Retail sales – Modest rebound in December despite some tailwinds

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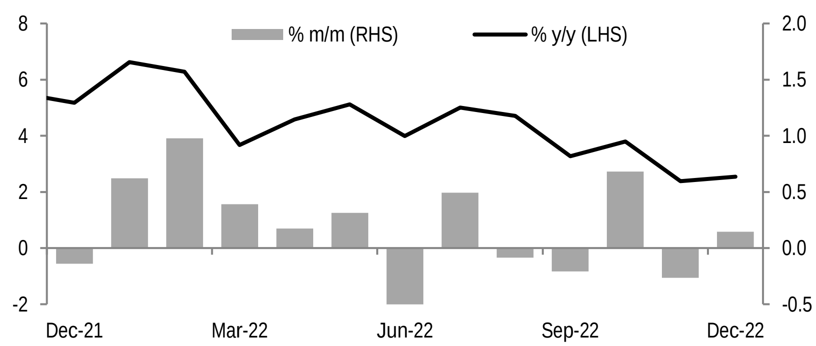
- **Retail sales (December): 2.5% y/y; Banorte: 3.7%; consensus: 3.2% (range: 1.8% to 4.9%); previous: 2.4%**
- **Retail sales increased 0.1% m/m, not enough to offset November's losses (-0.3%) and quite modest considering stronger fundamentals, as well as some stability in prices**
- **Inside, performance was mixed, with relevant improvements in glass and hardware (5.7%) and internet sales (3.6%). However, there were notable declines in appliances (-3.3%) and food and beverages (-1.0%)**
- **Despite today's downward surprise, we expect private consumption to remain as a relevant growth driver in 2023. Nevertheless, headwinds prevail, mainly from further price pressures and other external factors**

Mild improvement in retail sales at the end of the year. Retail sales increased 2.5% y/y, lower than consensus (3.2%) and our estimate (3.7%). As such, sales grew 4.2% in 2022. Broadly speaking, this reflected resilience in consumption, especially in a challenging inflation backdrop and other headwinds such as tighter monetary policy, economic uncertainty, and an extension of supply woes, among other factors. We believe fundamentals were key, highlighting: (1) The creation of new job positions, achieving historically low unemployment rates; (2) additional remittances' growth; (3) a constant expansion of consumer loans that allowed households to smooth consumption patterns; and (4) the continuation of direct transfers from social programs. We anticipated more strength for the month, with favorable signs from both remittances and employment, along some stability in inflation –aided by the non-core component. Nevertheless, it seems that higher uncertainty, along the impact from accumulated inflationary pressures, weighed more heavily on dynamism.

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



Source: INEGI, Banorte

Modest sequential uptick, failing to offset November's contraction. Retail sales grew 0.1% m/m, not enough to compensate for the -0.3% of the previous month. In our view, the result is weak relative to timely data, which suggested more dynamism.

As such, this contrasts with early ANTAD data (same-store sales at 1.1% y/y in real terms and total stores at 3.8%), and high levels in IMEF's non-manufacturing indicator (stable at 53.2pts). In this sense, sales have failed to consolidate a consistent upward trend through 2H22, after sustained gains from the latter part of 2021.

Five of nine categories improved, with most aided by a less challenging base. The largest increases were in glass and hardware (5.7%) and internet sales (3.6%), both rebounding after relevant losses in November. A similar thing happened with clothing at +2.7% (see table below). Meanwhile, office and leisure improved for a second consecutive month at 1.6%. To the downside, we note appliances (-3.3%) and food and beverages (-1.0%). Within vehicles and fuel (0.2%), the former rose 2.7% –consistent with AMIA figures–, but the latter fell 2.0%.

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

	% m/m			% 3m/3m
	Dec-22	Nov-22	Oct-22	Oct-Dec'22
Retail sales	0.1	-0.3	0.7	1.5
Food, beverages, and tobacco	-1.0	0.2	-0.2	-3.7
Supermarket, convenience, and departmental stores	-0.3	0.3	-0.7	1.5
Clothing and shoes	2.7	-2.2	0.3	0.3
Healthcare products	-0.2	0.7	3.4	7.3
Office, leisure, and other personal use goods	1.6	2.3	-1.2	6.3
Appliances, computers, and interior decoration	-3.3	1.8	1.0	-8.5
Glass and hardware shop	5.7	-4.2	1.4	-2.6
Motor Vehicles, auto parts, fuel and lube oil	0.2	-2.0	2.0	-2.9
Internet sales	3.6	-2.0	-1.8	-14.7

Source: INEGI

Consumption to remain as a driver of activity in 2023. Even though performance has moderated in recent months, resilience has prevailed, in our view notable considering heightened risks. Considering this, and despite of the latter, we expect consumption –and therefore, retail sales– will maintain a positive trend throughout 2023. Nevertheless, growth rates will likely moderate. As such, some of the headwinds include: (1) Persistent inflationary pressures, especially in processed foods and some services; (2) additional tightening from Banxico; and (3) and a strong MXN that may affect the purchasing power of remittances, among others. However, strength in fundamentals –including employment and credit–,the 20% increase to the minimum wage, and an extension in governmental transfer programs, should provide some support.

In the short-term, timely data has been mostly positive. ANTAD figures remained positive for a second month in a row in January, up 2.2% y/y in real terms in same-stores sales and total stores at 5.5%. On the other hand, according to AMIA, vehicle sales increased 0.2% m/m, positive considering the +10.3% seen in December. In addition, INEGI's *Timely Indicator of Economic Activity* forecasts stronger services as a whole. On fundamentals, we believe dynamism will continue, focusing on wage adjustments as the new minimum wage came into force. However, we are slightly more concerned with remittances as employment conditions among Hispanics and Mexican migrants deteriorated in the period, along with a negative seasonality at the start of the year. We believe that usual budget restrictions for households at the beginning of the year will be offset –at least partially– by all drivers mentioned above.

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