

Consumer confidence – Consumers continue to discount a more negative economic outlook

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- **Consumer confidence (August): 86.5 points; Banorte-Ixe: 88.1; consensus: 88.5 (range of estimates: 87.5 to 90 points); previous: 88.9 points**
- **Consumer confidence posted a 4.3% yoy contraction**
- **In seasonally adjusted terms, consumer confidence fell 1.6% m/m**
- **We believe that the reduction in consumer confidence during August was explained by the following factors:**
 - (1) **The commercial blocks made by the *CNTE* (National Coordinators of Education Workers) that took place in Oaxaca and Chiapas during July and August; and**
 - (2) **The upward trend in core inflation, coupled with the increase in the government-regulated prices of gasoline and electricity**
- **Looking ahead, we believe that consumer confidence will continue to fall, given the fiscal cuts implemented by the Federal Government**

Consumer confidence fell 1.6% m/m in August. According to Banxico and *INEGI's* report, consumer confidence stood at 86.5 points in August, below our 88.1 points forecast (consensus: 88.5 points). This implies a 4.3% yoy contraction. Moreover, in seasonally adjusted terms, consumer confidence fell 1.6% m/m.

As we anticipated, the reduction in consumer confidence was probably explained by the uncertainty caused by certain political and economic events in the weeks prior to the survey, which include: (1) The commercial blocks made by the *CNTE* (National Coordinators of Education Workers) that took place in Oaxaca and Chiapas, and the demonstrations in favor of the education workers in several states during July and August; and (2) the upward trend in core inflation, coupled with the increase in the government-regulated prices of gasoline and electricity.

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Taking a look at the breakdown, consumers' perspectives regarding the country's present and future economic outlook fell by 2.9% and 2% m/m, respectively. Moreover, expectations regarding the household's present economic conditions increased 0.7%, while future expectations declined 0.7%. Finally, the purchasing power component posted a 1.9% m/m reduction, as shown in the table below.

Consumer confidence: August 2016

Seasonally-adjusted index

	Aug-16	Jul-16	%m/m
Headline index	87.3	88.7	-1.6
Household's			
Current conditions	97.8	97.2	0.7
Expectations	95.0	95.7	-0.7
National			
Current conditions	79.4	81.8	-2.9
Expectations	76.8	78.4	-2.0
Household's purchasing power	86.1	87.8	-1.9

Source: INEGI

Looking ahead, we believe that consumer confidence will continue to fall.

Consumer confidence recovered during the first half of the year given the better growth prospects of the Mexican labor market, the relative low inflation levels, and the recovery of domestic demand, as a result of the significant increase of consumer credit and remittances inflows.

However, we believe that consumer confidence will continue to fall in the following reports, given the fiscal cuts implemented by the Federal Government, which will translate into slower growth in the labor market, and a contraction in public investment projects during the second half of the year.

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