

# Mexico Retail Report Q3 2016

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## Abstracts

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**BMI View:** The outlook for the Mexican consumer and retail spending as a whole continues to look promising, as a result of improved employment dynamics. Following the release of historical data from the statistics office, we have upgraded our 2014 data, and this has improved the total level of household spending for our forecasts over the next five years. Rising disposable incomes will see the non-essentials segment outperform essentials spending in terms of growth rates, and this has already begun to attract investment from international players looking to capitalise on the opportunities, especially in the clothing & footwear segment. Premiumisation is key in lower growth segments such as food & drink and housing & utilities, encouraging Mexicans to trade up and spend more on higher-value products. Online retailing has been slow to take off, but with Amazon and Linio making investments in the market, it is only a matter of time before these players eat into the share of traditional retailers and department stores.

### Key Views & Developments

We expect household consumption to continue to improve, thanks to a stronger labour market (unemployment stands at 4.1%, beating the US's 5.0%), and higher wages. This will be further supported by low inflation, which will help support real purchasing power, causing spending to reach MXN5,586bn in 2016, up from MXN5,230bn in 2015.

Growing consumer acceptance and demand for online retail has the potential to radically disrupt and transform the existing business environment and retail formats. Amazon has invested heavily to expand the market and this will likely cannibalise heavily on market share from traditional retailers and department stores. This will additionally intensify competition in convenience and place

pressure on margins for retailers.

Walmex has recently unveiled plans to expand its portfolio in Mexico as it expects to see positive sales growth, supporting our view that Mexico provides a profitable investment opportunity for retailers.

We have revised down our 2016 forecast for the Mexican peso, from MXN16.20/USD to MXN17.50/USD. Increased global risk aversion given tighter global liquidity conditions and rising market fears of a disorderly slowdown in China will weigh on the peso. Coupled with a sharper-than-expected drop in oil prices - which will cool export growth and undermine investor sentiment toward the oil producing economy - this underpins our view that the peso will be vulnerable to sharp sell-offs in the months ahead.

Banco de Mexico (the Mexican reserve bank) raised interest rates in December 2015 following the FED increase, and further hikes can be expected throughout the year. However, the weak external environment and low inflation will keep interest expansion subdued and will remain offset by the growing economic competitiveness internationally of the Mexican economy, which will fuel strong household income growth.

## Contents

BMI Industry View

SWOT

Industry Forecast

Headline Retail Forecast

Table: Total Household Spending (Mexico 2013-2020)

Table: Retail Sector Spending,% Of Total (Mexico 2013-2020)

Table: Retail Sector Spending,% of GDP (Mexico 2013-2020)

Table: Headline Retail Sector Spending (Mexico 2013-2020)

Retail Sector Forecast

Food, Drink & Tobacco

Table: Food, Drink & Tobacco Spending (Mexico 2013-2020)

Clothing & Footwear

Table: Clothing & Footwear Spending (Mexico 2013-2020)

Household Goods

Table: Household Goods Spending (Mexico 2013-2020)

Personal Care & Effects

Table: Personal Care Spending (Mexico 2013-2020)

Household Numbers And Income Forecast

Table: Household Income Data (Mexico 2013-2020)

Table: Labour Market Data (Mexico 2013-2020)

Demographic Forecast

Table: Total Population (Mexico 2013-2020)

Table: Population: Babies (Mexico 2013-2020)

Table: Population: Young Children (Mexico 2013-2020)

Table: Population: Children (Mexico 2013-2020)

Table: Population: Young Teens and Older Children (Mexico 2013-2020)

Table: Population: Young People (Mexico 2013-2020)

Table: Population: Older Teenagers (Mexico 2013-2020)

Table: Population: 21yrs + (Mexico 2013-2020)

Table: Population: Young Adults (Mexico 2013-2020)

Table: Population: Middle Aged (Mexico 2013-2020)

Table: Population: Urban (Mexico 2013-2020)

Industry Risk/Reward Index

Latin America And The Caribbean Risk/Reward Index

Table: Latin America And The Caribbean Retail Risk/Reward Index, Q316

Mexico Risk/Reward Index

Rewards

Risks

Market Overview

Competitive Landscape

Clothing & Footwear

Table: Selected Clothing And Footwear Retailers

Household Goods

Table: Selected Household Goods Retailers

Electronics

Table: Selected Electronics Retailers

Department Stores

Table: Selected Department Stores

E-commerce

Table: Selected E-commerce Retailers

Pharmacies And Drug Stores

Table: Selected Pharmacies and Drug Stores

Glossary

Methodology

Industry Forecast Methodology

Sources

Risk/Reward Index Methodology

Table: Retail Risk/Reward Index Indicators

Table: Weighting Of Indicators

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