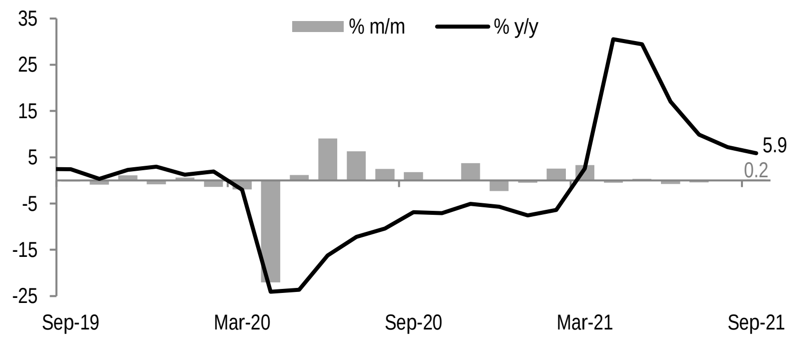
Modest sequential rebound in sales, signaling that there are some challenges left. Retail sales grew 0.2% m/m, which is favorable but relatively limited given its recent performance. In this respect, some challenges persist, including the scarcity of some goods –due to bottlenecks– but especially price pressures, which have extended to the last few months. In addition, we believe some distortions related to changing consumption patterns due to the pandemic prevail, partly explaining sectorial dynamics. In this respect, there were relevant declines in vehicles, auto parts and fuel (-1.7%) and appliances (-1.3%), probably still affected by the lack of semiconductors. Moreover, food and beverages, which have a high weight in the total, fell 0.1% and for a second month in a row. On the contrary, there was strength in clothing and shoes (+9.7%), leisure (7.0%) and glass and hardware (2.4%). In our view, the first two could be signaling an effect from the gradual increase in mobility after the last wave of COVID-19 cases.

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

	% m/m			% 3m/3m
	Sep-21	Aug-21	Jul-21	Jul-**Sep'21**
Retail sales	0.2	0.1	-0.4	-0.7
Food, beverages, and tobacco	-0.1	-0.4	-1.8	-2.3
Supermarket, convenience, and departmental stores	1.0	0.7	0.8	0.9
Clothing and shoes	9.7	-8.3	-1.4	-2.8
Healthcare products	0.3	2.6	3.2	4.2
Office, leisure, and other personal use goods	7.0	-2.4	-2.3	-0.3
Appliances, computers, and interior decoration	-1.3	-3.4	-2.2	-3.5
Glass and hardware shop	2.4	-0.6	-0.4	-0.4
Motor Vehicles, auto parts, fuel and lube oil	-1.7	-0.7	-1.8	-2.7
Internet sales	1.8	10.6	-11.1	2.8

Source: INEGI

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



Source: INEGI, Banorte

Better signals in the short term, but challenges remain. Most immediate data seem to support more favorable dynamics. This happens in a backdrop in which epidemiological conditions keep improving –with daily cases to the downside and the 'traffic light' indicator allowing for a broader range of activities– and mobility already surpassing pre-pandemic levels. Hence, we highlight some relevant developments, especially an additional uptick in ANTAD's same store sales in October, accelerating for a second month in a row and at +5.0% y/y in real terms. Consumer confidence picked up to 43.6pts, increasing in all categories except for purchasing power. This is consistent with our call that the main risk for higher dynamism is the pressure in prices. In this backdrop, October's inflation increased 0.84% m/m, with broad increases that are independent to the skew in this direction that were driven by seasonal effects. We observed important increases in sensitive categories such as energy prices –especially LP gas– and food –highlighting some processed goods, such as tortillas and other basic staples–. On the other hand, vehicle sales were weak, down 6.1% m/m based on our seasonal adjustment method.

For November, preliminary data from CANACO-SERVYTUR about *El Buen Fin* (Mexico's Black Friday) suggest nominal growth of 10% relative to the same period of 2020. Nevertheless, it is not entirely clear yet the impact that calendar distortions may have, recalling that last year's discounts were available almost for two weeks, while this year they only spanned for seven days. In this backdrop, the Consumer Protection Bureau (PROFECO, in Spanish) reported about 1,000 complaints about price adjustments, which may likely skewed data higher. Adjusting for these, consumer benefits were estimated at around $3.3 million.

Marginally, another factor that may have helped was the improvement in virus conditions, with 31 out of 32 states in 'green' and only one in 'orange' for the last couple of weeks of November. Nevertheless, this may well have an adverse effect for the indicator as consumption of services could increase to the detriment of goods.

In either case, we believe that the broad outlook for consumption has improved, most likely accelerating towards year-end as the recovery consolidates. Specifically, fundamentals should show greater strength, especially employment as it has lagged recently. On the other hand, we believe remittances are likely to maintain their dynamism, supporting households' income. Hence, it is our take that this will be important for our view of a 1.2% q/q rebound in 4Q21 GDP (+4.3% y/y). Going into 2022, we will watch closely for the announcement of the minimum wage hike, which should materialize in coming weeks. If the current policy is maintained, this could help compensate for inflationary pressures this year, although only to the extent that this does not induce a strong upward move in inflation expectations.

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