

## Generalized decline in consumer confidence in July

August 5, 2019

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- **Consumer confidence (July; nsa): 105.1pts; Banorte: 107.8; consensus: 107.8 (range of estimates: 104.2 to 108.5) ; previous: 106.1**
- **Confidence is just 0.1% higher than in the same period of 2018, significantly lower than the 18.2% of the previous month, impacted by a base-effect due to last year's federal election**
- **With seasonally-adjusted figures, confidence fell 1.6% m/m, with all components lower. The purchasing power component was again the most affected (-3.5%) in spite of lower inflation and the strength of the Mexican peso**
- **Consumer confidence will likely keep declining gradually, with political optimism still impacting sentiment along the deceleration in economic activity and formal job creation**

**Consumer confidence stayed pressured in July.** According to Banxico and INEGI's report, consumer confidence fell for a fifth consecutive month, standing at 105.1pts, trailing consensus and our expectations which coincided at 107.8pts. In hindsight, we expected some boost to the purchasing power component due to lower inflation levels and the relative strength of the currency, along favorable seasonality due to the holiday season, which did not materialize. In terms of political sentiment, the poll of polls published by *Oraculus* until last week showed that the President's net approval rating stood at 44% at the end of survey, from 45% in the previous month. Among the factors that may have influenced this latter indicator, we highlight the resignation of former Finance Minister Carlos Urzúa, discussions about a 'technical recession' in Mexico, and Pemex's business plan. We also saw lower trade tensions with the US due to migration issues as an agreement was reached.

The annual growth rate plunged to just +0.1% from +18.2% in June, driven by an unfavorable base effect related to last year's Presidential Election. This is clear when looking at national expectations, which is 10.2% lower than in July 2018. Households' expectations also declined (-1.0%). In contrast, current conditions components stayed higher for both the households' (+3.4%) and national components (14.6%). Lastly, and similar to the previous month, the most concerning trend has been observed in the purchasing power component (-2.8%), and at its lowest since November 2018, before the significant increase in the minimum wage announced by the current administration.

### Consumer confidence: July 2019

nsa; % yoy

	Jul-19	Jul-18	%yoy
<b>Headline index</b>	105.1	105.0	0.1
<b>Households'</b>			
Current conditions	105.1	101.7	3.4
Expectations	107.9	109.0	-1.0
<b>National</b>			
Current conditions	105.9	92.4	14.6
Expectations	109.2	121.6	-10.2
<b>Households' purchasing power</b>	97.5	100.2	-2.8

Source: INEGI

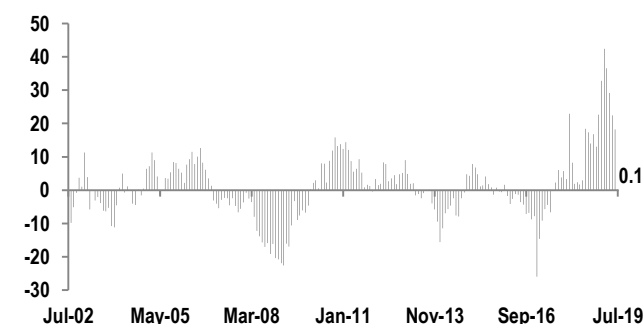
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**Consumer confidence**  
index, nsa



Source: INEGI

**Consumer confidence**  
% yoy, nsa



Source: INEGI

**In seasonally adjusted terms, confidence fell 1.6% m/m, with all components lower.** Moreover, this is the fifth consecutive month with the indicator in decline. Similar to the previous month, the households' purchasing power component was the most impacted, declining 3.5% m/m, deepening its decline below the 100pts threshold. The country expectations component kept falling (-1.5%), accumulating a year-to-date decline of 14.2% but remaining above the level observed before last year's Presidential Election. Current households' and national components declined by the same magnitude (-1.2%). In our view, the overall performance by component suggests that weakness is likely to extend further in coming months.

**Consumer confidence: July 2019**

seasonally-adjusted index; % m/m

	Jul-19	May-19	%m/m
<b>Headline index</b>	104.3	106.0	-1.6
<b>Households'</b>			
Current conditions	104.8	106.1	-1.2
Expectations	108.1	108.4	-0.2
<b>National</b>			
Current conditions	104.9	106.2	-1.2
Expectations	108.0	109.7	-1.5
<b>Households' purchasing power</b>	95.6	99.1	-3.5

Source: INEGI

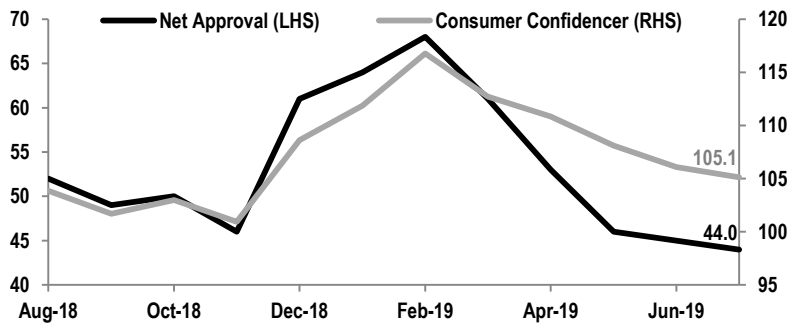
**Consumer confidence will likely keep declining.** In our view, one of the most relevant signals provided by the report was that the purchasing power component keeps declining rather strongly in spite of three supportive factors: (1) The well-behaved dynamics of inflation, especially in terms of lower pressures at the non-core level; (2) the stability of the Mexican peso, which is positive for imported goods, albeit challenged since last week on trade tensions between the US and China; and (3) the minimum wage hike at the start of the year, which keeps influencing wage revisions, particularly in the private sector. Considering these, we believe the decline may be more closely related to the steep deceleration in economic activity and its effect on the pace of formal job creation, which coupled with high domestic and external uncertainty, is more than compensating for the abovementioned factors.

Moreover, we do not discard this backdrop to influence more heavily on presidential approval ratings, thus, spilling over into other components, such as national expectations. In this respect, we continue seeing a relatively tight correlation between confidence and the president's net approval ratings (see chart below), with the latter signaling more downside could be in store.

We maintain our view that confidence, which remains high when compared to its long-term average (almost 11pts higher than the pre-election average, using original figures), will keep declining gradually. Even if confidence remains high, we recently downgraded our view in private consumption, expected to grow 1.4% yoy in full-year 2019, extending its more muted performance since 4Q18.

**Presidential Approval Rating and Consumer Confidence**

% and index, respectively



\* Net approval rating, representing the percent of people that approve less those that disapprove.  
Source: Oraculus, INEGI, Banorte

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