

Consumer confidence up again in September

- **Consumer confidence (September, sa): 44.7pts; Banorte: 43.6pts. consensus: 43.6pts (range: 42.0 to 44.0pts); previous: 43.6pts**
- **Confidence increased by 1.0pt and for second month in a row, reaching a new high since last April. All sub-indices were higher, with the indicator remaining relatively high when compared to its long-term average**
- **By components, the most relevant adjustment higher was in the country's current conditions, followed by expectations. On the other hand, the purchasing power component was stable despite the recent decline in annual inflation**
- **We reiterate our view that consumer confidence is likely to fall gradually despite improving in the last two months. In our view, confidence will eventually be impacted by the deceleration of economic activity and our expectation of a depreciation of the currency going forward, among other factors**

Consumer confidence picked up again in September. According to Banxico and *INEGI's* report, consumer confidence was stronger, standing at 44.7pts (sa) in September, marking its second consecutive month with a modest gain. Overall results were positive, with all five sub-indices higher.

In particular, the most relevant advance was in those components related to the country, led by current conditions (+2.0pts) and followed by expectations (+1.6pts), with the latter above the 50pts threshold once again since May. The latter is consistent with the president's net approval data, which according to the poll of polls by *Oraculus*, showed a marginal increase to 47% from 46% in August. On a longer-term basis, this indicator remains 11.9pts above the 38.7pts right before last year's election, and significantly higher than its 5-year average by 10.3pts. In our view, other events such as the successful follow-up meeting on immigration between the US Vice President, Mike Pence, and Mexico's Foreign Minister, Marcelo Ebrard, may have also had a positive effect on confidence levels. Moreover, after strong volatility in the peso during August, the currency returned back below the 20.00 per dollar threshold in the early days of September, helped by global monetary easing led by the Fed. This remains relevant given that consumers tend to associate currency performance with the country's economic well-being.

More surprisingly though, the 'purchasing power' component was only marginally higher (+0.03pts) when compared to the previous month and remains way below the level observed in other sub-indices. In particular, we thought this component was likely going to be helped more strongly by recent downward surprises in inflation, which support real wages. In this respect, inflation in the first half of September virtually returned to Banxico's target, reaching 2.99% yoy for the first time since late 2016, and due to low pressures in the non-core component.

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Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.macal@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

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Regarding households, both the current and expectations subcomponents were also higher, albeit more modestly. The former was also likely helped by lower inflation, in spite of the deceleration of economic activity and constant debates over whether Mexico was in a recession or not. Nevertheless, both of them may have been dampened to some extent by the slowdown in formal job creation.

Consumer confidence: September 2019

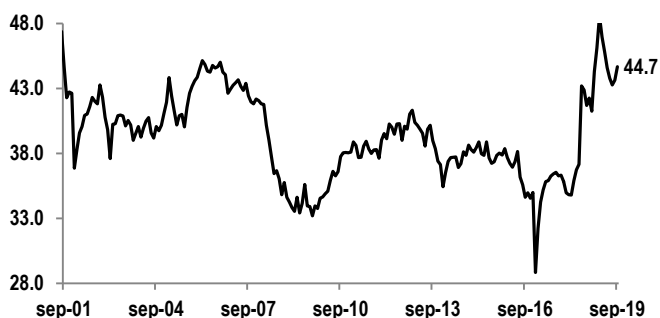
seasonally-adjusted index; % m/m

	Sep-19	Aug-19	Difference
Headline index	44.7	43.6	1.0
Households'			
Current conditions	49.1	48.0	1.1
Expectations	56.9	55.7	1.2
National			
Current conditions	42.7	40.7	2.0
Expectations	50.6	49.0	1.6
Households' purchasing power	24.5	24.4	0.0

Source: INEGI

Consumer confidence

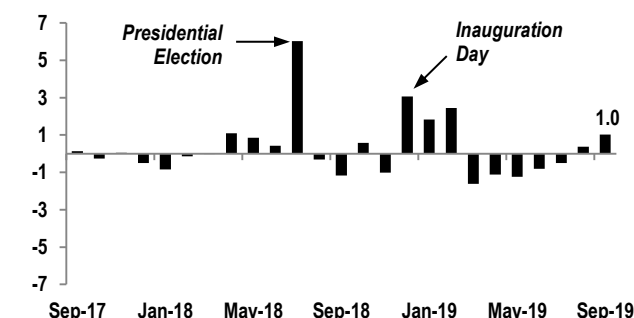
Indicator, sa



Source: INEGI

Consumer confidence

Monthly change in pts, sa



Source: INEGI

Fundamentals keep suggesting a gradual decline in consumer confidence.

The index has rebounded modestly in the last two months, in our view mostly because of specific events that likely boosted sentiment. Nevertheless, we believe the trend of economic fundamentals, including the deceleration in GDP growth and formal job creation, will eventually impact confidence, particularly those components related to households and purchasing power, even if those related to the country stay supported as they remain correlated to presidential approval ratings, which has held up strong.

Moreover, the global economy keeps facing important headwinds, which may impact the economy further as Mexico remains a very open economy. In this respect, the US is likely to impose additional tariffs to China later this month, while President Trump is facing impeachment proceedings regarding dealings with Ukraine. Although the latter is not likely to be a direct issue for domestic consumers, a potential knock-on effect could be in store if that situation results in higher tensions in cases such as the USMCA approval or immigration policies. Last but not least, we see a gradual depreciation of the currency by the end of the year, a factor that could also be reflected in a more pessimistic opinion about the country's conditions going forward. Overall, we reiterate our expectation that consumer confidence will reestablish its downward trend even if it is likely to show some volatility due to the specific backdrop and events.

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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
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Luis Leopoldo López Salinas	Analyst, Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
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
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials / Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts / Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
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	Manager, 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 Corporate Banking	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 Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454