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GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombia Consumer Confidence; Mexico October Economic Indicators

- **Colombia: Consumer confidence fell in December; households less confident on current and future conditions**
- **Mexico: October indicators show prevailing weakness of private investment, moderation in private consumption**

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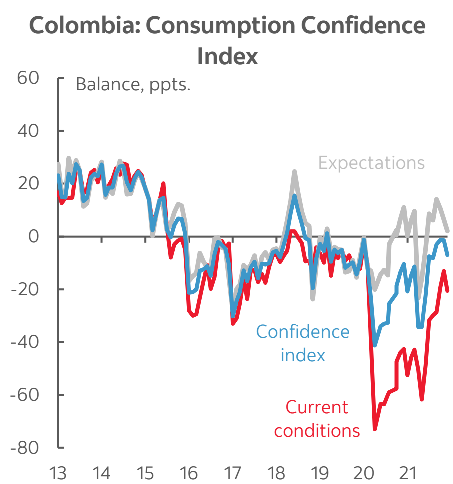
COLOMBIA: CONSUMER CONFIDENCE FELL IN DECEMBER; HOUSEHOLDS LESS CONFIDENT ON CURRENT AND FUTURE CONDITIONS

Colombia's Consumer Confidence Index (CCI) in December reported a balance of -7 ppts, below from -1.4 ppts in the previous month. The data was released by Colombia's Fedesarrollo on Tuesday, January 11. Consumer confidence deterioration is explained by both the index's components (chart 1), and an assessment of current and future conditions. However, the main deterioration was in the willingness to purchase durable goods, which would be strongly associated with higher domestic prices due to the FX depreciation. On the other side, household perception about the economic future deteriorated too, probably pointing to some uncertainty regarding elections but also the effect of anticipating higher prices in 2022.

Looking at December's details:

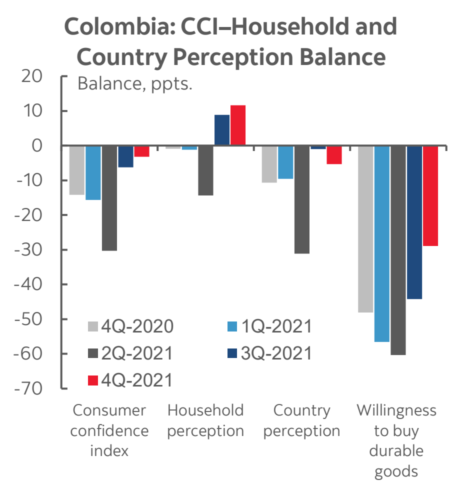
- The Current Conditions Index fell to -20.6 ppts from November's -13.1 ppts, its weakest level since September 2021. Despite the economic reopening, households are not perceiving a strong improvement in their household's conditions (chart 2). On the other side, as inflation has increased for consumer staple products, and import goods due to the FX depreciation, households are now reducing their willingness to purchase durable goods—the worst performer item of the confidence index.
- The Expectations Index fell for the third month in a row. In December it fell by 4.3 ppts from November's 6.4 ppts (chart 1, again). Expectations on the country's economic future worsened the most (-12 ppts), while the assessment about the economic future of households weakened by 1.9 ppts. We think consumers are showing uncertainty due to inflation acceleration during 2021, which also means higher prices for 2022, due to indexation effects. Additionally, as the election process ramps up this year, country sentiment among some consumers could weaken further and moderate some purchase decisions.

Chart 1



Sources: Scotiabank Economics, Fedesarrollo.

Chart 2



Sources: Scotiabank Economics, Fedesarrollo.

- Consumer confidence numbers weakened in two of the five major cities surveyed at the regional level. On the negative side, Bogota and Barranquilla showed the worst contractions, -10.2 ppts and -7 ppts, respectively. In the case of Barranquilla, it was on a weaker sentiment to purchase homes, while in Bogota, deterioration was on lower willingness to purchase durable goods.
- Confidence rebounded only for the high-income population: Confidence improved in the high-income population by 9.5 ppts, reaching one of the best levels since the pandemic began. On the other side, middle-income and low-income households showed the most significant contraction, -12.7 ppts and -0.6 ppts, respectively to -8.4 ppts and -8.1 ppts in December 2021. The middle-income population showed deterioration in their willingness to buy houses of 11.4 ppts, reaching the worst level in six months.

Overall, December's consumer confidence showed that households are showing the impact of the recent inflation spike. In 2021, the economic growth was led by a robust recovery in private consumption, that said, ahead of 2022 it would be relevant to monitor household response to the current environment of higher inflation. On the other side, for the H1-2022 we expect the consumer sentiment to be impacted also by the upcoming electoral process.

