September 9, 2021

Latam Daily: Colombia Consumer Confidence; Mexico Inflation Moderates

- **Colombia: Consumer confidence slightly down m/m as future perceptions turn less optimistic**
- **Mexico: Headline inflation in August moderated as expected, but annual core inflation still on the rise; expect rate hike by end-September**

COLOMBIA: CONSUMER CONFIDENCE SLIGHTLY DOWN M/M AS FUTURE PERCEPTIONS TURN LESS OPTIMISTIC

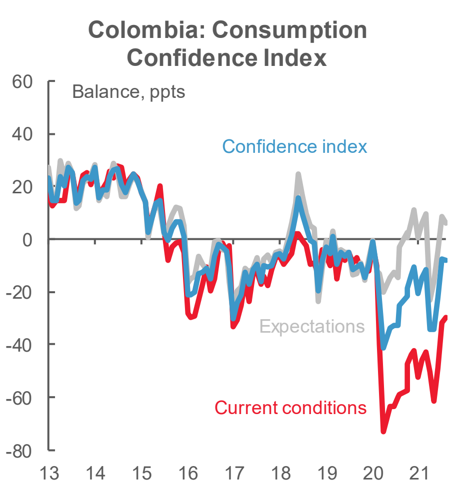
Data released by the Fedesarrollo statistical agency on Wednesday, September 8 show the Consumer Confidence Index (CCI) data for August at a balance of -8.3 ppts, declining from the -7.5 ppts in July (but above June's -22.3). In August, as the economic reopening and social stability consolidated, consumers showed a better perception of current conditions, however, their assessment about the future eased somewhat (chart 1), likely weighted by inflation and FX depreciation and reflected in a more subdued willingness to buy houses and durable goods. Vaccination rollout continued in August albeit with some interruptions which could also have impacted optimism.

Looking at August's details:

The Current Conditions Index rose to -29.9 ppts from July's -31.7 ppts, its highest level since February 2020. Although consumers' perceptions of the current situation remained deep in negative territory, recent improvements suggest that people believe that the worst of the pandemic and social unrest is over. Consumers' appetite to buy new durable goods remained low, in fact, it deteriorated to -45.1 ppts from the -43.3 ppts of the previous month, but it is the highest level since the pandemic began (chart 2).

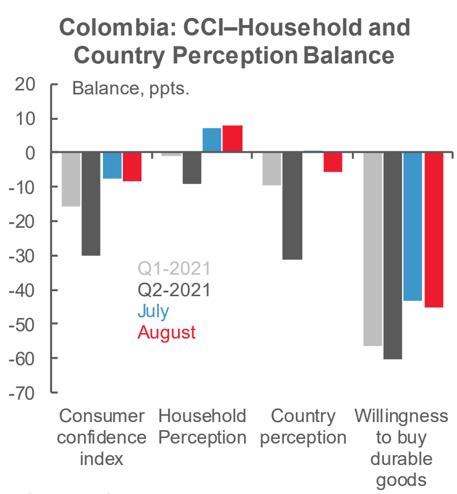
- **The Expectations Index fell by 2.4 ppts from July's 8.6 ppts level (chart 1, again).** This index is still in positive territory reflecting improved perceptions of households' future versus their current situation. The country

Chart 1



Sources: Scotiabank Economics, Fedesarrollo.

Chart 2



Sources: Scotiabank Economics, Fedesarrollo.

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assessment improved to 3 ppts versus the previous 1.8 ppts, which for now shows that concerns about next year's general election are low. However, despite households' expectations that better times are ahead for the country, they are not as confident about improving their economic wellbeing.

- **Consumer confidence numbers improved in three of the five major cities surveyed at the regional level, with latecomer Cali now leading the gains.** Medellin and Bogota are the cities with the lowest consumer confidence, where willingness to buy houses and durable goods fell, indicating some effect from the exchange rate.

- **August readings varied across socioeconomic status: high-income households had the most significant decline from the +2.3 ppts to -10.1ppts, while the low-income population posted an improvement from -15.4 ppts to -9.8 ppts.** Middle-income household's confidence retreated by 5.4 ppts to -6.4 ppts.

Overall, August's consumer confidence moderated despite a consolidation of the economic reopening. It appears that consumers are facing new challenges such as higher inflation, labour market lagging the overall economic recovery, and the FX depreciation, among others. How consumer confidence evolves will be revealing as presidential campaigns pick up the pace over the coming months. For now, consumer confidence is close to a neutral level which would support the economic recovery.

