

Confidence levels recover in July

August 3, 2017

- **Consumer confidence (July): 88.7 points; Banorte-Ixe: 84.9; consensus: 86.9 (range of estimates: 84.9 to 88.5 points); previous: 87.2 points**
- **Consumer confidence posted a 0.2% yoy contraction**
- **However, in seasonally adjusted terms, consumer sentiment increased by 1.8% m/m**
- **We believe that July’s expansion was explained by the appreciation of the Mexican currency despite the upward trend in inflation**
- **Consumer confidence will continue to recover during the third quarter of the year**
- **Business confidence recovery continues amid more favorable conditions**

www.banorte.com
www.ixe.com.mx
@analisis_fundam

Alejandro Cervantes
Senior Economist, Mexico
alejandrocervantes@banorte.com

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

Strong recovery in July’s consumer confidence. According to Banxico and INEGI’s report, consumer confidence stood at 88.7 points in July, above our 84.9 forecast (consensus: 86.9 points). This implies a 0.2% yoy contraction. However, in seasonally adjusted terms, consumer confidence posted a 1.8% m/m expansion.

Taking a look at the breakdown, consumers’ expectations regarding the country’s present and future economic outlook increased by 1.9% and 2% m/m, respectively. In addition, expectations regarding the household’s present and future economic conditions expanded 1.9% and 1.2%, respectively. Moreover the purchasing power component posted a significant 3.9% m/m growth, probably as a result of the significant 3.3% appreciation of the Mexican currency in the first three weeks of the month (we highlight that consumer confidence survey is taken within the first three weeks of each month; refer to the table below).

Consumer confidence: July 2017

Seasonally-adjusted index

	Jul-17	Jun-17	%m/m
Headline index	86.6	85.1	1.8
Household's			
Current conditions	97.2	95.4	1.9
Expectations	96.5	95.3	1.2
National			
Current conditions	77.5	76.1	1.9
Expectations	77.3	75.8	2.0
Household's purchasing power	84.6	81.4	3.9

Source: INEGI

Document for distribution among public

We expect a marginal recovery in 3Q17. July's report supports our view that consumer sentiment will continue to recover as a result of the following factors: (1) The appreciation of the Mexican currency; and (2) the static behavior of the still regulated gasoline prices. However, we believe that the recovery of consumer sentiment will be bounded by the upward trend in inflation.

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 July stood at 49.6 points, above the 48.7 points seen in June. As a result, the index increased 1.8% m/m, given the expansion in the sub-index that measures the right time to invest, as well as the country's current economic conditions (refer to the table below). Moreover, this month marked the first increase in the year-over-year comparison since September 2016 (+1.3% yoy).

Business confidence survey: Manufacturing

nsa	Jul-17	Jun-17	% m/m
Business confidence	49.6	48.7	1.8
Firms			
Current conditions	52.6	52.6	-0.1
Expectations	57.9	58.0	-0.3
Country			
Current conditions	46.7	45.2	3.2
Expectations	50.6	50.3	0.6
Right time to invest	40.3	37.4	7.6

Source: INEGI

Confidence rebounded in construction and commerce. In the first case, the headline index climbed to 47.4 points, 1.7 points above June's figure. July's index implies a 3.7% m/m expansion, driven by the increase in the current conditions for the firms sub-index, as well as the country's future economic conditions. This indicator also rose for the first in the annual comparison (+2.5% yoy) since December 2014.

For commerce, the overall index stood at 47.3 points (previous: 46 points), which represents a 2.8% m/m increase. We highlight the expansion in both the country's current economic conditions, as well as the right time to invest (refer to the tables on the following page).

Business confidence survey: Construction

nsa	Jul-17	Jun-17	% m/m
Business confidence	47.4	45.7	3.7
Firms			
Current conditions	51.8	48.9	5.8
Expectations	61.8	62.4	-1.0
Country			
Current conditions	41.4	38.8	6.7
Expectations	54.1	54.3	-0.4
Right time to invest	28.1	24.2	16.1

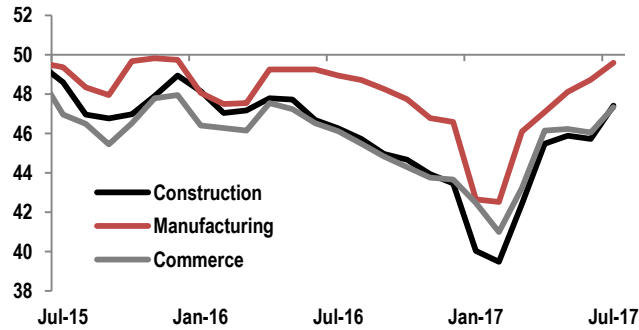
Source: Banxico's monthly survey of economic expectations

Business confidence survey: Commerce

nsa	Jul-17	Jun-17	% m/m
Business confidence	47.3	46.0	2.8
Firms			
Current conditions	53.9	53.5	0.9
Expectations	62.5	63.2	-1.1
Country			
Current conditions	39.2	36.1	8.8
Expectations	53.7	54.0	-0.5
Right time to invest	27.3	23.5	16.2

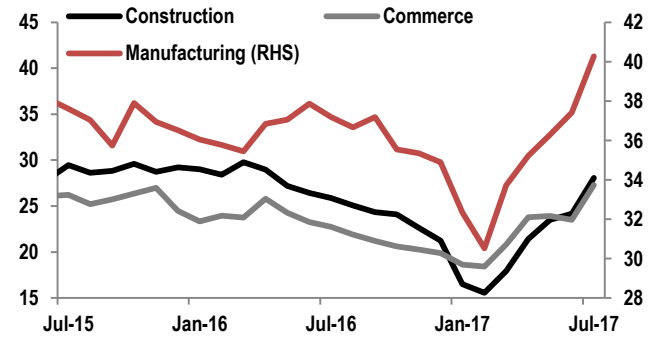
Source: Banxico's monthly survey of economic expectations

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 believe that the dynamism of manufacturing exports –as a result of Mexico’s uncertain trade relation with the US, which has fostered a higher flow of exported goods, hedging a future scenario of tariffs on exports– has positively impacted the index. We also consider that the appreciation of the exchange rate in the period in question contributed to this improvement in optimism. Looking ahead, we believe that confidence will hover around the 50-points optimism threshold given that the uncertain environment surrounding the Mexican economy still prevails to some degree.

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

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
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
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
Juan Carlos Alderete Macal, CFA	FX Senior Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Strategist Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates / Financials/ Mining / Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
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	Analyst, 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 Asset Management	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 Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454