

## Consumer confidence increased modestly in August

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- **Consumer confidence (August; nsa): 43.8pts; previous: 43.3pts. Seasonally-adjusted: 43.4pts, previous: 43.1pts**
- **It should be mentioned that, from this month forward, the report will only be presented as an “indicator” as opposed to “indices”**
- **With seasonally-adjusted figures, confidence increased 0.3pts, its first advance since February, with consumers more positive in terms of their purchasing power, likely as a result of high real wage gains**
- **Despite today’s modest increase, we reiterate our view that consumer confidence is likely to keep falling gradually in coming months, with political optimism fading away and impacted by weakness in economic activity, formal job creation and the recent depreciation of the peso**

**Consumer confidence picked up in August.** According to Banxico and INEGI’s report, consumer confidence increased slightly, standing at 43.4pts (sa) in August when compared to 43.1pts in the previous month. This is the first advance since February, albeit with the pickup (0.3pts) small enough to maintain the indicator very close to its year-to-date lows. The latter was mostly supported by the increase in the ‘purchasing power’ component, which in our view is related to recent downward surprises in inflation. The latter, coupled with strong nominal wage increases since the start of the year after the minimum wage hike, have supported real wage gains.

We also noted that the components related to the country, both ‘current conditions’ and ‘expectations’, increased slightly during the month. The latter, which surged after last year’s presidential election in July 2018, stands at 48.5pts (+0.1pts), has given up since then almost 40% of that month’s gain. In this respect and in terms of political sentiment, the poll of polls published by *Oraculus* showed that the President’s net approval rating stood at a still relatively high and broadly unchanged level of 45%, from a revised figure of 46% at the end of the previous month. It is or take that both indicators showed resiliency in the face of the 4.6% depreciation of the Mexican peso during the month, going from around 19.15 to 20.06 pesos per dollar, mostly due to external events. In our view, this is relevant given that as consumers tend to associate currency performance with the country’s economic well-being.

On the other hand, both subcomponents related to households, ‘current conditions and ‘expectations’ declined modestly, standing at 47.8pts and 55.5pts, respectively. We believe this could have been influenced by news debating the implications of a ‘technical recession’ in terms of GDP growth, which could have stoked fears among the population. It should be mentioned that among all the subcomponents, only household expectations stand above the 50pts threshold.

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### Consumer confidence: August 2019

seasonally-adjusted index; % m/m

	Aug-19	Jul-19	Difference
<b>Headline index</b>	43.4	43.1	0.3
<b>Households'</b>			
Current conditions	47.8	48.0	-0.1
Expectations	55.5	55.9	-0.4
<b>National</b>			
Current conditions	40.3	39.7	0.5
Expectations	48.5	48.4	0.1
<b>Households' purchasing power</b>	24.3	23.5	0.9

Source: INEGI

### Consumer confidence

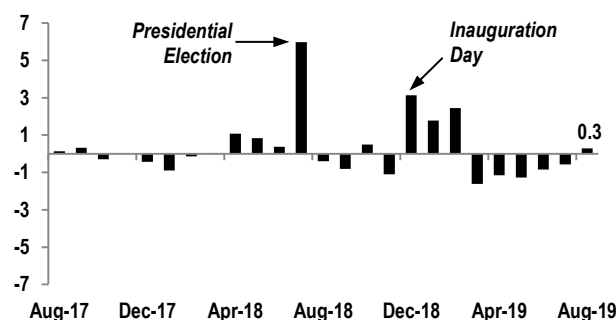
Indicator, sa



Source: INEGI

### Consumer confidence

Monthly change in pts, sa



Source: INEGI

**We expect consumer confidence to resume its gradual decline.** It should be noted that despite increasing in August, the magnitude of the advance was modest. Considering this, we reiterate our expectation that consumer confidence will maintain a downward trend in coming months.

First and foremost, it is our take that ‘expectations’ about the country, which surged after last year’s election, will gradually return to pre-election levels as political optimism fades away. In this respect, this component has been declining but currently stands 8.4pts above the level immediately before the election. Moreover, we believe that both households’ ‘current conditions’ and ‘expectations’ are limited to the upside and are likely to decline further as economic activity and the pace of formal job creation have decelerated strongly, likely resulting in a more cautious stance going forward, particularly in a context in which both domestic and external uncertainty remain elevated. The global economy is facing additional headwinds, mostly because of higher trade tensions between the US and China. Although this situation looks to be more clearly reflected in the relative decline of business confidence, we think it does not bode well for the consumer outlook given that our country is highly exposed to international trade, with a strong export platform. Lastly, it is likely that the recent depreciation of the currency, which has not been able to be fully reversed despite the rally in recent days, will also be reflected in a more pessimistic opinion about the country’s current conditions in coming months.

**A brief technical note.** It should be noted that, from this month forward, the report will only be updated in terms of the “balance” or “indicator”, as opposed to “indices”, both for the total and its subcomponents. The latter was calculated relative to a base period, which in this case was January 2003. The historical series of the index will remain available in both *INEGI* and Banxico websites, up to July 2019.

As a result, the indicator should be analyzed as a “diffusion” index, such as IMEF and INEGI PMI figures. A “neutral” opinion among consumers would be consistent with the indicator at the 50pts threshold, with a possible range bounded by 0pts (every survey respondent is the most pessimistic possible) and 100pts (everyone is the most optimistic).

This change has been favored since some years ago by Banxico Deputy Governor, Jonathan Heath. In his view, some of the advantages of this approach, as opposed to the index, include that: (1) It provides a degree of optimism in a given moment and how this is changing; (2) it does not hide valuable information; (3) it is mathematically consistent, and (4) it allows for comparisons between its subcomponents and with business confidence, which has never been published as an index.

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