—Sergio Olarte & Jackeline Piraján

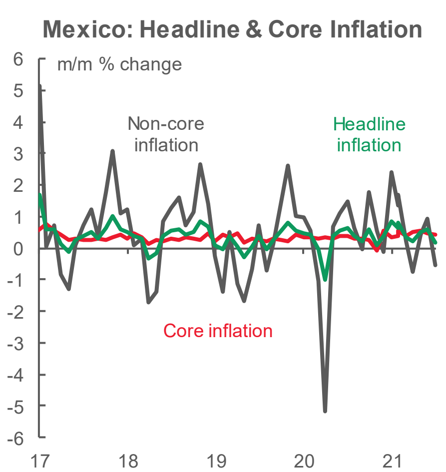
MEXICO: HEADLINE INFLATION IN AUGUST MODERATED AS EXPECTED, BUT ANNUAL CORE INFLATION STILL ON THE RISE; EXPECT RATE HIKE BY END-SEPTEMBER

According to the statistical agency INEGI, in August, headline inflation in August moderated to +0.19% m/m (chart 3) from a previous +0.59% m/m, in line with the +0.18% m/m consensus of analysts participating in the Citibanamex survey. This result came in mainly because of a drop in energy prices owing to recent price controls in the gas sector, and despite a continued monthly increase in the core component. In annual terms, headline inflation stood at +5.59% y/y, marginally below the +5.60% y/y anticipated and down from July's +5.81% y/y.

Core inflation continued above expectations although it moderated somewhat, registering a +0.43% m/m change, down from a previous +0.48% m/m in July and above the +0.42% m/m consensus. In annual terms core inflation accelerated from July's +4.66% y/y to +4.78% y/y (chart 4), pressured by changes in the consumption dynamics favoring goods (+5.99% y/y from +5.74% y/y in July) over services (+3.43% y/y from +3.46% y/y in July) (chart 4, again), although both facing upside trends as more economic sectors reactivated owing to lower COVID-19-related restrictions.

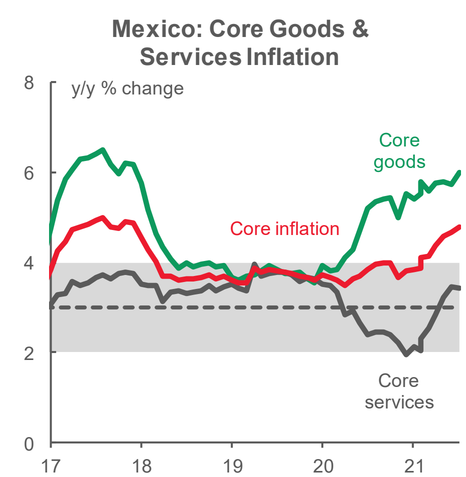
On the other hand, non-core inflation showed some cooling signs, decreasing -0.52% m/m, driven by the above-mentioned drop in energy prices (-3.50% m/m) resulting from the government's strategy to implement price controls on domestic gas. Annually, non-core inflation again moderated from +9.39% y/y in July to +8.14% y/y in August (chart 5).

Chart 3



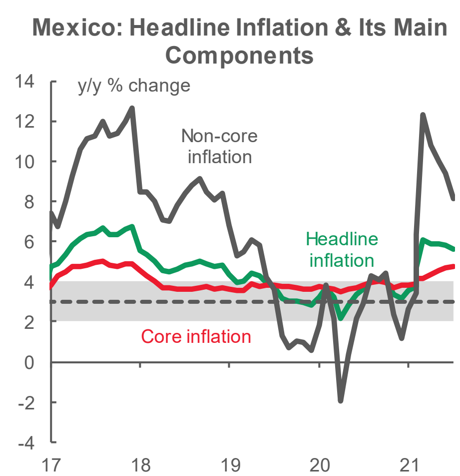
Sources: Scotiabank Economics, INEGI.

Chart 4



Sources: Scotiabank Economics, INEGI.

Chart 5



Sources: Scotiabank Economics, INEGI.

Our forecasts suggest that inflation will remain outside the monetary policy target range of 3.0% (+/-1%) for the rest of 2021 and will end the year at a level of around 6.0%, pushing the central bank to increase the monetary policy rate by 75 basis points and close the year at 5.25%. In this regard, we are anticipating that, at its September 30 meeting, Banxico will increase the benchmark rate by an additional 25 basis points to 4.75%. For the rest of the year, we anticipate that energy and food price pressures will be replaced by services price rises.

—Miguel Saldaña