

Economic Analysis

Daily data: a long and stony recovery for consumption

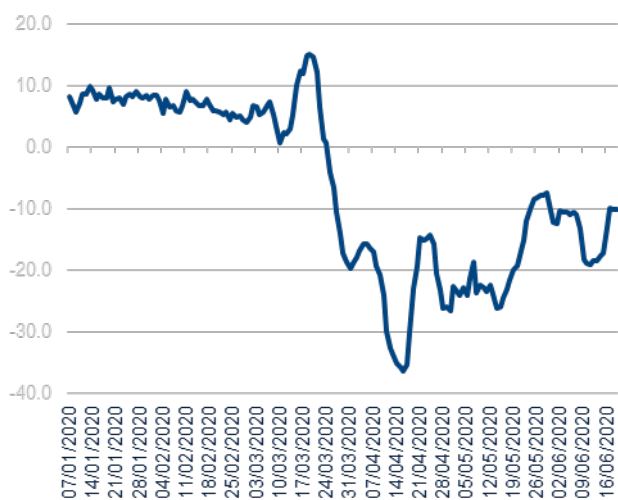
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June 24, 2020

- **BBVA Point of Sale data point to a double digit fall for consumption in 2Q20**
- **Consumption habits shift towards more food and online shopping and a halt in services, especially tourism**

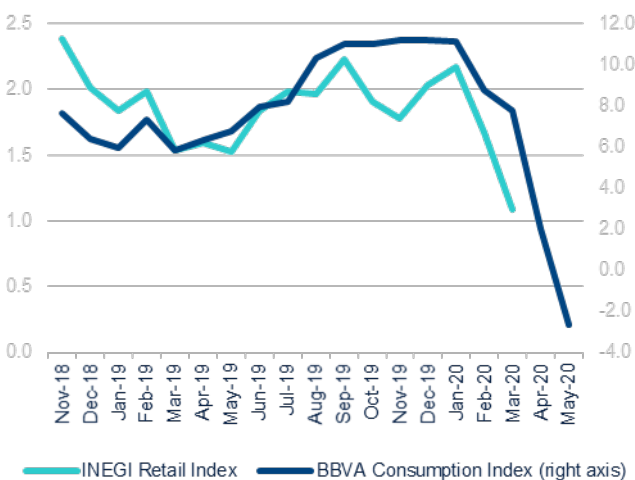
Daily data from BBVA Point of Sale (POS) transactions show consumption might have bottomed up in April but signals a painful recovery ahead. The BBVA Consumption Index, which comprises the average YoY% for total spending in BBVA POS for a seven days mobile window, reached its lower point on April 16th, when total transactions registered an annual decline of -36.3%. The Index has shown high variance ever since, recording an erratic recovery during May and June. Up to date, the 2Q20 total transactions show a fall of (-)19.4%, far away from the 4.1% registered for 1Q20, and the latest data show a non-smooth recovery in the following months. Thus, BBVA consumption data points to a double digit drop in private consumption for 2Q20 (current estimate -15.0%). As Graph 2 shows, the BBVA Consumption Index is a good leading indicator of INEGI's retail index.

Graph 1. **BBVA CONSUMPTION INDEX**
(YoY% real, moving avg. 7 days)



Source: BBVA Research

Graph 2. **INEGI RETAIL INDEX & BBVA CONSUMPTION INDEX**
(YoY% real, moving avg. 6 months)



