

Confidence indicators – A mixed bag

March 6, 2017

- **Consumer confidence (February): 75.7 points; Banorte-Ixe: 70.4; consensus: 68.6 (range of estimates: 60 to 73 points); previous: 68.5 points**
- **Consumer confidence posted a 14.6% yoy contraction...**
- **However, in seasonally adjusted terms, consumer confidence increased 11.1% m/m**
- **We believe that February's expansion in consumer confidence was explained by the following factors:**
 - (1) **The appreciation of the Mexican currency; and**
 - (2) **The Federal Government's decision to maintain gasoline prices**
- **In addition, consumer expectations regarding the country's present and future economic outlook increased 14.2% and 15.4% m/m, respectively**
- **Business confidence reached a new record low for both commerce and construction**
- **We believe that confidence will maintain a downward trend**

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Consumer confidence increased 11.1% m/m in February. According to Banxico and *INEGI's* report, consumer confidence stood at 75.7 points in February, above our 70.4 points forecast (consensus: 68.6 points). This implies a 14.6% yoy contraction. However, in seasonally adjusted terms, consumer confidence posted a 11.1% m/m expansion.

Taking a look at the breakdown, consumers' expectations regarding the country's present and future economic outlook increased by 14.2% and 15.4% m/m, respectively. In addition, expectations regarding the household present and future economic outlook expanded 5.9% and 9.3%, respectively. Moreover, the purchasing power component posted an 18.9% m/m expansion, as a result of the upward trend in inflation (refer to the table on the next page).

We believe that the 11.1% m/m contraction in consumer confidence was explained by the following factors: (1) The 4.2% appreciation of the Mexican currency during the first three weeks of February; and (2) The Federal Government's decision to maintain the gasoline prices observed in January, despite the increase in the international reference.

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Consumer confidence: February 2017

Seasonally-adjusted index

	Feb-17	Jan-17	% m/m
Headline index	78.8	70.9	11.1
Household's			
Current conditions	92.3	87.2	5.9
Expectations	87.4	80.0	9.3
National			
Current conditions	70.1	61.4	14.2
Expectations	66.1	57.3	15.4
Household's purchasing power	73.2	61.6	18.9

Source: INEGI

Business confidence in the manufacturing sector reached new low since 2009. Analyzing *INEGI's* nsa figures (given that business confidence is not seasonally adjusted for most sectors), the business confidence index for the manufacturing sector in February stood at 42.5 points, its lowest level since August 2009. As a result, the index fell 10.5% yoy, given the contraction in the country's current and future economic conditions. In addition, the sub-index that measures the right time to invest posted a 15.3% contraction (refer to the table below).

Business confidence survey: Manufacturing

nsa

	Feb-17	Feb-16	% yoy
Business confidence	42.5	42.7	-10.5
Firms			
Current conditions	48.5	49.7	-7.7
Expectations	53.2	53.6	-7.4
Country			
Current conditions	37.0	36.1	-13.1
Expectations	43.7	41.5	-11.1
Right time to invest	30.3	32.3	-15.3

Source: INEGI

Confidence reached remains in record lows for commerce and construction. In the first case, the headline index fell to 40.7 points, a new record low. February's figure implies a 12% yoy contraction, driven by the fall in the country's current economic conditions, as well as the right time to invest sub-index. For construction, the overall index stood at 39.4 points, also a new record low. We highlight the 44.5% yoy contraction in the right time to invest sub-index, and the 27.6% fall in the country's current economic conditions (refer to the tables below).

Business confidence survey: Commerce

nsa			
Commerce	Feb-17	Feb-16	% yoy
Business confidence	40.7	42.5	-12.0
Firms			
Current conditions	51.5	52.9	-1.3
Expectations	58.5	58.3	-8.4
Country			
Current conditions	30.5	34.0	-18.2
Expectations	44.8	48.5	-17.3
Right time to invest	18.3	18.6	-23.7

Source: Banxico's monthly survey of economic expectations

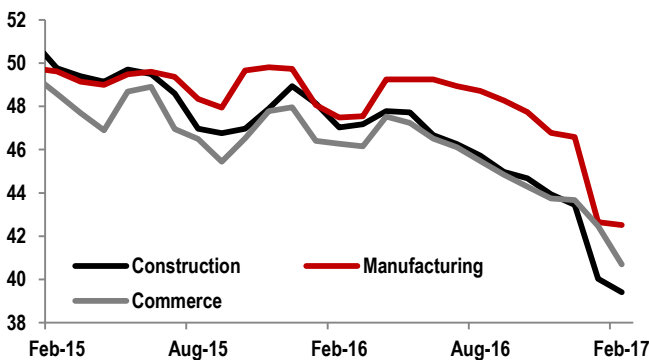
Business confidence survey: Construction

nsa			
Construction	Feb-17	Feb-16	% yoy
Business confidence	39.4	40.0	-16.2
Firms			
Current conditions	46.1	46.8	-5.2
Expectations	58.4	59.8	-9.9
Country			
Current conditions	27.9	28.2	-27.6
Expectations	48.8	48.9	-10.7
Right time to invest	15.8	16.5	-44.5

Source: Banxico's monthly survey of economic expectations

Business confidence

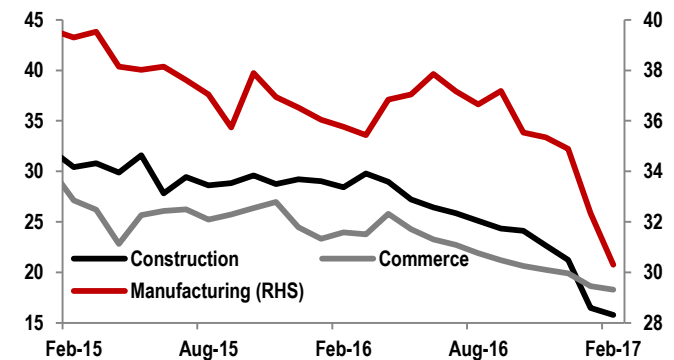
Index, nsa



Source: Banorte Ixe with data from INEGI

Business confidence: Adequate time for investing

Index, nsa



Source: Banorte-Ixe with data from INEGI

We believe that confidence indicators will maintain a downward trend. We believe that consumer and business confidence will maintain a downward trend during the next months as a result of: (1) Lower private consumption and private investment, as a result of the deceleration of the Mexican economy; (2) lower investment given the uncertainty surrounding the impact Trump's economic policies on the Mexican economy, particularly through our trade relationship with the US; and (3) higher inflation stemming from the significant depreciation of the Mexican currency and the liberalization of gasoline prices.

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