

Consumer confidence plunges on households' increased cautiousness

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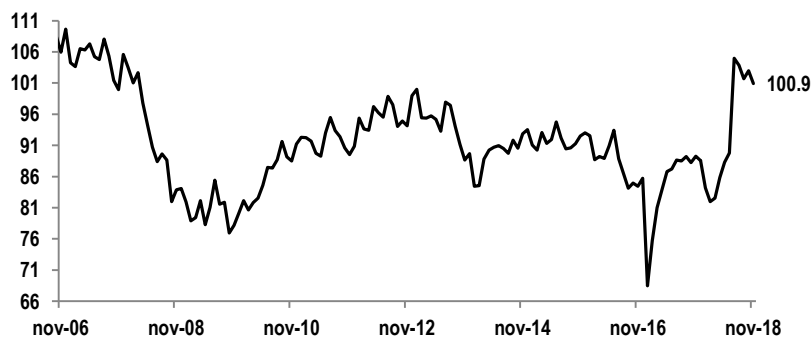
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- **Consumer confidence (November; nsa): 100.9pts; Banorte: 101.3; consensus: 101.3 (range of estimates: 97.4 to 104.0) ; previous: 103.0**
- **In the year-over-year comparison, confidence increased 13.1%, a more moderate expansion with respect to the 16.7% growth rate in October**
- **In seasonally adjusted terms, consumer sentiment plunged 1.6% m/m as a result of the 2.6% and 1.9% contractions in households' purchasing power and expectations, respectively**
- **In our view, the decline is related to the dilution of optimism about the electoral process, higher food inflation and pressures on the exchange rate**
- **Going forward, we believe that consumer confidence will keep declining as a result of a weaker Mexican peso, higher interest rates and a possible increase in frictional unemployment**
- **Nevertheless, consumer fundamentals remain relatively strong, which could help moderate the expected rate of decline**

Consumer confidence adjusts lower after a breather in October. According to Banxico and *INEGI's* report, consumer confidence stood at 100.9pts in November, below our 101.3 forecast (consensus: 101.3 points). November's figures imply a 13.1% yoy expansion, still advancing at double-digit rates since July, after the electoral process. It is also worth noting the increase in the five components that make up the headline in the annual comparison, albeit with the rate of expansion consistently moderating since August. In this respect and in spite of the 41.5% increase in the national expectations sub index, it stands considerably below the 53.8% expansion in July, when it reached a historical high. In our view, this is related to the dilution of optimism about the electoral process, coupled with pressures on the exchange rate during the month that are typically associated by consumers with a more challenging economic outlook.

Consumer confidence

index, nsa



Source: INEGI

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Consumer confidence: November 2018

nsa; % yoy

	Nov-18	Nov-17	%yoy
Headline index	100.9	89.3	13.1
Household's			
Current conditions	101.8	98.6	3.3
Expectations	106.1	98.8	7.5
National			
Current conditions	89.0	79.6	11.9
Expectations	110.7	78.3	41.5
Household's purchasing power	96.9	91.2	6.2

Source: INEGI

In seasonally adjusted terms, consumer confidence plunged 1.6% m/m, resuming its downward trajectory. Taking a look at the breakdown, all components were lower, although households' sub-indices were the most impacted. In this respect, households' purchasing power decreased 2.6%, which in our view is likely related to both the Mexican peso depreciation and higher-than-expected inflation, particularly regarding food prices, which we also believe that had a negative effect in the present conditions sub-index (-0.8%). Moreover, the second-highest decline was in households' expectations, falling 1.9%.

Going to those indices that measure the country, current conditions plunged 1.7% while expectations were 0.8% lower, with the latter falling for four consecutive months. In this respect, we expect the contraction to continue on the dilution of post-electoral optimism.

Consumer confidence: November 2018

seasonally-adjusted index; % m/m

	Nov-18	Oct-18	%m/m
Headline index	99.6	101.1	-1.6
Household's			
Current conditions	101.6	102.4	-0.8
Expectations	105.4	107.4	-1.9
National			
Current conditions	87.8	89.3	-1.7
Expectations	110.1	110.9	-0.8
Household's purchasing power	93.2	95.7	-2.6

Source: INEGI

Consumer confidence is likely to keep falling despite remaining at high levels relative to historical norms. In our view, recent market volatility associated with both local and external factors, higher interest rates in Mexico, and the possibility of higher unemployment in coming months are likely to take its toll on confidence levels. In particular, we expect the latter as a result of frictional unemployment due to changes in the Federal Administration, which could be exacerbated by salaries' reductions of public servants. In spite of the latter, overall consumer fundamentals remain relatively strong, which could help moderate the expected rate of decline.

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