

Consumer confidence unchanged in December despite positive news

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- **Consumer confidence (December, sa): 43.4pts; Banorte: 44.0pts. consensus: 43.6pts (range: 42.8 to 44.0pts); previous: 43.4pts**
- **Confidence edged-up marginally (0.06pts) in the period. While the purchasing power component outperformed to the upside, there were significant declines in both households' and country's current conditions**
- **Overall expectations improved marginally, which we believe were partly driven by a slight pick-up in political optimism**
- **Consumer confidence may continue showing resiliency around these levels, although the possibility of a hefty increase looks limited**

Consumer confidence fails to pick-up meaningfully in December. According to the report, confidence was practically unchanged (+0.06pts), standing at 43.4pts (sa). This was much weaker than our expectations, mainly driven by the considerable decline in components related to current conditions. In this regard, households observed the heaviest impact, falling 0.8pts. The county component fell 0.5pts. This seems to contrast with recent labor market performance, which according to both formal sector figures and the unemployment rate, seems to be gathering some steam after a difficult start in 2019. Moreover, real wages continue to rise, which should in turn support consumption. Nevertheless, these indicators could be starting to reflect more accurately conditions related to economic activity, as they have failed to gather momentum in the fourth quarter.

On a more positive note, the 'purchasing power' component increased 1.0pts, the best monthly performance. This category may be finally reflecting the move downward in inflation, which as of December stood at 2.83%, lowest in little over three years. We should also mention there could be a favorable effect still lingering from year-end discounts, which could have boosted sentiment. Finally, both components measuring expectations were up by 0.2pts each. With the latest available information at the time of elaborating our forecast, polls pointed to a further decline in presidential approval. Nevertheless, latest figures for December in the poll of polls made by *Oraculus* show it actually edged-up 3%-pts to 44%, which could be one of the drivers for the slight increase in the country's expectations sub-index.

Consumer confidence: December 2019

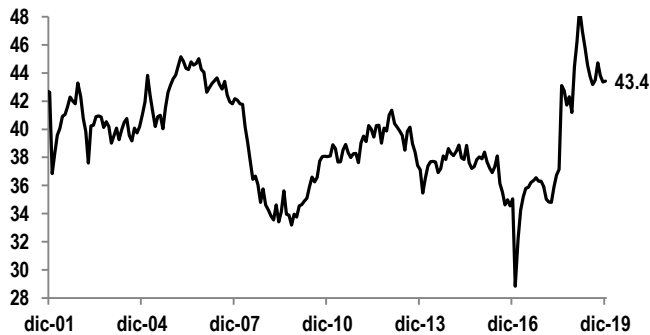
seasonally-adjusted index; monthly difference

	Dec-19	Nov-19	Difference
Headline index	43.4	43.4	0.1
Households'			
Current conditions	48.3	49.1	-0.8
Expectations	55.1	55.0	0.2
National			
Current conditions	40.5	41.0	-0.5
Expectations	48.1	48.0	0.2
Households' purchasing power	25.2	24.1	1.0

Source: INEGI

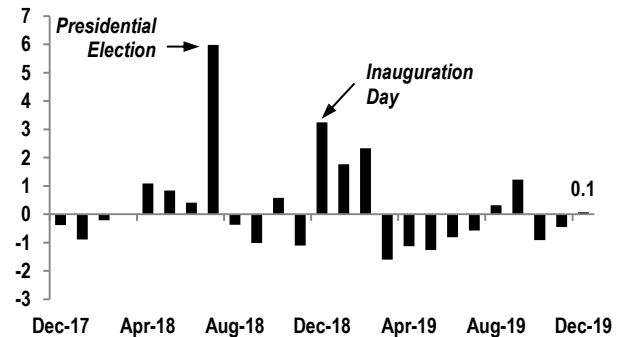
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Consumer confidence
Indicator, sa



Source: INEGI

Consumer confidence
Monthly change in pts, sa



Source: INEGI

Consumer confidence will likely stay resilient in coming months, but a strong increase seems unlikely. Today's report was a little disappointing relative to our call, particularly taking into account several positive factors which we believed would drive sentiment higher, such as (1) The announcement of the [20% minimum wage increase for 2020](#), highest in 44 years (December 16th); (2) [changes to the USMCA agreement](#) agreed with the US and Canada, paving the way for ratification (December 10th); and (3) the [first phase of the government's Infrastructure Program](#), which consists of commitments by the private sector (November 26th). The latter on top of Mexican peso strength and lower inflation. However, overall economic conditions, which remain limited, could be starting to weigh more on consumer's decisions, representing an important drag for a significant increase going forward.

Despite of the latter, we believe resiliency should prevail as relevant drivers for consumption remain healthy, including real wages –with the recent minimum wage hike playing a very important part in next year's dynamic–, a sizeable amount of remittances, and additional transfers from government programs focused on social spending. Overall, if consumer confidence stays relatively stable around its current level (still higher relative to its historical average), it could eventually be conducive to better consumption, although remembering that its historical correlation with actual performance has been very low.

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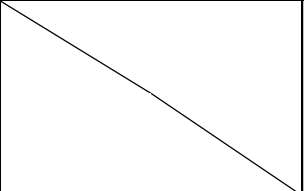
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