

Consumer confidence climbed further in January

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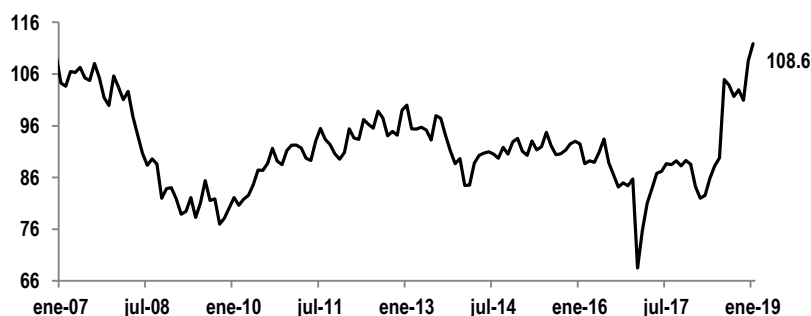
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- **Consumer confidence (January; nsa): 111.9pts; Banorte: 104.1; consensus: 104.4 (range of estimates: 100.4 to 110.0) ; previous: 108.6**
- **In the year-over-year comparison, confidence increased 32.8%, with the index at its highest in more than twelve years due to a strong expansion in all components**
- **In seasonally adjusted terms, consumer sentiment picked up 5.1% m/m, mostly due to a strong improvement in the national current conditions component, with a slight decrease in households' expectations**
- **In our view, confidence seems to be supported by high optimism over the new federal administration and recent decisions, such as the combat against fuel theft. Moreover, lower inflation and peso appreciation could also have helped sentiment**
- **In our view, consumer confidence will remain high in spite of expectations of lower economic activity and higher unemployment**

Consumer confidence climbed further in January. According to Banxico and INEGI's report, consumer confidence picked up once again to reach 111.9pts in January, significantly above our 104.1pts forecast and consensus at 104.4pts. This implies a 32.8% yoy expansion, a new historical high. Considering the impact of last month's increase, this expansion has resulted in the index reaching a maximum not seen in little more than twelve years. In hindsight, we believe that the strong upward surprise is likely to be related to optimism regarding the new administration and policies already announced or at the start of their implementation phase (see more below). All index components were higher, especially those related to national current conditions (43.8%) and expectations (72.0%). On the other hand, the component related to households' conditions picked up more modestly, albeit both at a double-digit pace. Considering these dynamics, consumer confidence is likely to stay significantly higher than its long-term average in coming months, in spite of expectations of lower economic growth and the recent increase in unemployment, among other factors.

Consumer confidence
index, nsa



Source: INEGI

Document for distribution among public

Consumer confidence: January 2019

nsa; % yoy

	Jan-19	Jan-18	%yoy
Headline index	111.9	84.2	32.8
Household's			
Current conditions	105.7	96.0	10.0
Expectations	112.0	94.5	18.5
National			
Current conditions	108.1	75.2	43.8
Expectations	125.6	73.0	72.0
Household's purchasing power	108.0	82.4	31.1

Source: INEGI

In seasonally adjusted terms, consumer confidence surged 5.1% m/m, mostly due to the national current conditions component. Contrary to our expectations, this sub-index was strong in spite the impact of delays in fuel distribution on consumers. In this respect, it seems that this action (aiming to combat fuel theft) was net positive in spite of the inconvenience to consumers, such as long waiting lines at gasoline stations. Another factor that may have had a positive effect is appreciation of the Mexican peso during the sample period. We also highlight the increase of 5.6% in the households' purchasing power component, likely driven by recent slowdown inflation, particularly related to lower energy prices along the reduction in taxes at the Northern Border. With this, the sub-index stands at 108.0pts, highest since January 2008.

Consumer confidence: January 2019

seasonally-adjusted index; % m/m

	Jan-19	Dec-18	%m/m
Headline index	112.0	106.6	5.1
Household's			
Current conditions	105.7	103.4	2.2
Expectations	111.5	112.2	-0.6
National			
Current conditions	107.0	93.3	14.6
Expectations	127.4	125.4	1.6
Household's purchasing power	106.9	101.2	5.6

Source: INEGI

Consumer confidence is likely to stay high in coming months. Contrary to our expectation that confidence had likely reached a cycle-high, today's print suggests broader and more persistent optimism than anticipated. We now believe that confidence will stay supported as a result of policy changes by the new administration that help increase real disposable incomes for lower-income families. In this respect, we point to several initiatives already at an early stage of implementation, such as: (1) The increase in minimum wages; (2) a series of government transfer programs; (3) tax reductions at the Northern Border; and (4) new policies for determining government administered prices, particularly in energy, along subsidies to farmers in basic foods. The redistribution of income through these programs is likely to maintain confidence levels at elevated levels, compensating for the negative effect of other events (such as the delay in fuel distribution, strikes, and railway blockades in some states of the country). This seems to be having a more relevant effect in terms of business confidence, given its impact in terms of logistics and supply-chain issues. Lastly, so far the increase in unemployment does not seem to have had a meaningful negative impact, without discarding a lagged effect due to this factor.

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