

Consumer confidence – September’s fall explained by the depreciation of the Mexican currency

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- **Consumer confidence (September): 84.1 points; Banorte-Ixe: 86.4; consensus: 86.5 (range of estimates: 85 to 88.1 points); previous: 86.5 points**
- **Consumer confidence posted a 7.1% yoy contraction**
- **In seasonally adjusted terms, consumer confidence fell 1.8% m/m**
- **We believe that the reduction in consumer confidence during September was explained by the significant depreciation of the Mexican currency**
- **Looking ahead, we believe that consumer confidence will continue to fall given the volatility in the exchange rate market and the fiscal cuts implemented by the Federal Government**

Consumer confidence fell 1.8% m/m in September. According to Banxico and *INEGI*'s report, consumer confidence stood at 84.1 points in September, below our 86.4 points forecast (consensus: 86.5 points). This implies a 7.1% yoy contraction. In seasonally adjusted terms, consumer confidence fell 1.8% m/m.

Taking a look at the breakdown, consumers' perspectives regarding the country's present and future economic outlook fell by 0.6% and 3.3% m/m, respectively. In addition, expectations regarding the household's present and future economic conditions decreased 1.9% and 1.4%, respectively. Finally, the purchasing power component posted a 3% m/m reduction, as shown in the table on the next page.

As we anticipated, the reduction in September's index was explained by the significant depreciation of the Mexican currency, given the higher passthrough effect to prices, particularly within the core index. Moreover, the recent FX volatility has also deteriorated inflation expectations, which was reflected in the contraction of consumers' expectation regarding the household present and future economic outlook.

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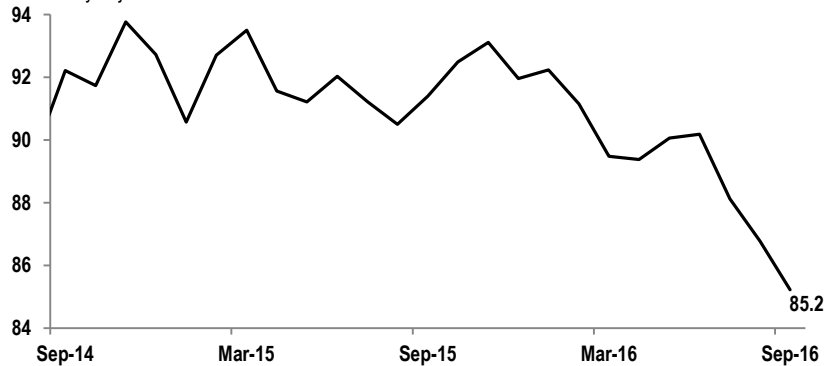
Looking ahead, we believe that consumer confidence will continue to fall.

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 considerable increase of consumer credit and remittances inflows.

However, we believe that consumer confidence will continue to fall in the following reports, given the still depreciated Mexican peso. As we mentioned earlier, Mexican consumers are beginning to discount a more negative outlook, as a result of the higher passthrough effect to prices. In addition, we believe that the fiscal cuts implemented by the Federal Government in the fourth quarter will translate into slower growth in the labor market, as a result of the significant contraction in public investment projects.

Consumer confidence

Seasonally-adjusted index



Source: INEGI

Consumer confidence: September 2016

Seasonally-adjusted index

	Sep-16	Aug-16	%m/m
Headline index	85.2	86.8	-1.8
Household's			
Current conditions	95.8	97.6	-1.9
Expectations	93.4	94.7	-1.4
National			
Current conditions	78.9	79.4	-0.6
Expectations	73.6	76.1	-3.3
Household's purchasing power	82.7	85.3	-3.0

Source: INEGI

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