

Consumer confidence climbs on minimum wage optimism

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- **Consumer confidence (January, sa): 44.2pts; Banorte: 43.0pts. consensus: 43.0pts (range: 42.8 to 43.3pts); previous: 43.5pts**
- **Confidence surprised to the upside by increasing 0.7pts relative to the previous month, which was also revised up by 0.1pts to 43.5pts. We believe that the increase was mainly driven by the upward adjustment in the minimum wage, as reflected in the improvement on households' conditions**
- **In addition, the rest of the components were also up, but at a more moderate pace**
- **We believe that consumer confidence will stay resilient in the short term, hovering around its current level, albeit still with limited room to the upside**

Consumer confidence increases significantly in January. According to the report, confidence grew by 0.7pts, its largest expansion since September and standing at 44.2pts (sa). This was much higher than our expectations, which called for a slight decrease. In particular, we believed that the uptick in inflation and uncertainty about changes to the health system would have dampened optimism regarding the 20% minimum wage increase, especially as this was announced in the previous month. Nevertheless, this was not the case, as mainly evidenced by the rise in components related to households. The index that measures current conditions was the largest outperformer at +1.0pts, followed closely by expectations at +0.9pts. This could also be related to the positive surprise in employment in the previous month, with the unemployment rate falling to its lowest level in the history of the series. We believe that the impact from rising inflation, concentrated in food items, was mainly observed in the 'purchasing power' component, which posted its slowest increase at +0.5pts.

Analyzing the figures for the country, both current conditions and expectations edged-up 0.6pts. Regarding presidential approval, according to the poll of polls made by *Oraculus*, net approval increased by 0.2%-pts to 46%. On top of the latter, it seems that economic activity during December may have started to pick-up (according to implied figures within 4Q19 GDP), with IMEF's indices suggesting that this could have extended to January. In this regard, if economic activity continues to improve, it could help support confidence even if it starts to be impacted by higher inflation levels.

Consumer confidence: January 2020
seasonally-adjusted index; monthly difference

	Jan-20	Dec-19	Difference
Headline index	44.2	43.5	0.7
Households'			
Current conditions	49.3	48.3	1.0
Expectations	56.1	55.2	0.9
National			
Current conditions	40.9	40.3	0.6
Expectations	48.7	48.1	0.6
Households' purchasing power	25.7	25.2	0.5

Source: INEGI

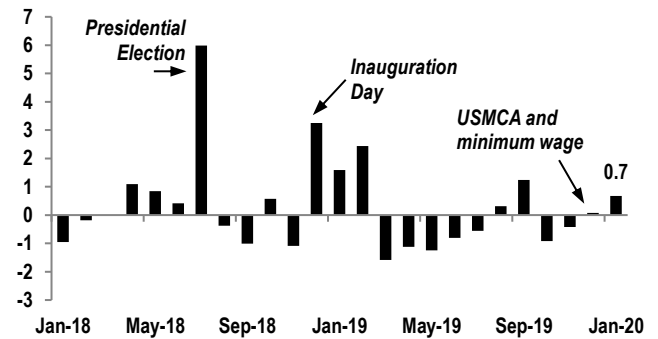
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Consumer confidence
Indicator, sa



Source: INEGI

Consumer confidence
Monthly change in pts, sa



Source: INEGI

We believe confidence will stay resilient in coming months, although with limited upside potential. Considering the strong showing in today’s report, we believe confidence will stay close to its current level in coming months, trending down to its long-term average in a slow fashion. Signals of a slight acceleration in economic activity, coupled with higher wages and persistently high presidential approval, should continue supporting confidence. The latter, on top of healthy remittances and additional transfers from government programs focused on social spending, could even mean additional increases in confidence.

Despite of this, we still consider the path of least resistance in the medium term is downwards, especially considering our inflation forecasts which anticipate an increase towards 3.6% y/y for the headline as soon as next month. The trajectory for the year sees prices relatively under pressure on challenging base effects and the effects of the minimum wage increase. All in all, if consumer confidence stays stable around its current level -still above its historical average-, it could eventually be conducive to stronger consumption, although remembering that its historical correlation with actual performance has been very low.

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