

Higher-than-expected contraction in March's consumer confidence

April 8, 2016

- **Consumer confidence (March): 89.2 points; Banorte-Ixe: 91.9; consensus: 91.2 (range of estimates: 88 to 92 points); previous: 88.7**
- **Consumer confidence posted a 4.1% yoy contraction in March**
- **In seasonally adjusted terms, consumer confidence fell 1.8% m/m**
- **We believe that the contraction in consumer confidence was explained by the fiscal cut and the 50bps hike in Banxico's reference rate implemented in February 17, which were not fully discounted in last month's report**

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Consumer confidence decreased 4.1% yoy in March. According to Banxico's and INEGI's report, consumer confidence stood at 89.2 points in March, below our 91.9 points estimate (consensus: 91.2pts). Taking a look at the breakdown, we highlight the contraction in consumers' perspectives regarding the household's present and future economic outlook (-2.1% and -4.5% yoy, respectively), probably as a result of the lower growth in real wages (refer to the chart on the next page)

Moreover, consumers' perspectives regarding the country's current and future economic outlook fell 4.4% and 8.6%, respectively, probably as a result of the MXN\$132.3 billion fiscal cut announced by the Ministry of Finance (US\$ 7.4 billion) and 50bps hike in Banxico's reference rate in February 17. In this regard, we highlight that these fiscal and monetary policies implemented were not fully incorporated in February's consumer confidence report given that the survey is collected during the first 20 days of each month. Finally, the household's purchasing power component increased a fell 1.3% yoy, as shown in the table below.

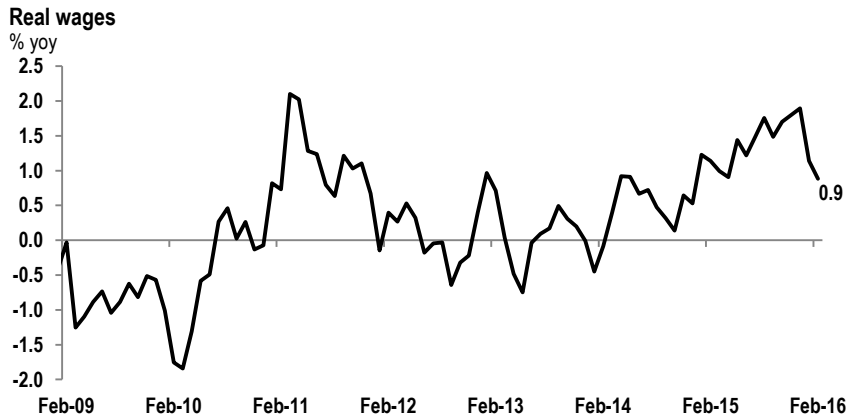
Consumer confidence: March 2016

nsa index

nsa	Mar-16	Mar-15	%yoy
Headline index	89.2	93.1	-4.1
Household's			
Current conditions	97.7	99.8	-2.1
Expectations	95.7	100.2	-4.5
National			
Current conditions	85.9	89.8	-4.4
Expectations	82.0	89.7	-8.6
Household's purchasing power	84.7	85.8	-1.3

Source: INEGI

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In seasonally adjusted terms, consumer confidence fell 1.8% m/m. Taking a look at the breakdown, consumers' perspectives regarding the household's present and future economic conditions edged-down 1.3%, respectively. Moreover, consumers' perspectives regarding the country's current and future economic outlook fell 1.5% and 3.1% m/m, respectively. Finally, the purchasing power component increased 0.7% m/m (refer to the table below).

Consumer confidence: March 2016

sa index

	Mar-16	Feb-16	%m/m
Headline index	89.6	91.3	-1.8
Household's			
Current conditions	98.0	99.3	-1.3
Expectations	95.8	97.1	-1.3
National			
Current conditions	86.1	87.4	-1.5
Expectations	81.8	84.4	-3.1
Household's purchasing power	85.6	85.0	0.7

Source: INEGI

Consumer confidence will recover in 2Q16. March's contraction was explained by the deceleration in real wages coupled with the fiscal cut, and the 50bps hike in Banxico's reference rate. However, consumer confidence could recover in the second quarter given the better growth prospects of the Mexican labor market, and the higher growth in remittances inflows, which will support Mexican households' consumption dynamics.

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