

# Consumer confidence fell again in May

June 4, 2019

- **Consumer confidence (May; nsa): 108.1pts; Banorte: 109.7; consensus: 109.7 (range of estimates: 106.0 to 113.9) ; previous: 110.9**
- **Confidence fell for a third consecutive month but remains 22.5% higher when compared to the same period of the 2018**
- **With seasonally-adjusted figures, confidence declined 2.5% m/m, with all sub-indices lower and with the highest downward adjustment once again in the national expectations component**
- **In our view, a moderation in optimism in the political front and economic activity, higher uncertainty over trade relations with the US, and temporarily high inflation, could keep impacting confidence in coming months**

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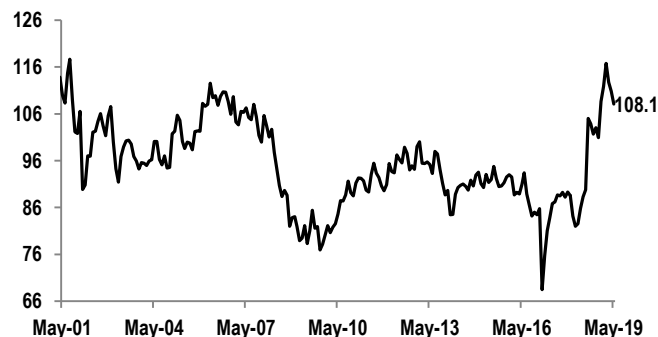
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**Consumer confidence falls again in May.** According to Banxico and INEGI's report, consumer confidence fell for a third consecutive month, standing at 108.1pts in May, below consensus at 109.7pts, coinciding with our forecast. The result is broadly consistent with the fall observed in the president's approval ratings according to some polls, a factor that we have seen as being increasingly correlated to confidence, particularly after the Presidential Election. In this respect, the survey by *El Economista* newspaper/*Consulta Mitofsky* stated that its approval fell from 64.6% in April to 60% by May 19<sup>th</sup>, practically at the end of the survey period. In our view, other factors may have helped explain part of the adjustment, including the deceleration in economic activity—as signaled by yesterday's PMI indices—, pressures in some of the most relevant components within inflation, and the modest depreciation of the peso during the month, a situation that has exacerbated in recent days.

By component, country's national expectations moderated to 113.5pts from 118.5 in the previous month, albeit 31.1% higher than in May 2018 and still the at the highest in absolute terms. Current conditions for households' showed the more modest advance at 105.8pts (+9%), while households' expectations has held up relatively stronger at 108.8pts (12.7%). Lastly, the purchasing power component is the lowest in absolute terms at 105.6pts.

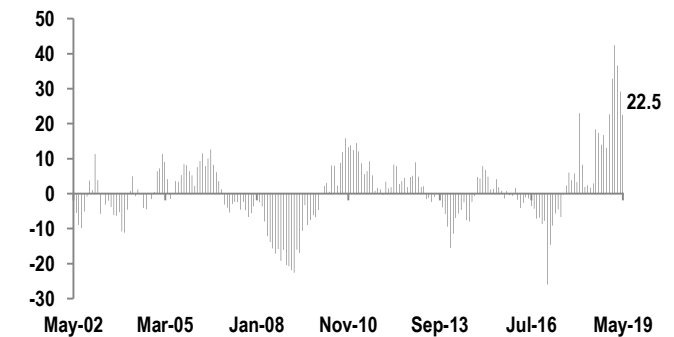
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**Consumer confidence**  
index, nsa



Source: INEGI

**Consumer confidence**  
% yoy, nsa



Source: INEGI

### Consumer confidence: May 2019

nsa; % yoy

	May-19	May-18	%yoy
<b>Headline index</b>	108.1	88.3	22.5
<b>Households'</b>			
Current conditions	105.8	97.1	9.0
Expectations	108.8	96.5	12.7
<b>National</b>			
Current conditions	106.8	80.7	32.3
Expectations	113.5	86.6	31.1
<b>Households' purchasing power</b>	105.6	80.5	31.2

Source: INEGI

**In seasonally adjusted terms, confidence fell 2.5% m/m, its third decline in a row.** It should be noted that all subcomponents declined. Recent dynamics show that the national components sub-index has been the most pressured, adjusting -4% and accumulating a 11.4% fall since last December, when it reached a historical high which coincided with the formal start of the new federal administration. In our view, this component is the most affected by political sentiment, as suggested by being the one with the strongest pickup benefitted after the Presidential Election. Moreover and broadly in line with our expectation, the purchasing power component was the second most affected in the month (-2.9%), which in our view is likely related to some temporary inflation pressures. Current households' conditions fell 1.3%, a component that in our view could keep this trend as it is further impacted by lower economic activity. As job market conditions cool off, we believe that households' expectations could exhibit similar dynamics.

### Consumer confidence: May 2019

seasonally-adjusted index; % m/m

	May-19	Apr-19	%m/m
<b>Headline index</b>	110.0	112.8	-2.5
<b>Households'</b>			
Current conditions	106.2	107.6	-1.3
Expectations	110.7	113.1	-2.1
<b>National</b>			
Current conditions	107.2	109.8	-2.4
Expectations	117.1	121.9	-4.0
<b>Households' purchasing power</b>	108.2	111.4	-2.9

Source: INEGI

**We expect consumer confidence to keep moderating.** In line with our expectations, confidence remains correlated with political sentiment as reflected by the president's approval ratings, which is likely to be the key determinant of short-term dynamics. In this respect, its path could be very volatile as it will remain influenced by specific events during the period in question. We are relatively uncertain about the possible impact that the recent escalation in trade tensions with the US –the announcement of a possible imposition of tariffs to all Mexican goods on immigration issues– could have. Although it is highly likely to increase uncertainty and impact economic activity further, the president's approval rating went from 62.5% last Thursday (when the measure was announced) to 63.7% according to the daily survey referenced above. In this respect, we will be very attentive to its potential effect, mostly on the national expectations component, which remains quite high.

We believe confidence will keep declining in coming months as other drivers tilt the scale more negatively. In this respect, we highlight pressures already accumulated in the exchange rate, going from around 19.15 to 19.60 per dollar since this news hit the wires. Last but not least, the pace of job creation keeps moderating and inflation could remain temporarily pressured, with fiscal subsidies to gasoline prices partially scaled back in recent weeks and without discarding more pressures in agricultural goods.

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