Consumer confidence surges to a new high in December

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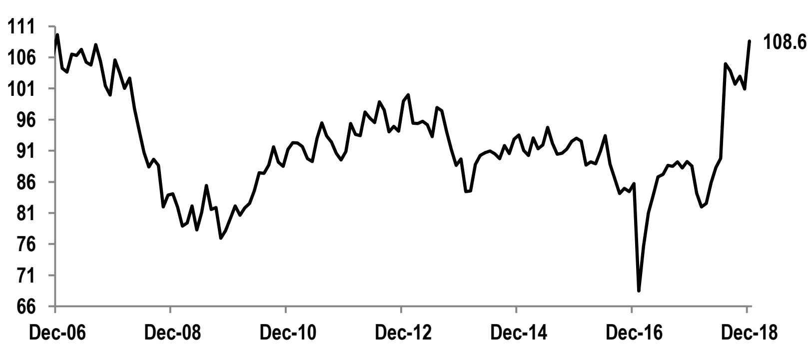
- **Consumer confidence (December; nsa): 108.6pts; Banorte: 100.4; consensus: 101.8 (range of estimates: 100.4 to 103.9) ; previous: 100.9**
- **In the year-over-year comparison, confidence increased 22.7%, with the index at its highest level in twelve years and with a strong expansion in all components**
- **In seasonally adjusted terms, consumer sentiment picked up 6.4% m/m, mostly due to an improvement in both the households' and country expectations sub-indices**
- **In our view, the strength in confidence is related to the formal start of the new federal administration and the minimum wage increase for 2019, more than compensating for recent inflationary pressures and the lower dynamism of economic activity**
- **Following this rebound, we believe that confidence will stay high but limited to the upside on the possibility of higher frictional unemployment and delays in fuel distribution**

Consumer confidence rebounded in December. According to Banxico and *INEGI's* report, consumer confidence surged to 108.6pts in December, significantly above our 100.4pts forecast and consensus at 101.8pts. This implies a 22.7% yoy expansion, even higher than the increase in the aftermath of the election in July and the second-highest in historical terms, only surpassed by January 2018 which was benefitted by a positive base effect. All index components were significantly higher, especially those related to both households' and country expectations. In particular, the former grew 17.5% and the latter 68.4%, both at new historical highs. On the other hand, the components related to current conditions increased 1.9% and 4.7%, respectively. In our view, this behavior was mostly driven by the formal beginning of the new federal administration (December 1st) and the announcement of an above-average increase in the minimum wage (December 17th).

Consumer confidence
index, nsa



Source: INEGI

Consumer confidence: December 2018
nsa; % yoy

	Dec-18	Dec-17	%yoy
Headline index	**108.6**	**88.6**	**22.7**
Household's			
Current conditions	104.6	99.2	5.5
Expectations	113.5	96.6	17.5
National			
Current conditions	93.9	78.8	19.1
Expectations	127.1	75.4	68.4
Household's purchasing power	104.1	92.8	12.2

Source: INEGI

In seasonally adjusted terms, consumer confidence surged 6.4% m/m, reversing the downtrend established since last August. Contrary to our expectations, every subcomponent was higher. Among them, we highlight the 13.4% increase in country expectations, breaking with four consecutive months on the downside as electoral optimism diluted, a trend that we believed would extend further. Nevertheless, we think that the formal beginning of the new federal administration was likely a source of strength. On the other hand, households' expectations observed the second highest advance at 6.4%.

Going to the indices that measure current conditions, households' were higher by 1.9% and the country by 4.7%. Last but not least, the purchasing power subcomponent picked up 4.5% to 98.2pts, high not seen since March 2008. It is our take that the above-average increase in minimum wage starting on January 1st, 2019, was the main supporting factor, more than compensating for recent pressures in agricultural goods' prices that have maintained non-core inflation at high levels.

Consumer confidence: December 2018
seasonally-adjusted index; % m/m

	Dec-18	Nov-18	%m/m
Headline index	105.6	99.3	6.4
Household's			
Current conditions	103.2	101.2	1.9
Expectations	112.0	105.2	6.4
National			
Current conditions	92.2	88.0	4.7
Expectations	124.9	110.1	13.4
Household's purchasing power	98.2	94.0	4.5

Source: INEGI

Consumer confidence could stay stronger than previously anticipated in coming months. Contrary to our view, the hefty rebound in confidence suggests that it could stay significantly above its long-term average for longer. Although we still expect confidence to decline in coming months, it will likely be at a more modest rate than previously anticipated. We expect electoral optimism to reestablish the downward trend observed in recent months in the country expectations component. On the other hand, current country conditions could also be impacted by recent events, highlighting a more modest rate of expansion of economic activity in 4Q18 and the delay in fuel distribution that has affected several states. Nevertheless, these could be partially compensated by recent gains in the Mexican peso.

Regarding households, we expect mixed results on the back of a plethora of factors. On the positive side, the increase in the minimum wage and a gradual decline in inflation could prompt them to make a reassessment higher in terms of their situation. Moreover, the expected start of social programs aimed at vulnerable groups (*i.e.* the elderly, youth, and those with different abilities) and the cut to value-added taxes in the Northern Border could provide support to these indices, along the one related to purchasing power. On the contrary, we still expect an increase in frictional unemployment as a result of changes in the public sector due to the implementation of austerity measures, which could limit the advance of the current conditions subcomponent.

In general terms and despite this report, it is our take that confidence has already reached its cycle high, with a high likelihood of a gradual decrease in coming months. Nevertheless, broad consumer fundamentals remain positive, which could still help confidence to stay at relatively high levels when compared to its long-term historical performance.

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