

Consumer confidence – Slight increase despite highly complex environment

- **Consumer confidence (January, sa): 38.4pts; Banorte: 37.8pts; previous: 38.2pts**
- **Confidence added two months to the upside. We believe the boost may have stemmed from the minimum wage increase and optimism on vaccinations, compensating for worsening epidemiological conditions**
- **By sectors, the largest expansions were centered in current conditions, both for the country and households. However, we also noted a relevant upward adjustment in the purchasing power component, albeit remaining as the weakest index**
- **Expectations components were mixed, especially for households as they posted the only decline, possibly reflecting the impact on the epidemiological front the most**
- **We expect confidence to extend its upward trend in the following months, albeit probably at a slower pace as uncertainty around the virus prevails**

Consumer confidence extends slightly higher in January. According to the report, confidence rose stood at 38.4pts (sa), higher than the 38.2pts from December. This was a somewhat surprising result, contrasting with our view of a modest decline. Our forecast factored in more of a hit from some of the adverse factors in the period, mainly the further deterioration of epidemiological conditions. In particular, seven additional states went from ‘orange’ to ‘red’ in the traffic light indicator, totaling ten at this latter level. However, it seems that there were other relevant drivers compensating for this, including: (1) The [15% increase to the minimum wage](#) that came into effect on January 1st; (2) some progress surrounding the vaccination process; and (3) a reduction in income and value-added taxes in the southern border.

Strength in current conditions, weakness in expectations. While only one of the five categories was lower, performance did show a differentiated behavior. On the upside, current conditions for the country posted the largest increase at +1.0pts, followed closely by those for households at +0.9pts. In our view, this could be mainly related to the boost from the minimum wage hike. Nevertheless, we do not rule out some marginal benefit from the geopolitical front, with Trump’s definitive departure becoming clearer during the last few days of the sample period. Moreover, presidential approval was relatively stable, with positive ratings slightly above 60% for the last four months according to *Oraculus*, supporting sentiment. Another positive development was the 0.7pts increase in the purchasing power component, also in our view responding to the wage adjustment, even compensating for some relevant [pressures in prices early in the month](#). This is relevant as increases were observed in some key components, such as gasolines and food-related goods. However, other factors in play, such as [consumer credit](#) have shown a downward trend in the last few months.

February 8, 2021

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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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In contrast, those components related to expectations were weaker, with those for the country only rising 0.1pts, while households' fell 0.9pts. While there seems to be a slight payback effect, we do not rule out that worse epidemiological conditions also had an effect. This could be hitting from two sides. The first, from the direct effect of higher cases and human losses; the second from economic losses associated to stricter lockdowns.

Consumer confidence
Sa

| | Jan-21 | Dec-20 | Difference |
|--------------------|--------|--------|------------|
| Headline index | 38.4 | 38.2 | 0.3 |
| Households' | | | |
| Current conditions | 42.3 | 41.5 | 0.9 |
| Expectations | 53.3 | 54.2 | -0.9 |
| National | | | |
| Current conditions | 31.6 | 30.6 | 1.0 |
| Expectations | 45.6 | 45.5 | 0.1 |
| Purchasing power | 19.4 | 18.8 | 0.7 |

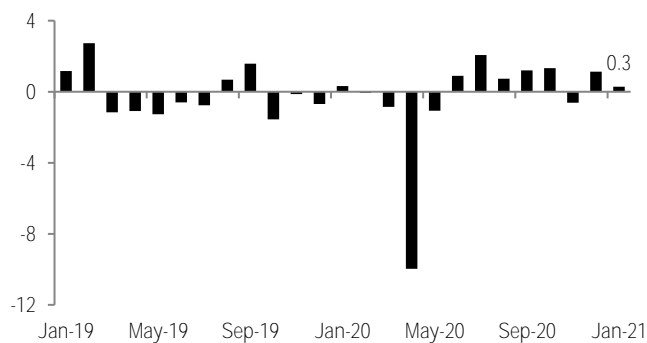
Note: Differences might not coincide due to the number of decimals allowed in the table
Source: INEGI

Consumer confidence
Indicator, sa



Source: INEGI

Consumer confidence
Monthly change in pts, sa



Source: INEGI

We expect confidence to maintain an upward trend, albeit probably at a slower pace. We see today's result as positive, considering a highly complex backdrop with risks mounting. In the short-term, the peak in new COVID-19 cases was in late January. Nevertheless, additional states transitioned to 'red' at the beginning of February, resulting in a total of 13 entities at this level which represent close to 58.4% of national GDP. To limit the impact, some states have loosened restrictions to non-essential activities. In this backdrop, both Mexico City and the State of Mexico allowed restaurants to resume in-store dining in open spaces since mid-January. The latter expanded actions to open shopping malls at 20% capacity and closed-space restaurants to 30% since February 1st, with the city expected to enact similar actions in coming weeks. On a mid-term basis, the outlook seems more favorable. Despite some setbacks, the vaccination plan continues marching along. The Russian vaccine, *Sputnik V*, was approved by the sanitary authority recently, following the authorization of the *AstraZeneca* immunization and supporting current efforts with the *Pfizer/BioNTech* shot. In addition, we believe businesses will continue to look for ways to adapt further to provide services, while complying with sanitary measures.

Probably more important, activity in the US remains strong, with the evolution of the pandemic improving in the last few weeks. This comes on top of an expected boost from more fiscal stimulus, with Democrats in Congress starting a process that would allow the approval of their US\$1.9 trillion plan. This includes direct payments to families –which in turn could boost remittances–, expanded unemployment benefits and support to businesses. This should help external demand for some of our country’s goods, which would remain as a positive spillover effect.

All in all, we expect confidence to continue its upward trend in coming months, although likely at a slower pace. This would be consistent with prevailing uncertainty about the virus. As activity gains further momentum and the vaccination process moves along, we could see more tangible improvements. Finally, we note that upcoming prints may show some slight distortions ahead of the June 6th mid-term elections in our country.

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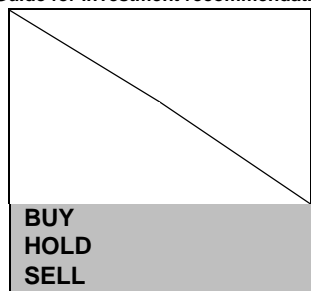
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|---|--|
|  | Reference |
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