

## Consumer confidence – Broad improvement in March on better virus dynamics

- Consumer confidence (March, sa): 40.4pts; Banorte: 38.9pts; previous: 38.8pts
- Confidence was better relative to the previous month, reaching its highest since March 2020. In our view, several factors influenced the print, including: (1) An improvement on virus dynamics and the vaccination process; (2) a boost to income due to social program payments and possibly higher remittances; and (3) fading out of the effect from cold weather disruptions
- By components, all of them were higher, highlighting the 1.9pts gain in households' current conditions, while expectations for them and the country were up by 1.6pts in each case
- Meanwhile, the purchasing power sub-index keeps lagging, up only by 1.3pts, as higher inflation may have limited a stronger performance
- We expect confidence to keep improving, driven by the recovery in activity and employment. Nevertheless, we do not rule out distortions in coming months given electoral campaigns and other short-term risks

**Consumer confidence improves in March.** According to the report, confidence came in at 40.4pts (sa), stronger relative to our 38.9pts forecast. This implies a 1.6pts expansion relative to revised figures from the previous month and stands at its highest since March 2020, just when the pandemic started. We identified several factors that may have influenced confidence positively. However, in our view the most important one was the improvement in conditions surrounding the pandemic, with no state in 'red' according to the traffic light indicator thorough the month. In addition, the vaccination process gained momentum, with an average of 174 thousand shots per day administered.

**All components were higher relative to February...** Among them, the highest increase was observed in households' current conditions, up 1.9pts. Apart from virus dynamics mentioned above, it is our take that this component may have benefitted from the early payment of social program benefits –e.g. to the elderly, scholarships to young people, "Sowing Life", etc. According to president López-Obrador, these were made in March for those corresponding to March-April and May-June due to the start of the electoral season, for a total amount disbursed of around \$200 billion (US\$9.9 billion at the current FX level). Around 19.1 million people were beneficiaries of this measure. In our view, this may have also supported the increase in purchasing power (see section below). On the other hand, expectations (both for households and the country), and current national conditions, picked up by 1.6pts each. In our view, some factors that may have helped further are: (1) The relative normalization of activity after energy disruptions in February; and (2) a likely boost from higher remittances flows after new fiscal stimulus was approved in the US, with the possibility of spillover effects to the Mexican economy.

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**...albeit with purchasing power lagging.** Specifically, this component increased by 1.3pts but remains as the lowest in absolute terms, at 21.2pts. Although positive, we believe it may have been limited by [recent price pressures](#) in basic items such as corn tortillas, LP gas and gasolines, among others. Another possible headwind may have been temporary exchange rate weakness, adjusting towards 21.50 per dollar in the interbank market at the beginning of the month.

#### Consumer confidence

Index, seasonally adjusted

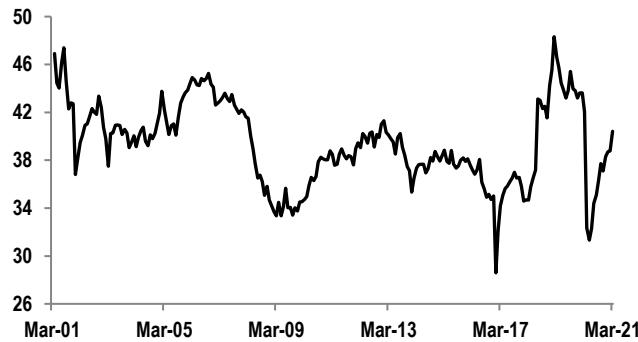
	Mar-21	Feb-21	Difference
<b>Headline index</b>	40.4	38.8	1.6
<b>Households'</b>			
Current conditions	43.0	41.1	1.9
Expectations	55.3	53.6	1.6
<b>National</b>			
Current conditions	33.2	31.6	1.6
Expectations	48.3	46.8	1.6
<b>Purchasing power</b>	21.2	19.8	1.3

Note: Differences might not coincide due to the number of decimals allowed in the table

Source: INEGI

#### Consumer confidence

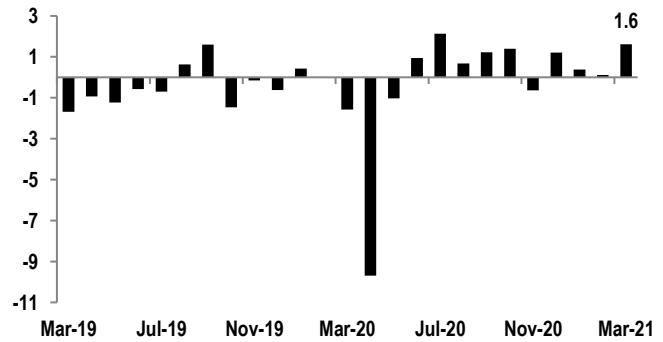
Indicator, sa



Source: INEGI

#### Consumer confidence

Monthly change in pts, sa



Source: INEGI

**We expect confidence to trend-up gradually in coming months.** Although we are barely in the first days of April, the outlook seems more favorable relative to 1Q21. For example, epidemiological conditions are showing an additional improvement, with 7 states in ‘green’, 18 in ‘yellow’ and 7 in ‘orange’. Nevertheless, we will look closely into the dynamics of new cases in the next 2-3 weeks, with the possibility of a new uptick due to the *Easter* holiday. This is based on the opinion of several experts and reports of better-than-expected results for tourism in the period, which could accelerate contagions. On a more positive note, the pace of vaccinations has accelerated in the last few days, with the 7-day average surpassing 300 thousand shots. Part of this is explained by doses delivered by the US government of the AstraZeneca vaccines after a deal on migration issues was reached between both countries. Nevertheless, some of the doses by other laboratories are being packaged domestically, which may also help move the process along.

In other fronts, we expect activity in the US to gather steam with more resources disbursed in the month as part of the last fiscal stimulus. The effect could come from two channels: (1) Higher demand for Mexican goods, mainly related to the manufacturing sector; and (2) an improvement in employment conditions in that country, supporting migrants and the flow of remittances.

On inflation, we should remember that the annual comparison will be influenced by a negative base effect. In this context, we believe the sequential performance will be key to evaluate its possible impact on confidence, especially on relevant categories such as food –mainly essential products– and energy. On the latter, we highlight that subsidies on gasoline excise taxes has decreased in the last few weeks, which could be signaling a better outlook, at least in the very short-term.

Regarding the electoral process, part of the distortions may have already started given that social programs' payments were brought forward. However, with campaigns starting on April 4<sup>th</sup> in most states, we expect their impact to have a more direct effect on consumers' opinion. We should remember that elections for the Lower House at a Federal level, along 15 governorships, and a plethora of other positions, will be up for grabs.

All in all, we think the overall trend for confidence in coming months should be to the upside, supported by an improvement in economic activity and employment. Nevertheless, we do not rule out some volatility given short-term risks and a possible bias from the electoral season, which will end on June 6<sup>th</sup>.

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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, 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 Thalia 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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