

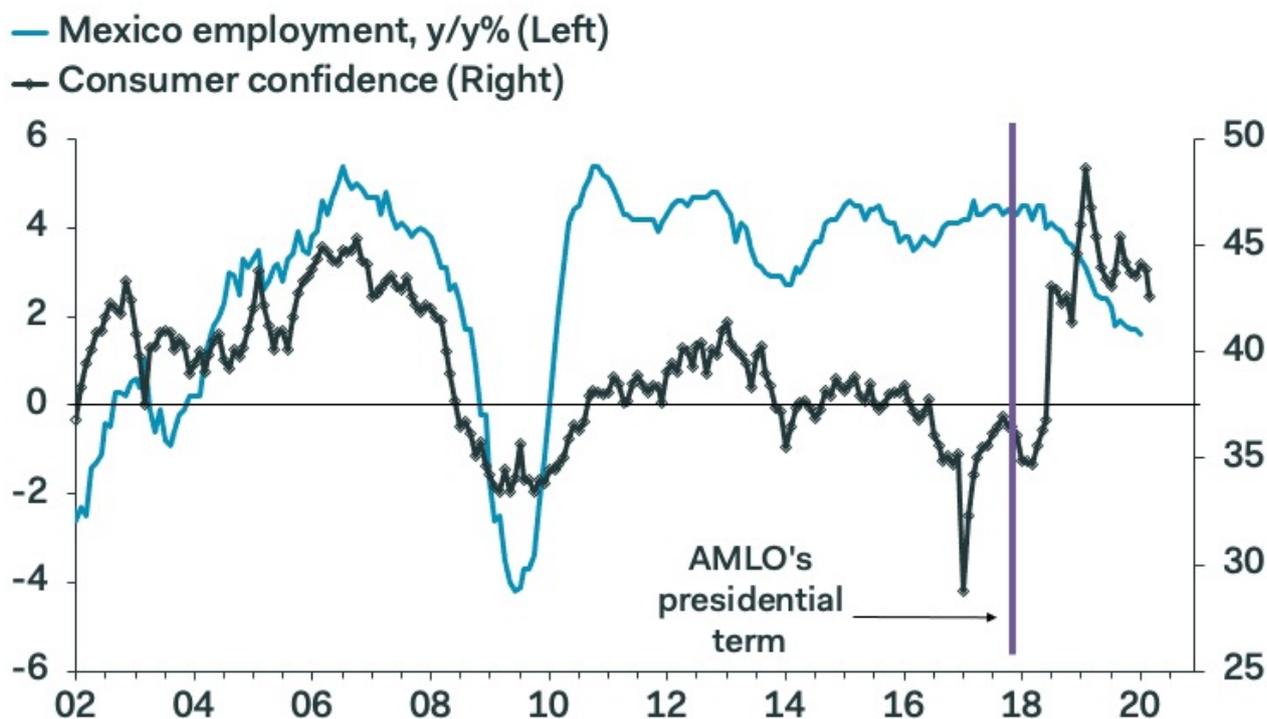
In one line: Sentiment remains resilient, but that won't last.

The consumer confidence index in Mexico fell to 42.6 in March from 43.9 in February, above the consensus, 39.9.

A smaller fall than we expected, given recent volatility and increasing external and domestic uncertainty—driving down the MXN sharply—and ongoing weakness in the labour market and the economy as a whole. On a month-to-month basis the details were mostly negative. The headline fell 2.8% month-to-month, the biggest drop since October and following a modest 0.6% fall in January. The underlying trend is deteriorating. The national economic expectations sub-index was down 4.3%, following a modest fall in January. The household expectation sub-index, meanwhile, fell 2% m/m, the biggest drop since early Q3. Big-ticket buying expectations plunged at their fastest pace since July, due mainly to the MXN sell-off, and we expect further falls in Q2.

Overall, the index has been relatively resilient in recent months, but we think that will change soon. Increasing uncertainty over Covid-19, the disruptions as a result of the outbreak, and the ongoing weakness in economic activity will push confidence to a cyclical lows soon. Credit growth is already slowing, remittances from abroad will start to fall rapidly, and the labour market will come under severe strain. Moreover, AMLO's approval ratings were in freefall before the virus due to his inability to halt crime, let alone revive the economy. The Mexican economy will suffer sharply in the next few months and consumer sentiment will fall further over the next couple of months as the hit from the virus epidemic arrives.

The chart shows that consumer confidence remained elevated in Q1, but it will soon deteriorate, driven primarily by the effect of a sharp recession, a weakening labour market and mounting violence. The index remains close to cyclical highs, but that won't last.



Andres Abadia
Senior International Economist
Pantheon Macroeconomics
www.pantheonmacro.com
Twitter @andres__abadia
+44 1912 600 309 (Office)