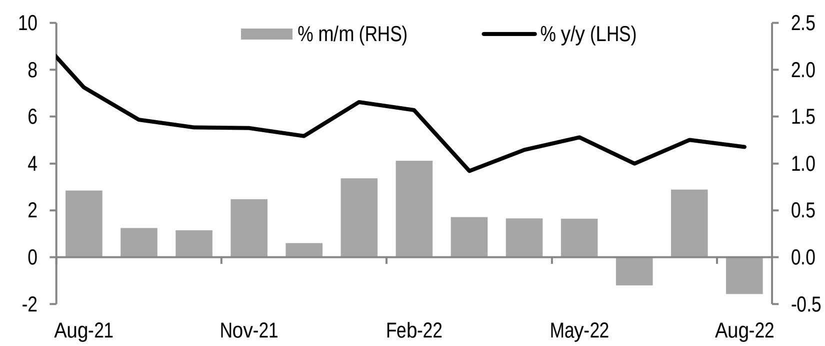
Retail sales take a step back in August, limited by additional price pressures

- **Retail sales (August): 4.7% y/y; Banorte: 6.6%; consensus: 5.7% (range: 4.2% to 7.8%); previous: 5.0%**
- **Retail sales fell 0.4% m/m, erasing some of the gains of the previous month. We believe that price pressures continue limiting progress, despite strong fundamentals**
- **Inside, four of the nine sectors decreased. From these, we highlight internet sales (-12.6%) and appliances and home goods (-4.8%). Nevertheless, there were also gains in clothing and shoes (3.0%) and office and leisure (1.8%)**
- **Despite high inflation, we remain somewhat optimistic about sales ahead, with support from fundamentals, year-end sales, and to a lesser extent, economic slack**

Retail sales moderate in annual terms. The increase was 4.7% a/a, lower than consensus (5.7%) and our estimate (6.6%). In our view, figures remain supported by fundamentals, noting: (1) Good results in the labor market, with the creation of 177.1 thousand new jobs; and (2) remittances above US$5 billion. In addition, consumer loans maintained their upward trend, which could be reflecting that households are using credit to compensate some gaps. Nevertheless, headwinds keep gathering pace, which we believe explains the deceleration. Among them, we note: (1) A decrease in average wages; (2) inflation, which gathered additional steam in the period –to 8.70% y/y from 8.05% in July–; and (3) a fourth consecutive monthly decline in consumer confidence.

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



Source: INEGI, Banorte

Sales decline in sequential terms. Retail sales fell 0.4% m/m, erasing some of the 0.7% gain of the previous month. In our opinion, this is somewhat negative, influenced by high inflation, but also a challenging base effect. Regarding timely data, ANTAD sales are relatively consistent with this –with same-stores decelerating to +2.5% y/y in real terms–. Likewise, IMEF's non-manufacturing indicator slowed down. Four out of nine sectors declined, highlighting internet sales (-12.6%) and appliances and home goods (-4.8%), both in large part due to payback from July, considering that these grew 12.9% and 3.4%, respectively.

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On the other hand, growth was led by clothing and shoes (3.0%) and office and leisure (1.8%). One explanation could be the return to in-person classes, with additional purchases required relative to home-schooling. Additionally, we highlight that vehicles and fuel sales dropped 1.3%, with vehicles down by 2.9% –contrasting with AMIA figures–, and fuel sales at -0.8% –consistent with Pemex data. Finally, supermarkets and departmental stores rose 0.2%, with the former at +0.5% but the latter down 1.9%.

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

	% m/m			% 3m/3m
	Aug-22	Jul-22	Jun-22	Jul-Aug'22
Retail sales	-0.4	0.7	-0.3	0.5
Food, beverages, and tobacco	0.3	0.0	-1.4	-1.1
Supermarket, convenience, and departmental stores	0.2	0.6	-1.7	-0.1
Clothing and shoes	3.0	2.1	0.2	3.4
Healthcare products	-4.0	-0.8	7.8	5.6
Office, leisure, and other personal use goods	1.8	0.1	2.5	4.3
Appliances, computers, and interior decoration	-4.8	3.4	-0.9	-0.4
Glass and hardware shop	0.7	-3.1	-1.2	-2.9
Motor Vehicles, auto parts, fuel and lube oil	-1.3	0.8	-1.2	-0.1
Internet sales	-12.6	12.9	-0.7	0.5

Source: INEGI

Given high inflation, retail sales could moderate in coming months. In line with our view of the overall economy, retail sales have also been affected by price pressures. We do not rule out that this indicator loses some momentum in coming months. However, we do not think that it would translate to a relevant contraction based on the performance of fundamentals, with these still key drivers for dynamism. Regarding timely data, September's ANTAD figures were relatively negative, with same-stores at -0.5% y/y in real terms (previous: +2.5%), and total-stores at +1.7% (previous: +4.9%). On these, it is important to highlight that inflation for the period was 8.70% y/y for the headline –unchanged vs August– but the core accelerated to 8.28% from 8.05%. On the other hand, vehicles sales based on AMIA data declined 3.8% m/m (using our in-house seasonal adjustment model), not entirely surprising considering the +2.4% of the previous month. Finally, INEGI's *Timely Indicator of Economic Activity* would also be consistent with a moderation, with services at -0.1% m/m.

As we have mentioned before, we remain somewhat optimistic on retail sales for the rest of the year. This would be the case even if inflation remains pressured in coming months, with the peak in the annual rate expected until January 2023. We identify two key factors that will allow sales to grow in 4Q22: (1) A favorable path for fundamentals; and (2) the impact that sales and discounts associated with '*El Buen Fin*' and the holiday season could have. Finally, given prevailing economic slack domestically, if the recovery continues, this could provide an additional boost to dynamism.

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