

Consumer confidence virtually at its highest on record

- **Consumer confidence (February; nsa): 116.8pts; Banorte: 112.1; consensus: 111.8 (range of estimates: 108.3 to 116.0) ; previous: 111.9**
- **In the year-over-year comparison, confidence increased 42.4%, accelerating relative to the previous month and with the index at its highest since August 2001 and second highest ever**
- **Similar to recent months, this increase is mainly driven by surging expectations about national conditions, in our view are related to strong optimism in the political front**
- **In seasonally adjusted terms, consumer sentiment picked up 5.9% m/m, also stronger than in January, driven by the national current conditions sub-index**
- **We expect consumer confidence to stay high in coming months, supported by optimism in the political front and in spite of the expectation of more modest economic growth**

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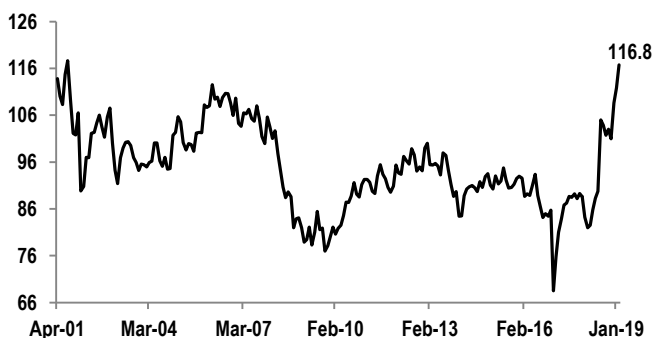
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Consumer confidence keeps making new highs in February. According to Banxico and INEGI's report, consumer confidence surged for a third consecutive month to reach 116.8pts in February, above our 112.1pts forecast and consensus at 111.8pts. This implies a 42.4% yoy expansion, accelerating relative to the previous month at 32.8% and its highest pace of growth in the history of this indicator. In our view, this is mostly explained by the strong optimism observed in the political front, particularly since last July after the presidential election. In this respect, we noted that according to the poll by *Consulta Mitofsky* (compiled at the end of the month), President Lopez-Obrador's popularity kept climbing, with his approval going from 66.0% in January to 67.1%. On an annual basis, respondents considered that the country's economic and political conditions have improved meaningfully, with both at their highest since at least the two last administrations. We believe that this is reflected mainly in the national expectation sub-index which stood at 131.1pts (74.9% yoy), also an historical high since the survey is compiled. The rest of the components were also strong, with all of them growing at a double-digit pace, as shown in the table below.

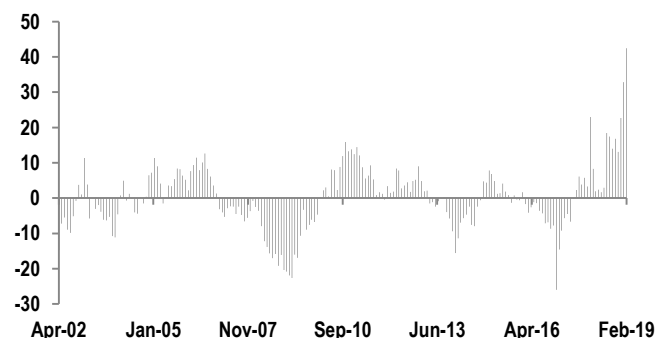
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Consumer confidence
index, nsa



Source: INEGI

Consumer confidence
% yoy, nsa



Source: INEGI

Consumer confidence: February 2019

nsa; % yoy

	Feb-19	Feb-18	%yoy
Headline index	116.8	82.0	42.4
Household's			
Current conditions	107.6	95.2	13.0
Expectations	114.5	93.9	22.0
National			
Current conditions	117.7	72.2	63.0
Expectations	131.1	75.0	74.9
Household's purchasing power	112.9	73.6	53.4

Source: INEGI

In seasonally adjusted terms, confidence surged 5.9% m/m, growing strongly for third consecutive month. We believe this confirms that recent idiosyncratic shocks, such as delays in fuel distribution and railway blockades, did not have a significant negative impact on consumers. In this respect, we highlight that the national current conditions sub-index has increased at a double-digit pace for the last two months, when the impact of these events actually was the strongest. On the other hand, we believe that other factors also helped, such as lower inflation and exchange rate stability. In this respect, households' current and expectations sub-indices grew 2.4% and 2.5%, respectively. Lastly, the purchasing power component gathered pace (9.1%), with its strongest pace since July 2018 in the aftermath of the presidential election.

Consumer confidence: February 2019

seasonally-adjusted index; % m/m

	Feb-19	Jan-19	%m/m
Headline index	119.9	113.2	5.9
Household's			
Current conditions	108.6	106.0	2.4
Expectations	115.0	112.2	2.5
National			
Current conditions	121.1	108.5	11.6
Expectations	134.0	128.7	4.1
Household's purchasing power	118.9	109.0	9.1

Source: INEGI

Consumer confidence will stay elevated in spite of the expectation of more modest economic growth. In our view, strength in this indicator is related to a great extent to the high optimism about the new federal administration, with an increasingly stronger influence of politics since July, when the index started climbing higher. The latter has been more than enough to compensate for some signs of moderation in activity, such as the increase in the unemployment rate, more modest pace of formal job creation and relative slowdown in manufacturing activity at the end of last year, among others. A clear example of this is that confidence reached new highs again despite the likely negative impact on growth of recent idiosyncratic shocks. Therefore, we anticipate confidence to stay elevated in coming months, possibly tracking with higher correlation presidential approval ratings and increasingly diverging from hard data on consumption trends (barring a significant shock on consumers). With respect to the latter, we still expect private consumption to be the main growth driver of the Mexican economy, although much less than what would be suggested by the pickup in confidence levels.

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