

Consumer confidence falls slightly in February, with some short-term risks

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- **Consumer confidence (February, sa): 43.9pts; Banorte: 43.7pts. consensus: 43.2pts (range: 42.0 to 43.8pts); previous: 44.1pts**
- **Confidence backtracked 0.2pts on a monthly basis, surprising slightly to the upside and staying resilient. This was driven by the 0.6pts reduction in the households' current conditions component**
- **Moreover, the 0.3pts increase in the purchasing power sub index was compensated with a decline of the same magnitude in country expectations**
- **We still believe that consumer confidence will remain resilient in the short-term, although with the possibility of an adverse impact due to the Coronavirus**

Consumer confidence slightly above expectations. According to the report, confidence declined by 0.2pts to stand at 43.9pts (sa). This was slightly above consensus (43.2pts) and closer to our forecast, albeit stronger than all economists' estimates. Two out of five components –current country conditions and households' expectations– were unchanged. We thought the former would reflect more strongly the impact from recent events, mostly related to public insecurity –particularly femicides in the country–. This seems to be affecting the president's net approval rating, which according to the poll of polls made by *Oraculus*, plunged to 30% from 43% in January, lowest level since the administration started. Nevertheless, and as observed in previous months, its effect is likely reflected the most in country expectations, which fell 0.3pts.

Looking at the rest of the components, households' current conditions declined the most (-0.6pts). We believe this was influenced by two factors. First, payback from last month's 0.9pts increase. Second and more importantly, the relevant uptick in the unemployment rate coupled with the downward trend in formal job creation, which could be affecting this category. On the contrary, the purchasing power component extended its recent gain by 0.3pts, likely more influenced by higher salaries. In turn, this has been related to some extent to the minimum wage hike, reflecting in the increase in real wages with the additional help provided by stable inflation.

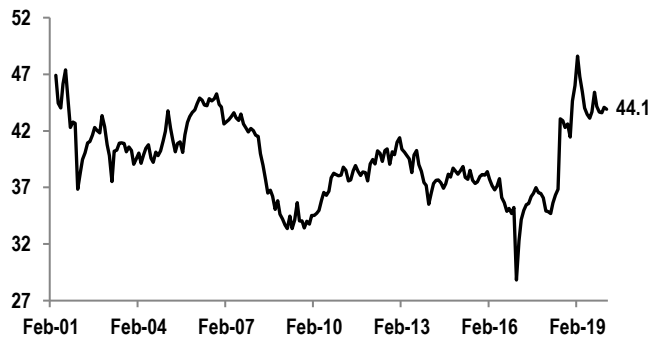
Consumer confidence: February 2020

seasonally-adjusted index; monthly difference

	Feb-20	Jan-20	Difference
Headline index	43.9	44.1	-0.2
Households'			
Current conditions	48.7	49.3	-0.6
Expectations	56.1	56.1	0.0
National			
Current conditions	40.7	40.7	0.0
Expectations	48.2	48.5	-0.3
Households' purchasing power	26.0	25.6	0.3

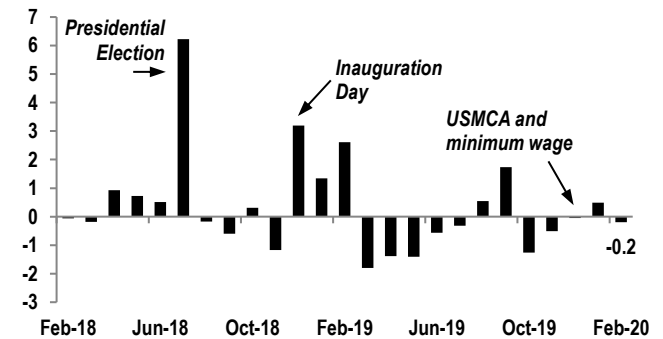
Source: INEGI

Consumer confidence
Indicator, sa



Source: INEGI

Consumer confidence
Monthly change in pts, sa



Source: INEGI

Confidence could stay high despite a possible temporary decline due to the Coronavirus. We believe that today’s slight retracement supports our view that confidence will remain relatively strong in coming months, hovering around its current level. We believe that wage increases, along tentative signals of a better economic performance, would be the main supports behind this expectation. Nevertheless, we do not rule out an impact in this indicator in the short-term as a result of COVID-19, albeit we believe it would be modest and temporary. In this respect, we take our cue from dynamics observed in May 2009, in the midst of the H1N1 pandemic –which was actually centered in Mexico–.

In the medium-term, we still believe the path of least resistance points to a decline in confidence, possibly tracking lower optimism in the political front, a situation that would drive this indicator towards a more consistent level with its longer-term average. Moreover, our view of higher inflation in the annual comparison could also influence this expectation. Overall, this fall would likely be gradual, with the current backdrop possibly helping private consumption this year, although modestly as it should be reminded that its historical correlation with actual performance has been low.

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We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldivar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Victor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Luis Leopoldo López Salinas, Jorge Antonio Izquierdo Lobato, Eridani Ruibal Ortega and Leslie Thalia Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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