

Consumers remain optimistic despite slight dilution of electoral enthusiasm

November 6, 2018

www.banorte.com
@ analisis_fundam

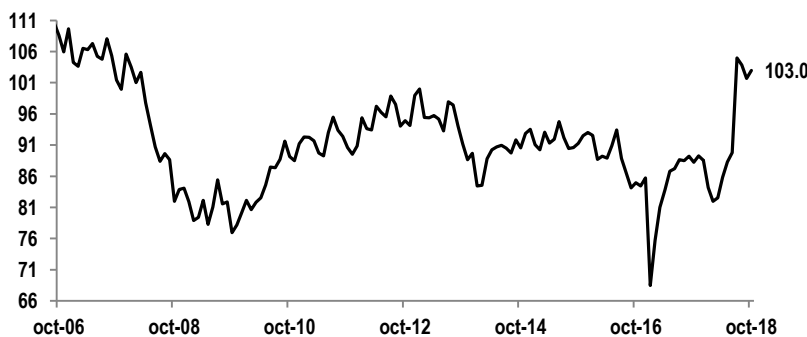
Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.macal@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

- **Consumer confidence (October; nsa): 103pts; Banorte: 100.2; consensus: 101.1; previous: 101.7**
- **In the year-over-year comparison, confidence increased 16.7%, a more dynamic expansion with respect to the 14% growth rate in September**
- **In seasonally adjusted terms, consumer sentiment posted a 1.2% m/m increase, its first advance after two months, highlighting the 3.5% pickup in the capacity to purchase durable goods**
- **In our opinion, the strength of the labor market and positive real wage revisions could continue bolstering household optimism**
- **On the other hand, country’s future expectations could keep reversing some of the electoral optimism, though still at high after surging in July**
- **In this context, elevated confidence levels suggest consumption will remain as the main growth driver of the Mexican economy**

Consumer confidence surprises to the upside. According to Banxico and INEGI’s report, consumer confidence stood at 103pts in October, above our 100.2 forecast (consensus: 101.1 points). October’s figures imply a 16.7% yoy expansion, advancing at double-digit figures since July, after the electoral process. It is also worth noting the increase in the five components that make up the headline. In this regard, the country’s expectations sub-index posted the strongest advance at 43.5%, still leading in the aftermath of the gains observed after the election. Prospects about present country conditions also remain high, expanding 13.3%. Moreover, indices that refer to present and future households’ expectations have stayed strong, increasing 5.0% and 11.0%, respectively. Finally, the capacity to purchase durable goods grew 15%, up from the 6.6% increase in September, as shown in the following table.

Consumer confidence
index, nsa



Source: INEGI

Document for distribution among public

nsa; % yoy

	Oct-18	Oct-17	%yoy
Headline index	103.0	88.2	16.7
Household's			
Current conditions	102.4	97.5	5.0
Expectations	109.0	98.1	11.0
National			
Current conditions	90.8	80.1	13.3
Expectations	113.9	79.4	43.5
Household's purchasing power	98.9	86.0	15.0

Source: INEGI

In seasonally adjusted terms, consumer confidence grew 1.2% m/m, halting two months of declines. Taking a look at the breakdown, present and future household expectations grew 1.3% and 0.7%, respectively. Moreover, consumer's perception of the country's current conditions increased 1.5%, even considering higher volatility in the USD/MXN exchange rate, which is usually associated by consumers with a more complex economic scenario. The component that refers to future expectations for the country decreased 1.1%; nevertheless, it continues at the highest absolute level among the sub-indices that make up the overall figure. In this regard, recent news in the trade and electoral fronts have supported optimism for a longer period than we expected. Last but not least, the index about the possibility of purchasing durable goods edged up 3.5% m/m (refer to the following table), leading gains during the month. We consider the increase in the latter component is supported by higher than average real wage increases, given both the recent moderation in inflation coupled with higher salary negotiations in a context of a tight labor market.

Consumer confidence: October 2018

seasonally-adjusted index; % m/m

	Oct-18	Sep-18	%m/m
Headline index	101.4	100.3	1.2
Household's			
Current conditions	102.4	101.1	1.3
Expectations	107.7	106.9	0.7
National			
Current conditions	89.5	88.2	1.5
Expectations	111.5	112.7	-1.1
Household's purchasing power	96.2	92.9	3.5

Source: INEGI

High confidence suggests that consumption will remain as the country's main growth driver. The index stood significantly above both our forecast and consensus, which we thought it would keep falling at least in part as a result of waning electoral optimism coupled with Mexican peso weakness during the period that the survey is taken. Nevertheless, consumers seem to remain highly optimistic given higher real wages and low labor market slack, so we now believe that confidence will remain at a relatively high level during the rest of the year, meaning a slower pace of reversion to the mean than anticipated before the report. In this regard, it is likely that the components focused on household's conditions and expectations will remain elevated in the short-term.

In addition, the index that measures the country's future conditions could continue with its mean reversion pattern as electoral optimism dilutes in a context

of higher uncertainty both at the external and domestic fronts, although it will stay elevated in absolute terms after surging in July. Looking ahead, we believe consumer confidence will remain above its long-term average, signaling that consumption will remain as the main growth driver of the Mexican economy, followed by the external sector, maintaining a favorable outlook given the strength of the US economy.

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer, Jorge Antonio Izquierdo Lobato and Leslie Thalía Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte Ixe and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1% of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

BUY HOLD SELL	Reference
	When the share expected performance is greater than the MEXBOL estimated performance.
	When the share expected performance is similar to the MEXBOL estimated performance.
	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 1670 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Francisco Duarte Alcocer	Analyst	francisco.duarte.alcocer@banorte.com	(55) 1670 - 2707
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454