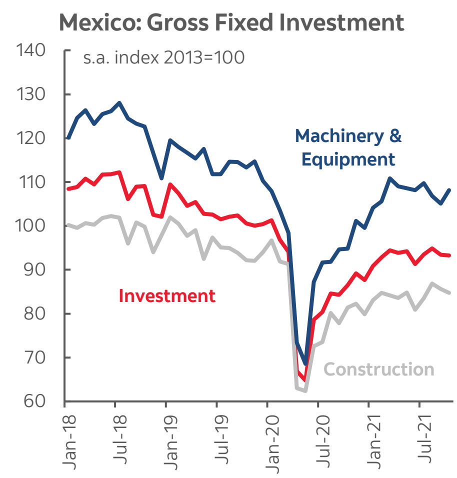
—Sergio Olarte & Jackeline Piraján

MEXICO: OCTOBER INDICATORS SHOW PREVAILING WEAKNESS OF PRIVATE INVESTMENT, MODERATION IN PRIVATE CONSUMPTION

I. Private Investment stagnated in October, with prevailing weakness and below pre-pandemic levels

According to statistical agency, INEGI, gross fixed investment in Mexico remained unchanged (-0.0% m/m) in October (see sa index in chart 3), from the previous drop of -1.6% m/m, maintaining signs of stagnation below pre-pandemic levels. Thus, investment remains -5.9% below the first two months of 2020 and -16.5% below its peak in 2018. By components, construction attenuated its decline from 1.8% m/m to 0.6% m/m, as the residential subcomponent stood at 0.0% m/m from -4.5% m/m, and non-residential construction fell -1.0% m/m from 0.4% m/m previously. Machinery and equipment rebounded from -1.8% m/m to 2.8% m/m, with the domestic subcomponent edging up 4.4% m/m from -3.2% m/m, and the imported subcomponent rebounding from -0.1% m/m to 0.5% m/m. Construction holds a 10.1% decrease comparing to pre-pandemic numbers (Jan–Feb 2020), but machinery and equipment is up by 2.3%. In the year-over-year comparison sa.

Chart 3



Sources: Scotiabank Economics, INEGI.

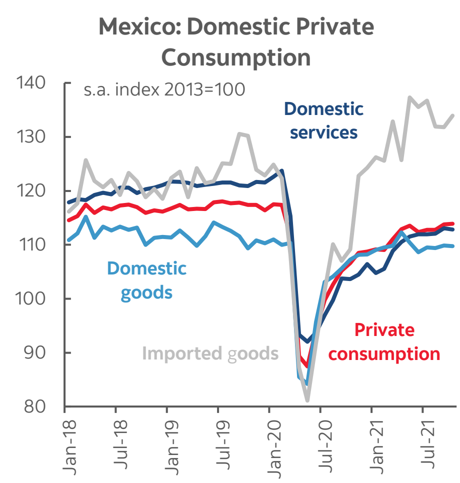
Investment moderated its increase from 9.9% y/y to 6.5% y/y still with some base effects distortions. Private investment remains as the weak link in the economic recovery, remaining at levels below those observed prior to the pandemic and showing a descendent trend since late 2018, affected by uncertainty related to domestic factors.

In particular, the complicated relationship between the public and private sectors has dampened investment outlook. Looking ahead, the improvement in business confidence gives positive signals, and we expect that the coming announcement of a new public-private infrastructure investment package will partially contribute to the recovery as long as it contributes to restore private sector confidence to strengthen investment.

II. Private consumption moderated as services slowed in October

In October, private consumption moderated its monthly seasonally-adjusted advance from 0.8% m/m to 0.2% m/m (see sa index in chart 4). Domestic goods moderated from 0.4% m/m to 0.1% m/m, while services slowed from 0.8% m/m to 0.0% m/m. Imported goods rebounded from -0.1% m/m to 0.4% m/m. In its annual comparison nsa, private consumption moderated its increase from 8.0% y/y to 5.7% y/y, with the effects of a low comparison base still present due to the slow recovery of domestic demand. On a cumulative annual basis, consumption increased by 8.4% YTD. Consumption remains -3.0% below its level in February 2020, as services remain -8.9%, and domestic goods hold a -0.2%, but imported are 9.4% above pre-pandemic levels.

Chart 4



Sources: Scotiabank Economics, INEGI.

Looking ahead, consumption could maintain a moderate growth rate line but higher consumer confidence up to December, when confidence dropped in the holiday season, facing downside risks owing to the recent behavior of inflation, as well as a possible impact from the new wave of contagions, although with a lesser effect than previous waves owing to significant laxer restrictions.

—Miguel Saldaña