

Consumer confidence – October’s contraction explained by the lagged effect of September’s earthquakes

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- **Consumer confidence (October): 88.2 points; Banorte-Ixe: 83.9; consensus: 88.6 (range of estimates: 83.9 to 89.4 points); previous: 89.2 points**
- **Consumer confidence posted a 3.8% yoy expansion**
- **However, in seasonally adjusted terms, consumer sentiment decreased by 1.2% m/m**
- **October’s contraction was explained by the lagged effect of Mexico City’s earthquake on consumers’ sentiment and inflation above 6%**
- **Business confidence recovery continues amid more favorable conditions**

Consume confidence fell 1.2% m/m. According to Banxico and *INEGI’s* report, consumer confidence stood at 83.9 points in October, above our 83.9 forecast (consensus: 88.6 points). This implies a 3.8% yoy expansion. However, in seasonally adjusted terms, consumer confidence posted a 1.2% m/m contraction, which was explained by the lagged effect of the Mexico City earthquake and inflation above 6%.

In the first case, the lagged effect of September’s earthquake in consumer confidence was reflected in the fall of consumers’ expectations regarding the country’s present and future economic outlook (0.6% and 0.5% m/m, respectively). Similarly, expectations regarding the household’s present and future economic conditions decreased by 1.3% and 0.7%, respectively. We highlight that September’s survey didn’t captured the impact of the earthquake in Mexico City, Puebla, Guerrero, and Morelos, given that consumer sentiment survey is collected within the first 20 days of each month. In addition, the purchasing power component posted a 1.8% m/m reduction, as a result of the persistently high inflation levels.

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Consumer confidence: October 2017

Seasonally-adjusted index

	Oct-17	Sep-17	%m/m
Headline index	87.8	88.8	-1.2
Household's			
Current conditions	98.1	99.4	-1.3
Expectations	97.8	98.5	-0.7
National			
Current conditions	79.7	80.2	-0.6
Expectations	78.6	79.0	-0.5
Household's purchasing power	85.6	87.1	-1.8

Source: INEGI

Business confidence recovery continues in the manufacturing sector.

Analyzing *INEGI's* nsa figures (given that business confidence is not seasonally adjusted for 2 of the 3 sectors and *INEGI* has mentioned that business sentiment does not follow a seasonal behavior), the business confidence index for the manufacturing sector in October stood at 49.7 points, above the 49.5 points seen in September. As a result, the index increased 0.3% m/m, given the expansion in the sub-index that measures the country's future economic conditions (refer to the table below). However, the component that measures the right time to invest posted a 3.4% m/m decline. Considering this, the total index showed a 4.1% increase in the year-over-year comparison.

Business confidence survey: Manufacturing

nsa

	Oct-17	Sep-17	% m/m
Business confidence	49.7	49.5	0.3
Firms			
Current conditions	53.4	53.1	0.7
Expectations	58.5	58.2	0.5
Country			
Current conditions	46.4	46.0	0.7
Expectations	51.1	49.9	2.4
Right time to invest	39.2	40.6	-3.4

Source: INEGI

Confidence continued to climb in commerce and construction sectors. In the first case, the headline index climbed to 48.4 points, 0.3 points above September's figure. October's figures imply a 0.6% m/m expansion, driven by the 10.4% m/m increase in the right time to invest sub-index. Moreover, year-over-year, this component posted a 49.6% increase

For construction, the overall index stood at 48.3 points (previous: 48.1 points), which represents a 0.4% m/m increase. This growth was explained by the expansion in the components that measures the country's future conditions (2.6% m/m) and the firm's current conditions (1.3% m/m). However, the country's current conditions fell 3.3% (refer to the tables on the following page), probably driven by a more accurate assessment of the damages caused by the September 19 earthquake.

Business confidence survey: Commerce

nsa	Oct-17	Sep-17	% m/m
Business confidence	48.4	48.1	0.6
Firms			
Current conditions	52.8	55.0	-4.0
Expectations	63.3	63.3	0.0
Country			
Current conditions	42.1	41.2	2.2
Expectations	52.9	53.0	-0.2
Right time to invest	30.9	28.0	10.4

Source: Banxico's monthly survey of economic expectations

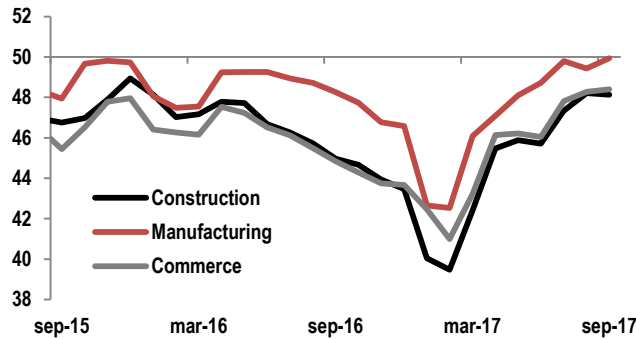
Business confidence survey: Construction

nsa	Oct-17	Sep-17	% m/m
Business confidence	48.3	48.1	0.4
Firms			
Current conditions	51.4	50.7	1.3
Expectations	62.5	62.4	0.1
Country			
Current conditions	40.6	42.0	-3.3
Expectations	56.1	54.7	2.6
Right time to invest	30.9	30.8	0.5

Source: Banxico's monthly survey of economic expectations

Business confidence

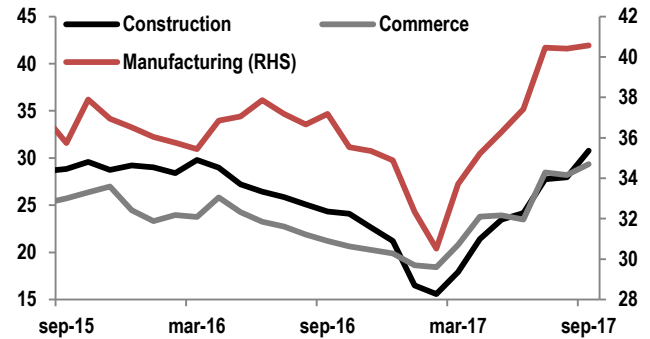
Index, nsa



Source: Banorte Ixe with data from INEGI

Business confidence: Right time to invest

Index, nsa



Source: Banorte-Ixe with data from INEGI

We believe that the recent recovery in the indices is due to more favorable conditions. Beginning with the manufacturing sector, we think that the recovery in the index reflects a positive expectation regarding the outcome of the NAFTA renegotiation. Moreover, we expect the construction sentiment to improve due to the reconstruction effort that will start during the coming months. Considering this we expect business confidence to hover around the 50 point threshold.

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