

Consumer confidence – Consumers are discounting a better economic outlook

July 8, 2016

- **Consumer confidence (June): 93.5 points; Banorte-Ixe: 92.6; consensus: 92.1 (range of estimates: 90.8 to 92.6 points); previous: 90.9**
- **Consumer confidence posted a 1.3% yoy contraction**
- **However, in seasonally adjusted terms, consumer confidence increased 0.5% m/m**
- **We believe that today’s report shows that consumers are discounting a better economic outlook...**
- **...however, looking ahead, we believe that consumer confidence will decelerate in 3Q16, given the fiscal cut announced by the Federal Government in May, and the increase in government-regulated energy prices**

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Consumer confidence increased 0.5% m/m in June. According to Banxico’s and INEGI’s report, consumer confidence stood at 93.5 points in June, above our 92.6 points forecast (consensus: 92.1pts). This implies a 1.3% yoy contraction. However, in seasonally adjusted terms, consumer confidence increased 0.5% m/m.

Taking a look at the breakdown, consumers’ expectations regarding the household and the country’s future economic outlook increased 0.1% and 1.3% m/m, respectively. Moreover, consumers’ perspectives regarding the country’s present economic conditions edged-up 1.4%, while the purchasing power component increased 3.4% m/m, given the low inflation levels observed in the past three months. By contrast, consumers’ perspectives regarding the household’s present economic conditions edged-down 0.2% m/m, as shown in the table below.

Consumer confidence: June 2016

Seasonally-adjusted index

sa	Jun-16	May-16	%m/m
Headline index	91.0	90.6	0.5
Household’s			
Current conditions	99.6	99.9	-0.2
Expectations	98.3	98.2	0.1
National			
Current conditions	86.3	85.1	1.4
Expectations	84.9	83.8	1.3
Household’s purchasing power	90.2	87.3	3.4

Source: INEGI

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We believe that consumer confidence will decelerate in 3Q16. Consumer confidence recovered during the first half of the year given the better growth prospects of the Mexican labor market, the relative low inflation levels, and the recovery of domestic demand as a result of the significant increase of consumer credit and remittances inflows.

However, we believe that consumer confidence could decelerate in the third quarter given the following factors: (1) The 2% increase in the government-regulated price of gasoline; (2) the increase in electricity tariffs; and (3) the fiscal cut announced by the Federal Government in May 24, which will translate into slower growth in the labor market, and a contraction in public investment projects.

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