

Consumer confidence – Consumers are discounting a more negative economic outlook

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Alejandro Cervantes
Senior Economist, Mexico
alejandro.cervantes@banorte.com

- **Consumer confidence (July): 88.9 points; Banorte-Ixe: 90.9; consensus: 92.2 (range of estimates: 90.9 to 93.4 points); previous: 93.5**
- **Consumer confidence posted a 3.6% yoy contraction**
- **In seasonally adjusted terms, consumer confidence fell 1.8% m/m**
- **We believe that the reduction in consumer confidence in July was explained by the following factors:**
 - (1) **The commercial blocks made by the *CNTE* (National Coordinators of Education Workers) that took place in Oaxaca and Chiapas;**
 - (2) **The depreciation of the Mexican currency during July, partially explained by the result of the *Brexit* referendum; and**
 - (3) **The increase in the government-regulated prices of gasoline and electricity**
- **Looking ahead, we believe that consumer confidence will decelerate in the remaining reports of 3Q16, given the recent fiscal cut announced by the Federal Government, and the additional increase in the government-regulated energy prices during August**

Consumer confidence fell 1.8% m/m in July. According to Banxico and *INEGI's* report, consumer confidence stood at 88.9 points in July, below the 92.2 median estimate, according to Bloomberg's survey, but similar to our 90.9 points forecast. This implies a 3.6% yoy contraction. Moreover, in seasonally adjusted terms, consumer confidence fell 1.8% m/m.

As we anticipated, the reduction in consumer confidence was probably explained by the uncertainty caused by certain political and economic events in the weeks prior to the survey, which include: (1) The commercial blocks made by the *CNTE* (National Coordinators of Education Workers) that took place in Oaxaca and Chiapas, and the demonstrations in favor of the education workers in several states; (2) the depreciation of the Mexican currency, partially explained by the results of the *Brexit* referendum, which resulted in a deterioration of inflation expectations; and (3) the increase in the government-regulated prices of gasoline and electricity.

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Taking a look at the breakdown, consumers' perspectives regarding the household's present and future economic outlook fell by 2.3% and 2.2% m/m, respectively. Moreover, expectations regarding the country's present and future economic conditions declined 3.9% and 7.4%, respectively. Finally, the purchasing power component posted a 1.8% m/m reduction, as shown in the table below.

Consumer confidence: July 2016

Seasonally-adjusted index

sa	Jul-16	Jun-16	%m/m
Headline index	89.0	90.6	-1.8
Household's			
Current conditions	97.0	99.3	-2.3
Expectations	95.9	98.0	-2.2
National			
Current conditions	82.2	85.5	-3.9
Expectations	78.5	84.8	-7.4
Household's purchasing power	88.1	89.7	-1.8

Source: INEGI

We believe that consumer confidence will decelerate in 3Q16. Consumer confidence recovered during the first half of the year given the better growth prospects of the Mexican labor market, the relative low inflation levels, and the recovery of domestic demand, as a result of the significant increase of consumer credit and remittances inflows.

However, we believe that consumer confidence could decelerate in the remaining reports of the third quarter, given the following factors: (1) The 4.1% increase in the government-regulated price of gasoline, and the additional increase in electricity tariffs during August; and (2) the fiscal cut announced by the Federal Government in May 24, which will translate into slower growth in the labor market, and a contraction in public investment projects during the second half of the year.

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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
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
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 Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst 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
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto parts	valentin.mendoza@banorte.com	(55) 1670 - 2250
María de la Paz Orozco García	Analyst	maripaz.orozco@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	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@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