

Confidence collapses in January

February 3, 2017

- **Consumer confidence (January): 68.5 points; Banorte-Ixe: 80.6; consensus: 83.5 (range of estimates: 80.6 to 86.2 points); previous: 85.7 points**
- **Consumer confidence posted a 26% yoy contraction, and reached a new record low**
- **In seasonally adjusted terms, consumer confidence fell 17.9% m/m**
- **We believe that January's contraction in consumer confidence was explained by the following factors:**
 - (1) **The 16% increase in gasoline prices;**
 - (2) **The uncertainty surrounding Mexico's economic growth derived from the economic policies that the Trump administration could implement; and**
 - (3) **The depreciation of the Mexican currency**
- **In addition, consumer expectations regarding the country's present and future economic outlook fell 22.6% and 23.6% m/m, respectively**
- **The recently added "inflation expectations" indicator suggests that inflation might reach 6% in 2017**
- **Business confidence reached a new record low for both commerce and construction**
- **We believe that consumer confidence will maintain a downward trend throughout the first quarter**

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Consumer confidence fell 17.9% m/m in January. According to Banxico and INEGI's report, consumer confidence stood at 68.5 points in January, below our 80.6 points forecast (consensus: 83.5 points). This implies a 26% yoy contraction. With today's figures, consumer confidence reached a new historical record low. In seasonally adjusted terms, consumer confidence posted a 17.9% m/m reduction.

Taking a look at the breakdown, consumers' expectations regarding the country's present and future economic outlook fell by 22.6% and 23.6% m/m. In addition, expectations regarding the household present and future economic outlook fell 9.7% and 15.6%, respectively. Moreover, the purchasing power component posted a 23.5% m/m reduction, as a result of the upward trend in inflation (refer to the table on the next page).

We believe that the 17.9% m/m contraction in consumer confidence was explained by the following factors: (1) The 16% increase in gasoline prices; (2) the uncertainty surrounding Mexico's economic growth derived from the economic policies that the Trump administration might implement; and (3) the accumulated depreciation of the Mexican currency.

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In the first case, recall that although the Ministry of Finance published the adjustment in gasoline prices in December 27, the last consumer confidence survey did not incorporate this effect since *INEGI* conducts the survey during the first three weeks of each month.

Consumer confidence: January 2017

Seasonally-adjusted index

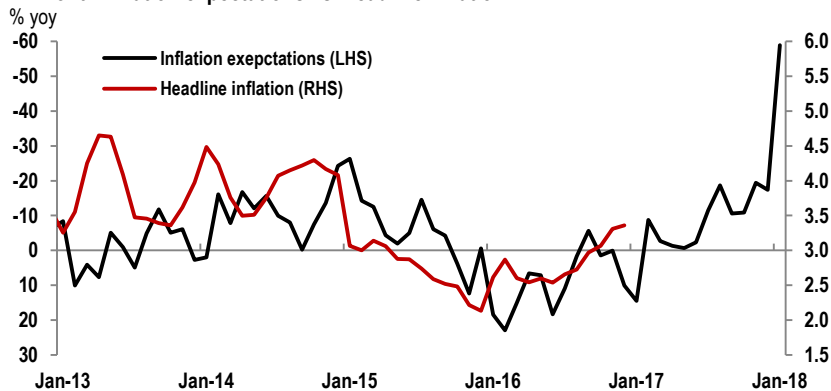
sa	Jan-17	Dec-16	%m/m
Headline index	69.3	84.4	-17.9
Household's			
Current conditions	86.9	96.2	-9.7
Expectations	79.7	94.5	-15.6
National			
Current conditions	60.8	78.6	-22.6
Expectations	57.0	74.5	-23.6
Household's purchasing power	60.1	78.6	-23.5

Source: INEGI

Higher inflation expectations. *INEGI* also published the extended series of consumer confidence complementary indexes. Although these indexes are not included in the final weighting of the headline figure, they provide relevant information on the consumer's perspective regarding other economic indicators.

Among the 10 recently added complementary indexes, we highlight the upward trend in inflation expectations. In the particular case of this index, a fall suggests that consumers are expecting a higher inflation over the next 12 months. Analyzing the historical series, -and setting forward inflation expectations twelve months so they can overlap current inflation-, we can clearly see that consumers are discounting inflation around 6% for 2017.

