

Consumer confidence – Strengthening further as the economy kept advancing

- Consumer confidence (October, sa): 37.6pts; Banorte: 36.3pts; previous: 36.3pts
- Confidence advanced 1.4pts relative to September, remaining strong despite a more difficult base effect. Nevertheless, there is still some way to a full recovery from the hit stemming from the pandemic, although closer to its 5-year average at 38.5pts
- By sectors, the largest increase centered on households' conditions, both current (+2.3pts) and expectations (+1.7pts), possibly reflecting the gradual improvement in employment conditions
- Meanwhile, indicators for the country were more modest, with current conditions up 1.1pts and expectations higher by 0.9pts. The purchasing power component remains as the main laggard, in our view still affected by recent price increases, particularly in food items
- We maintain our view that confidence will keep recovering despite some lingering risks for the rest of the year and into 2021

Consumer confidence strengthens further in October. According to the report, confidence rose by 1.4pts relative to the previous month, reaching 37.6pts (sa). This came in above our forecast of a more modest increase. In this sense, the result was positive as the pace of the pickup remained elevated despite a more challenging base effect. We also note that confidence remains quite low relative to the levels observed before the pandemic hit, although its recent increase has brought it back closer to its 5-year average, at 38.5pts. In our view, short-term dynamics have been more closely related to the economy, especially employment gains in recent months, which in turn have been helped by the reopening and higher mobility levels.

Advances concentrated in households. As seen in September, all five categories improved. Nevertheless, these advances were concentrated in those regarding households. The strongest was in current conditions (+2.3pts), followed closely by expectations (1.7pts), with the latter being the highest in absolute terms. Specifically, the former may be responding more clearly to better employment conditions, with both [formal and informal jobs gaining recently](#). In our view, the latter is likely still influenced by hopes that the pandemic will end next year, despite some negative news in the last weeks regarding new cases and hospitalization rates. Regarding country conditions, it is our take that the more modest increase may be related to some negative short-term news, such as Hurricanes in the Gulf of Mexico and railway blockades in some states disrupting economic activity. We also do not rule out some brief impact due to uncertainty about the US election. In this context, current conditions rose 1.1pts while expectations advanced 0.9pts, with both components at lower levels than those measuring households. On the contrary, we believe these may have been helped by the recent decision of the Supreme Court to approve consultations for the trial of political actors of the past.

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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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Lastly, the purchasing power component still faces relevant headwinds, increasing only 0.9pts to 17.3pts. In our view, this may be affected by the recent [uptick in inflation](#), along job gains since the reopening that have been mostly concentrated in the low parts of the wage distribution. To the latter, we add that high uncertainty and more adverse conditions in [consumer credit, falling strongly in recent months](#).

Consumer confidence

Indicator, sa	Oct-20	Sep-20	Difference
Headline index	37.6	36.3	1.4
Households'			
Current conditions	41.0	38.7	2.3
Expectations	53.6	52.0	1.7
National			
Current conditions	30.2	29.1	1.1
Expectations	45.2	44.3	0.9
Purchasing power	17.3	16.4	0.9

Source: INEGI

Consumer confidence

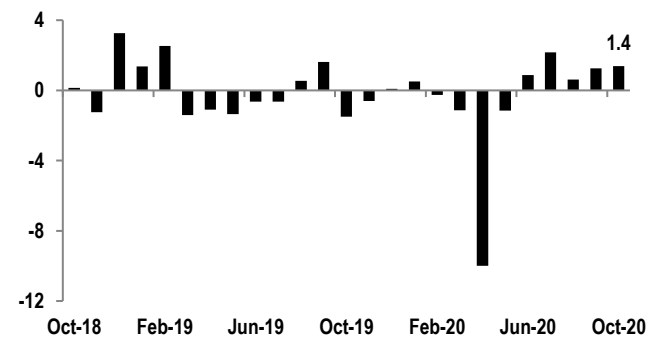
Indicator, sa



Source: INEGI

Consumer confidence

Monthly change in pts, sa



Source: INEGI

We still see confidence recovering in coming months, albeit with some lingering risks. Today's print was highly favorable given the backdrop in which epidemiological conditions started to show signs of deteriorating. In this sense, we believe these constitute a relevant risk going into the final stretch of the year, as global and domestic daily cases seem to be accelerating and as we enter fully into the winter season, which can increase contagion rates. Despite of this and as mentioned above, we believe that economic dynamics have been a more significant driver of confidence lately. In this sense, the Minister of Finance, Arturo Herrera, has said clearly that Mexico will not return to strict lockdowns as in April and May, as he warned that these have a very sizable impact in the informal sector. Therefore, we believe that the recovery will continue in coming quarters, albeit at a more modest pace than observed in the last months.

Apart from the evolution of the pandemic, we also flag other risks for confidence going forward. Among, them, we highlight the possibility of political tensions domestically ahead of the 2021 mid-term elections. Moreover, results so far in the US election point to the possibility that fiscal stimulus next year is less than previously anticipated given a possible gridlock between the White House and Congress. In our view, this may be very relevant as the rebound in economic activity has been led by the manufacturing sector, which has benefitted from US external demand.

In consequence, domestic employment in this sector has been improving, also helping activity in other local activities. Lastly, uncertainty about the eventual availability of a treatment and/or vaccine remains high, which in our view will remain as an important limit to the upside until we have more visibility in this front. Regarding fundamentals, the hit already accumulated will take more time to sort out, also dampening the recovery.

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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldivar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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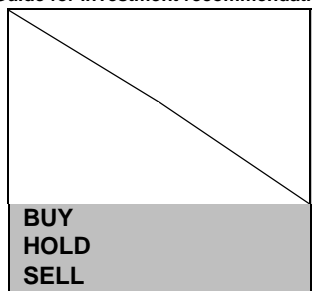
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