

Consumer confidence falls again in June

July 4, 2019

- **Consumer confidence (June; nsa): 106.1pts; Banorte: 108.9; consensus: 107.3 (range of estimates: 106.0 to 109.6) ; previous: 108.1**
- **Confidence is 18.2% higher than the same period of 2018, although with the annual rate moderating for the fourth consecutive month**
- **In this respect and with seasonally-adjusted figures, confidence fell 1.6% m/m, with the purchasing power component the most affected (-5.7%) and declines in both households and national expectations. In contrast, current conditions improved marginally**
- **We expect consumer confidence to keep moderating, with political optimism likely falling further and the deceleration in other economic activity indicators having a clearer impact in coming months**

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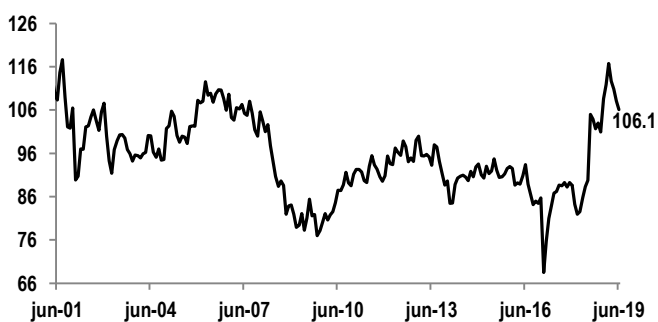
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Consumer confidence declined again in June. According to Banxico and INEGI's report, consumer confidence fell for a fourth consecutive month, standing at 106.1pts, below consensus at 107.3pts and our forecast of 108.9pts. It should be noted that this decline was not consistent with the recent and tight correlation with political sentiment, as measured by the president's approval ratings. In particular, the poll of polls published by *Oraculus* showed that net approval stood at 46% by the end of May, climbing to 47% in June (at the end of the sample period of this indicator). In addition, the daily poll from *El Economista* newspaper / *Consulta Mitofsky* also showed approval up from 59.9% (on May 20th, the last day of the survey) to 62.0% one month later. In our view, this latter dynamic could have been explained by popular support after the threat of an imposition of tariffs by the US on all Mexican exports. This was later resolved, likely limiting an additional negative impact in spite of still being a concern. Moreover, other events may have influenced sentiment negatively, such as changes to Mexico's rating and outlook by two rating agencies, among others. By component, we highlight that expectations' sub-indexes remain strongest in absolute terms. In particular, country expectations stand at 110.4pts (+22.1% yoy), still high but persistently moderating since the historical maximum of 131.1pts observed in December 2018. Moreover, the purchasing power component fell below the 100pts threshold for the first time since November last year. In contrast and on a more positive note, national current conditions advanced to 107.1pts (+33.9%) from 106.8pts in May.

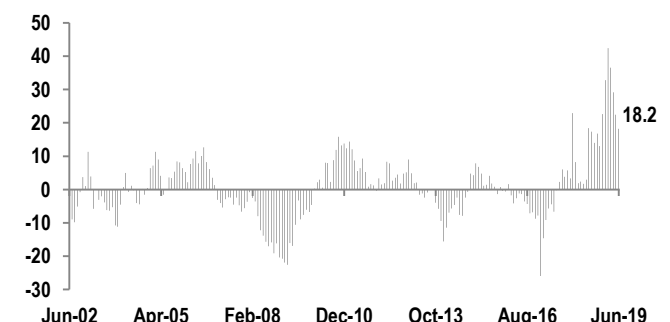
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Consumer confidence
index, nsa



Source: INEGI

Consumer confidence
% yoy, nsa



Source: INEGI

Consumer confidence: June 2019

nsa; % yoy

	Jun-19	Jun-18	%yoy
Headline index	106.1	89.8	18.2
Households'			
Current conditions	106.4	96.4	10.4
Expectations	107.5	97.0	10.8
National			
Current conditions	107.1	80.0	33.9
Expectations	110.4	90.4	22.1
Households' purchasing power	99.0	85.1	16.4

Source: INEGI

In seasonally adjusted terms, confidence fell 1.6% m/m, its fourth consecutive decline. In contrast with recent months, the households' purchasing power component was the most pressured, declining 5.7% m/m, accelerating its decline after the -3.6% observed in the previous month. Consistent with our view of a gradual normalization, the country expectations kept falling (-3.9%), accumulated a year-to-date decline of 11.4% but still above levels observed before last year's Presidential Election. Households' expectations were also lower. On the contrary, both households' and national current conditions picked up for the first time since February, which in our view could be related to a slight moderation in annual inflation levels.

Consumer confidence: Jun 2019

seasonally-adjusted index; % m/m

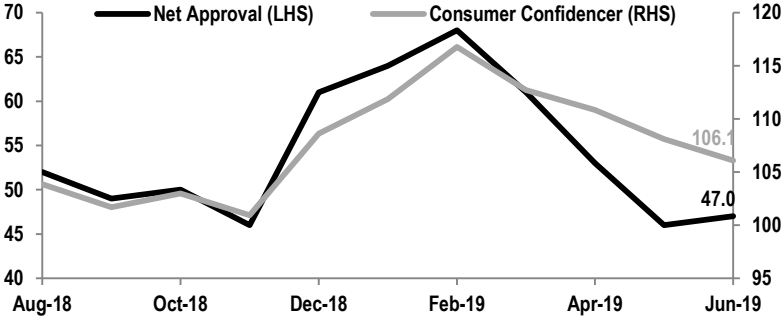
	Jun-19	May-19	%m/m
Headline index	107.5	109.3	-1.6
Households'			
Current conditions	106.3	106.1	0.2
Expectations	109.0	110.4	-1.3
National			
Current conditions	108.3	106.9	1.3
Expectations	111.3	115.8	-3.9
Households' purchasing power	100.4	106.4	-5.7

Source: INEGI

Conditions for consumer confidence to decline are still in place. Despite today's print seemingly loosening its relatively tight correlation with political sentiment (see chart below), it is our take that the moderation in optimism in this front coupled with dynamics in other economic indicators suggest that confidence will maintain a downward trend. Among the latter, we believe the moderation in economic activity and the pace of job creation will at least limit further upside. In particular, these are likely to impact current conditions for both households and the country. Moreover, some goods such as gasoline and agricultural products may see increased price pressures in the short-term, impacting inflation and further affecting the purchasing-power component. We maintain our view that confidence, which remains high when compared to its long-term average, will decline gradually. Moreover, we continue seeing confidence as poorly correlated with actual private consumption spending, which has grown at a more muted pace since 4Q18. In our view, this dynamic will persist as sentiment has been more heavily influenced by political instead of economic developments in recent months.

Presidential Approval Rating and Consumer Confidence

Indices



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

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