12-month inflation expectations vs. headline inflation



Source: Banorte-Ixe using INEGI's figures

Business confidence in the manufacturing sector reached new low since 2009. The business confidence index for the manufacturing sector in January stood at 41.9 points, its lowest level since august 2009. As a result, the index fell 12.8% yoy, given the contraction in the country's current and future economic conditions. In addition, the sub-index that measures the right time to invest posted a 16.9% contraction (refer to the table below).

Business confidence survey: Manufacturing

nsa	Jan-17	Jan-16	% yoy
Business confidence	41.9	46.6	-12.8
Firms			
Current conditions	49.3	52.7	-6.6
Expectations	53.3	56.7	-7.8
Country			
Current conditions	35.6	42.2	-18.8
Expectations	41.4	46.5	-16.9
Right time to invest	30.0	34.9	-16.9

Source: INEGI

Confidence reached new record low for commerce and construction. In the first case, the headline index fell to 41 points, a new record low. January's figure implies a 11.6% yoy contraction, driven by the fall in the country's current economic conditions, as well as the right time to invest sub-index. For construction, the overall index stood at 40.3 points, also a new record low. We highlight the 41% yoy contraction in the right time to invest sub-index, and the 30.9% fall in the country's current economic conditions (refer to the tables below).

Business confidence survey: Commerce

nsa	Jan-17	Jan-16	% yoy
Commerce	41.0	43.7	-11.6
Business confidence	41.0	43.7	-11.6
Firms			
Current conditions	53.3	53.5	-1.0
Expectations	58.3	59.7	-9.1
Country			
Current conditions	29.9	35.5	-20.1
Expectations	44.8	49.8	-15.8
Right time to invest	18.8	19.9	-19.5

Source: Banxico's monthly survey of economic expectations

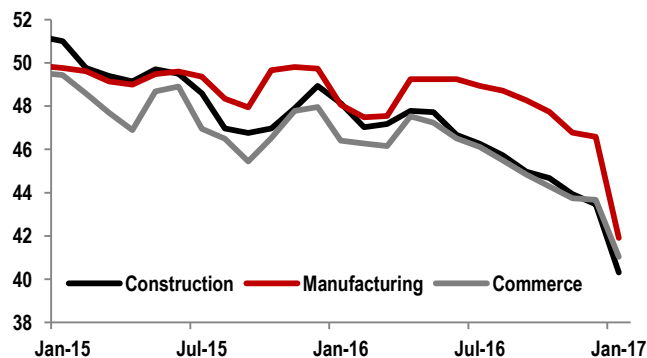
Business confidence survey: Construction

nsa	Jan-17	Jan-16	% yoy
Construction	40.3	43.5	-16.3
Business confidence	40.3	43.5	-16.3
Firms			
Current conditions	47.1	47.8	-4.3
Expectations	59.8	60.8	-9.0
Country			
Current conditions	28.3	35.3	-30.9
Expectations	49.3	52.1	-11.8
Right time to invest	17.1	21.2	-41.0

Source: Banxico's monthly survey of economic expectations

Business confidence

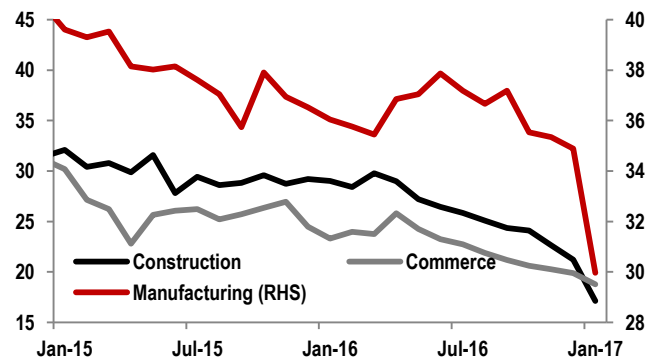
Index, nsa



Source: Banorte Ixe with data from INEGI

Business confidence: Adequate time for investing

Index, nsa



Source: Banorte-Ixe with data from INEGI

We believe that consumer confidence will maintain a downward trend throughout the first quarter. We believe that consumer confidence will maintain a downward trend throughout 1Q17 given: (1) Lower consumption and private investment, as a result of the uncertainty surrounding the impact Trump's economic policies on the Mexican economy; and (2) higher inflation stemming from the significant depreciation of the Mexican currency and the new adjustment in gasoline prices.

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