

Upward trend in inflation explains the significant contraction in consumer confidence during January

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Alejandro Cervantes
Senior Economist, Mexico
alejandro.cervantes@banorte.com

- **Consumer confidence (January): 84.2 points; Banorte: 86.9; consensus: 88.5 (range of estimates: 86 to 89.5 points); previous: 88.6 points**
- **Consumer confidence posted a 22.9% yoy expansion in January**
- **However, January's growth was simply explained by a base effect, since consumer confidence posted a significant 26% drop in Jan-17, following the liberalization of energy prices**
- **In seasonally adjusted terms, consumer sentiment posted a 3.1% m/m reduction**
- **We believe that consumer sentiment was influenced by the persistently high inflation**
- **Looking ahead, we expect a marginal contraction in consumer confidence**

Consume confidence in January fell 3.1% m/m. According to Banxico and *INEGI's* report, consumer confidence stood at 84.2 points in January, below our 86.9 forecast (consensus: 88.5 points). This implies a 22.9% yoy expansion. However, January's expansion was simply explained by a base effect, since consumer confidence posted a significant 26% drop in January 2017, following the liberalization of energy prices.

In seasonally adjusted terms, consumer confidence posted a 3.1% m/m reduction. Taking a look at the breakdown, consumers' expectations regarding the country's present and future economic conditions fell by 2.2% and 2.4% m/m. In addition, expectations regarding the household's future economic conditions posted a 1.4% m/m reduction. However consumers' perspectives regarding the households present economic conditions posted a 0.3% gain. By contrast, the purchasing power component posted a significant 1.6% m/m decline.

We believe that the deterioration in consumer confidence during January was mainly explained by the upward trend of inflation and the impact it has had on the consumption decisions of Mexican households, mainly reflected in the average contraction of 11.9% yoy posted in vehicle sales during the last 4 months (*AMIA* figures) and the fall of retail sales reflected in the reports of both *INEGI* (-0.8% during October and November) as well as the same-store sales of *ANTAD* (-2.7% yoy in real terms during the fourth quarter of 2017).

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We expect a marginal contraction in consumer confidence during 1Q18.

Consumer confidence will maintain a downward trend during the next months explained by the following factors: (1) Inflation above 5%; and (2) the volatility of the Mexican currency derived from the uncertainty surrounding the NAFTA negotiations. Going forward, it is likely that consumer confidence will also reflect the political uncertainty surrounding the electoral process that will take place on the 1st of July.

Consumer confidence: January 2018

Seasonally-adjusted index; % m/m

sa	Jan-18	Dec-17	%m/m
Headline index	85.9	88.6	-3.1
Household's			
Current conditions	98.3	97.9	0.3
Expectations	95.8	97.1	-1.4
National			
Current conditions	77.2	79.0	-2.2
Expectations	75.1	76.9	-2.4
Household's purchasing power	88.8	90.3	-1.6

Source: INEGI

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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
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katía Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
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
Juan Carlos Alderete Macal, CFA	FX Senior Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Strategist Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates / Financials/ Mining / Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
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.rolan.ferrer@banorte.com	(55) 5004 - 1454