

Consumer confidence – Extending higher in May on a more favorable outlook

- Consumer confidence (May, sa): 42.7pts; Banorte: 42.7pts; previous: 42.4pts
- Confidence picked up for a third consecutive month, closer but still below pre-pandemic levels. Overall conditions kept improving, helped by: (1) COVID-19 dynamics and the acceleration of the vaccination program; (2) a stronger domestic economy; and (3) substantial support from remittances' inflows
- Nevertheless, not all components were stronger, highlighting the decline in current households' conditions (-0.3pts) and purchasing power (-1.7pts). This could be related to recent inflation pressures that have led to higher prices in some basic goods within food items
- We believe confidence levels will keep rising in the short term, with a mostly favorable outlook. Nevertheless, some risks remain, including those around industrial activity and broad inflation dynamics

Consumer confidence inched higher in May. Confidence stood at 42.7pts (sa), in line with our estimate. This was 0.3pts higher than in April and its third consecutive uptick (considering revisions to past data). With this, the indicator is just 0.9pts below its level in February 2020, just before the pandemic, after it dropped up to 12.4pts. In our view, overall conditions kept getting better, with positive developments in some fronts, including: (1) COVID-19 dynamics and the acceleration of the vaccination program; (2) a stronger domestic economy, supporting [the recovery of employment](#); and (3) substantial support from [remittances' inflows](#), with new highs in the last two months.

Strong increase in current country conditions. This subcomponent increased the most (+1.4pts), possibly influenced by the first factor mentioned above. In this backdrop, the 'traffic light' indicator reached its best levels during the period since it was introduced, allowing for a broader reopening of activities. Moreover, the vaccination process gathered speed, with close to 400k doses administered daily by the end of the sample period. Nevertheless, by the end of the month they accelerated further, reaching about 600 thousand. Other categories up included those regarding expectations, both for households (+1.1pts) and the country (+0.7pts). We believe these could be responding more to the recovery in activity and employment gains, favoring expectations of more stability going forward.

Households' current conditions and purchasing power lower. These fell by 0.3pts and 1.7pts, respectively, with the second one being the weakest among all components. Specifically, we think that a key driver behind this has been recent inflation pressures, which seem to have concentrated in food items during the period. Among them we highlight corn tortillas, increasing 8% year-to-date (until the 1st half of May). This has been coupled with higher prices from other important staples (fruits and vegetables, chicken and eggs) which in our view have the most sizable impact in terms of the population's perception about inflation.

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Nevertheless, one factor that could have helped moderate these declines could be the strong performance of remittances so far in the year, likely helping lower-income households the most.

Consumer confidence
Index, seasonally adjusted

	May-21	Apr-21	Difference
Headline index	42.7	42.4	0.3
Households'			
Current conditions	45.3	45.6	-0.3
Expectations	57.7	56.5	1.1
National			
Current conditions	36.9	35.5	1.4
Expectations	51.5	50.7	0.7
Purchasing power	22.4	24.0	-1.7

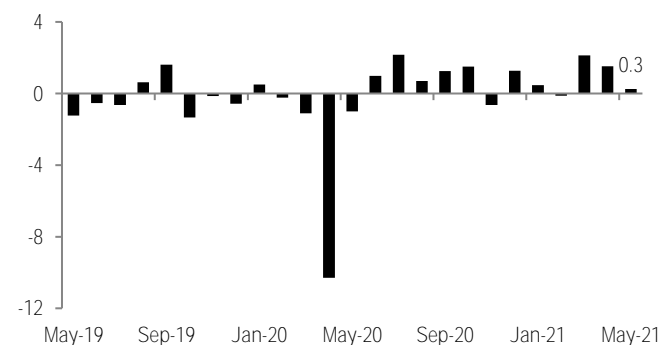
Note: Differences might not coincide due to the number of decimals allowed in the table
Source: INEGI

Consumer confidence
Indicator, sa



Source: INEGI

Consumer confidence
Monthly change in pts, sa



Source: INEGI

We expect confidence to keep climbing in coming months. We believe the indicator will keep trending upwards gradually, albeit recognizing that the room for additional increases has fallen given accumulated gains. Specifically, we expect the main driver for dynamism to still be virus dynamics and progress on vaccinations. Regarding the latter, the Federal Government has mentioned that they are working on increasing capacity to inoculate people, aiming to reach about 1 million doses applied daily. The latest data suggest that there has already been work done in this front, with a new high reported yesterday of 816.4 thousand doses. This could have a favorable impact via two main channels: (1) A broader reopening of activities, favoring additional job creation; and (2) less uncertainty among consumers, favoring an acceleration in spending.

Despite of this, we acknowledge some risks that could add volatility or even lead to pullbacks. Among them, we highlight those industry is facing –especially manufacturing– given a series of supply chain issues. Importantly, we keep monitoring droughts in our country, as they may be exacerbated by climate change. In this respect, we do not rule out that the upcoming hurricane season could result in even greater distortions than those seen in 2020.

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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, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, 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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