

Consumer confidence falls in June on the back of inflation

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- **Consumer confidence (June): 87.2 points; Banorte-Ixe: 87.1; consensus: 88 (range of estimates: 86.5 to 89 points); previous: 86.8 points**
- **Consumer confidence posted a 6.7% yoy contraction**
- **In seasonally adjusted terms, consumer sentiment fell by 0.8% m/m**
- **We believe that June’s contraction was explained by the upward trend in inflation**
- **However, consumer confidence will continue to recover during the third quarter of the year**
- **Business confidence recovery continues amid more favorable conditions**

Marginal contraction in June’s consumer confidence. According to Banxico and INEGI’s report, consumer confidence stood at 87.2 points in June, in line with our 87.1 forecast (consensus: 88 points). This implies a 6.7% yoy contraction. In seasonally adjusted terms, consumer confidence posted a 0.8% m/m contraction.

Taking a look at the breakdown, consumers’ expectations regarding the country’s present and future economic outlook fell by 2.7% and 1.7% m/m, respectively. In addition, expectations regarding the household’s present economic conditions declined 0.3%, while expectations for the future economic outlook remained unchanged. Moreover the purchasing power component posted a significant 1.2% m/m contraction, probably as a result of the upward trend of inflation (refer to the table on the next page).

Consumer confidence: June 2017

Seasonally-adjusted index

sa	Jun-17	May-17	%m/m
Headline index	84.4	85.1	-0.8
Household’s			
Current conditions	95.2	95.4	-0.3
Expectations	95.1	95.1	0.0
National			
Current conditions	75.2	77.3	-2.7
Expectations	74.9	76.2	-1.7
Household’s purchasing power	80.5	81.4	-1.2

Source: INEGI

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We expect a marginal recovery in 3Q17. We believe that despite June's contraction, consumer sentiment will continue to recover as a result of the following factors: (1) The appreciation of the Mexican currency; and (2) the static behavior of the still regulated gasoline prices.

Business confidence recovery continues in the manufacturing sector.

Analyzing *INEGI's* nsa figures (given that business confidence is not seasonally adjusted for 2 of the 3 sectors and *INEGI* has mentioned that business sentiment does not follow a seasonal behavior), the business confidence index for the manufacturing sector in June stood at 48.8 points, above the 48.1 points seen in May. As a result, the index increased 1.5% m/m, given the expansion in the sub-index that measures the right time to invest, as well as the country's current economic conditions (refer to the table below).

Business confidence survey: Manufacturing

nsa	Jun-17	May-17	% m/m
Business confidence	48.8	48.1	1.5
Firms			
Current conditions	52.8	52.6	0.5
Expectations	58.1	57.8	0.5
Country			
Current conditions	45.3	44.4	2.2
Expectations	50.4	49.5	1.8
Right time to invest	37.5	36.3	3.4

Source: INEGI

Confidence fell marginally in construction and commerce. In the first case, the headline index dropped to 45.7 points, 0.2 points below May's figure. June's index implies a 0.4% m/m reduction, driven by the decrease in the current conditions for the firms sub-index, as well as the country's future economic conditions. For commerce, the overall index stood at 46.1 points (previous: 46.2 points), which represents a 0.3% m/m reduction. We highlight the contraction in both the country's current economic conditions as well as the right time to invest (refer to the tables on the following page).

Business confidence survey: Construction

nsa	Jun-17	May-17	% m/m
Business confidence	45.7	45.9	-0.4
Firms			
Current conditions	48.9	50.0	-2.3
Expectations	62.4	63.2	-1.2
Country			
Current conditions	38.8	37.7	2.8
Expectations	54.3	55.0	-1.3
Right time to invest	24.2	23.5	3.0

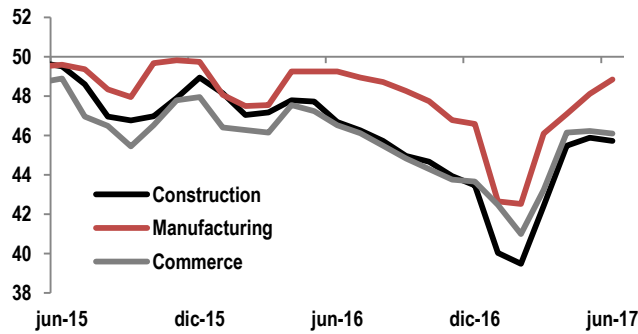
Source: Banxico's monthly survey of economic expectations

Business confidence survey: Commerce

nsa	Jun-17	May-17	% m/m
Business confidence	46.1	46.2	-0.3
Firms			
Current conditions	54.2	54.0	0.4
Expectations	63.1	63.3	-0.2
Country			
Current conditions	35.9	36.8	-2.5
Expectations	53.7	53.1	1.1
Right time to invest	23.6	23.9	-1.3

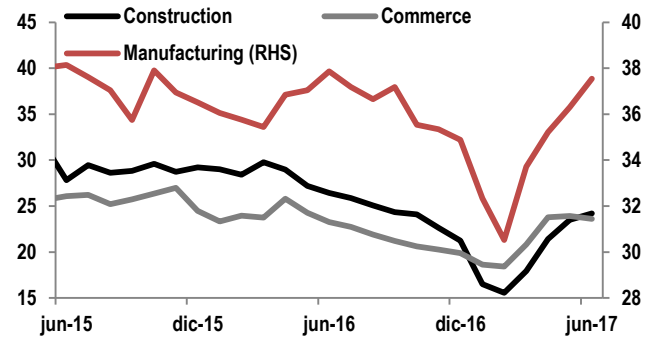
Source: Banxico's monthly survey of economic expectations

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 the recent recovery in the indices is due to more favorable conditions. Beginning with the manufacturing sector, we believe that the dynamism of manufacturing exports –as a result of greater uncertainty over US trade policy– has positively impacted the index. We also consider that the appreciation of the exchange rate in the period in question contributed to this improvement in optimism. However, looking ahead we believe that confidence will remain below the 50-points optimism threshold given the uncertain environment surrounding the Mexican economy.

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