Source: BBVA Research / INEGI

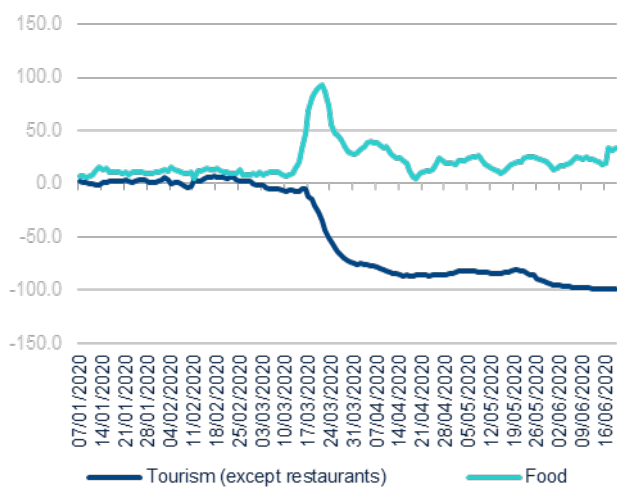
Whereas the initial precipitous decline in consumption mainly responds to the economic lockdown and social distancing measures, the economic damage to firms, especially SMEs, together with the sharp decline in formal and informal employment may represent a structural deterioration to households' income that would last longer, with effects on economic activity in the medium term. In addition, those keeping their jobs will probably increase their saving rate in the context of higher uncertainty in labor markets. Without a support net from the federal government and with a

monetary rate still above neutral stance, the course to reach pre-COVID consumptions levels will be long and stony. Mexico performance will be far from advanced economies (US retail sales rebounded 17.7% in May) and even behind other Latin American countries, given its labor market composition (56.1% informal in 1Q20) and the 41.9% of population living in poverty (52.4 mill. inhabitants). The early easing of social restrictions when the number of infection cases is still increasing might represent a temporary positive shock to goods and services consumption, although underlies the risk of accelerating the infection rate, especially in context of very low testing and tracing, which might lead to a new wave of restrictive shutdowns that would affect consumption further.

Trends: priority of food and a boom in online shopping

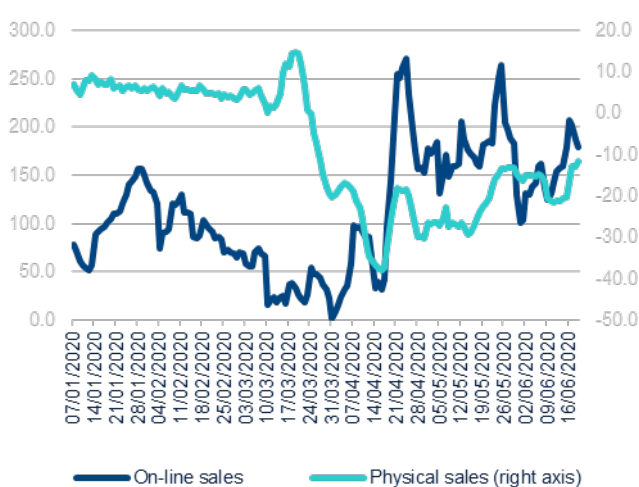
As in most economies, food consumption underwent the biggest jump in days nearby the official economic lockdown starting March 30th, while some services as those related to tourism registered the largest fall among all sectors. These panic purchases proved not sustainable for food and the YoY variation for this segment stabilized afterwards at a level 20% higher than the observed in the same period for 2019. Up to June 19th, food consumption registered a YoY variation of 33.2%. On the other side, tourism related services¹ were almost completely halted, with a steady decline since the second half of March, reaching a YoY drop of -98.7% on June 19th, and with no signal of an early recovery. Even with the ease of the social distancing measures, we anticipate that transport and other tourism related services would be the last to show improvement; it will take at least until next year and probably more for these sectors to reach their pre-crisis consumption levels.

Graph 3. **BBVA CONSUMPTION INDEX: FOOD AND TOURISM**
(YoY% real, moving avg. 7 days)



Source: BBVA Research

Graph 4. **BBVA CONSUMPTION INDEX: ON-LINE AND PHYSICAL SALES**
(YoY% real, moving avg. 7 days)



Source: BBVA Research

1: Except restaurants.

Data point to a silver lining for on-line retailers which show growing sales since the beginning of April, recording an average %153.9 YoY increase in the first nineteen days of June. The flip side has been reported by physical sales which registered a steady drop since middle March, but with signs of slow recovery since late April. The nadir was reached on April 16th, with a YoY variation of -38.0%. For the first three weeks of June, this segment had registered a -17.0% change on average vis a vis the record for the same period in 2019.

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