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Latam Daily: Colombia Consumer Confidence Improves; Mexico's Inflation and Auto Sector

- **Colombia:** Consumer confidence improved in April, but households remain cautious
- **Mexico:** Inflation continues to trend higher; auto sector struggles

COLOMBIA: CONSUMER CONFIDENCE IMPROVED IN APRIL, BUT HOUSEHOLDS REMAIN CAUTIOUS

Colombia's Consumer Confidence Index (CCI) stood at -17.5 percentage points in April, a slight increase of 0.3 pts over the previous month, reflecting an improvement in expectations of future conditions (chart 1), as the index of current conditions registered a slight fall (chart 2).

The current economic conditions index continues to indicate that households are feeling uneasy about economic conditions. Willingness to buy durable goods remained weak and fell compared to the previous month, along with willingness to buy a home. In contrast, the willingness to buy a vehicle increased slightly (0.4 pts) relative to March. Meanwhile, perceptions of future economic conditions deteriorated, and uncertainty remains with respect to the political context and inflation.

Looking at April's details:

- **The CCI was -32.6 percentage points, down from -32.3 pts in March.** Households remain uncertain despite improvements in the employment picture with a narrowing of gender gaps, as high inflation continues to take its toll and the pace of recovery remains slow. In this respect, the willingness to buy durable goods decreased by 2.3 pts compared to the previous month.
- **The Expectations Index rose, increasing to -7.4 pts in April from -8.7 pts in March (chart 1, again).** Expectations about future economic conditions increased (by 4 pts to -27.8 pts), while the assessment of the country's economy weakened to -7.7 pts. It will be important to monitor the dynamics of consumption in the coming months since inflation and uncertainty about the elections would impact the recovery in 2022. For now, credit is still robust, especially in the consumer segment increasing by 18% y/y, as consumption remains buoyant notwithstanding weak confidence.
- **Consumer confidence figures weakened in two of the top five cities surveyed.** Bogota and Medellin showed the worst balances, -19.5 pts, and -15.8 pts,

Chart 1

Colombia: Consumption Confidence Index

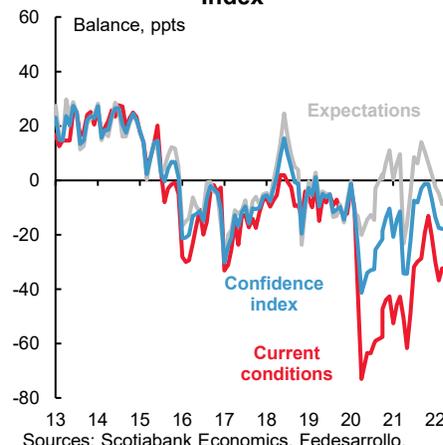
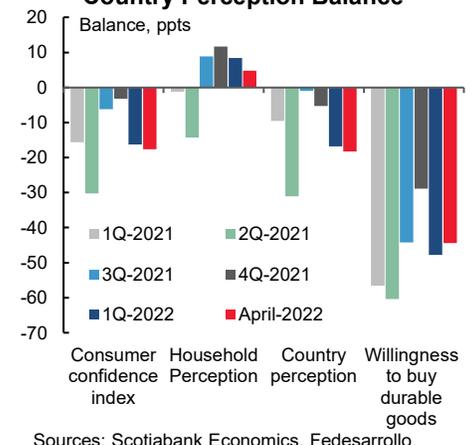


Chart 2

Colombia: CCI—Household and Country Perception Balance



respectively. In the case of Bogota, the driver was mainly a weaker sentiment for home purchases. In Medellin, the willingness to buy durable goods declined.

- **Confidence improved, surprisingly, in the economic group most affected by inflation:** confidence increased in the low-income population by 3.5 ppts, while for middle- and high-income households the reduction was -2.4 ppts and -4.3 ppts, respectively. In absolute terms, the biggest deterioration in sentiment was for the high-income population (-21.3 ppts), since this group may be beginning to perceive the effects of the very high inflation and the political uncertainty.

All in all, consumer confidence in April suggests that consumers remain pessimistic about their current situation but are more optimistic about conditions one year ahead. High-income households' confidence is beginning to reflect the negative effects of high inflation. Willingness to buy durable goods and vehicles remains low. Moreover, inflation could further weaken household confidence, possibly affecting spending. **In any case, we expect the central bank to continue its cycle of monetary policy tightening, likely reaching a terminal rate at 8%, as we see inflation trajectories in the short and medium-term remain high and well above BanRep's target range.**

—Sergio Olarte, Maria Mejía, & Jackeline Piraján

MEXICO: INFLATION CONTINUES TO TREND HIGHER; AUTO SECTOR STRUGGLES

I. Inflation's upward trend reinforces our call for a 50 basis points hike

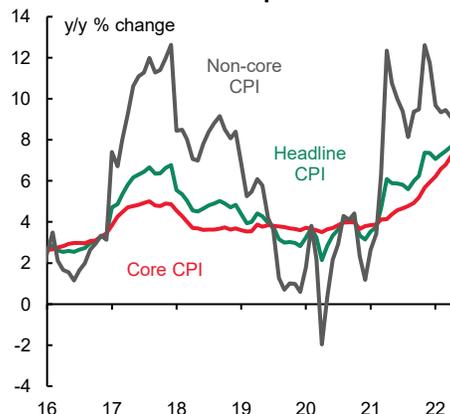
According to the [INEGI](#) statistical agency, annual headline inflation continued its upward trend in April, rising from 7.45% y/y to 7.68% y/y, slightly below the consensus of 7.72% y/y (chart 3). Core inflation also trended higher, hitting a post-2001 high, increasing from 6.78% to 7.22%, driven by merchandise goods prices of 9.33% y/y (8.69% in March), and in services of 4.83% (4.62%) (chart 4). In contrast, non-core inflation decelerated from 9.45% in March to 9.07% in April, owing to a lower pace of increases in the prices of agricultural products, from 16.12% to 14.36%, which offset a higher rate in energy and authorized tariffs of 5.18% from 4.73% previously (chart 5).

On a monthly basis, headline inflation decelerated to 0.54% m/m in April from 0.99% m/m in March. Core inflation increased to 0.78% m/m from 0.72% m/m previously, reflecting price pressures from the merchandise component, which accelerated 1.03% m/m from 0.93% m/m in March. Non-core inflation fell to -0.14% m/m, mainly owing to the -1.07% m/m drop in energy and government tariffs.

Going forward, we expect prices of some products to moderate somewhat as the government's plan to deal with inflation is implemented. However, we expect global supply chain disruptions to continue to negatively affect price dynamics. In this environment, we anticipate Banxico hiking its policy rate 50 basis points to 7.00% on Thursday, May 12 in line with consensus, closing 2022 at 8.50% and 2023 at 9.00%.

Chart 3

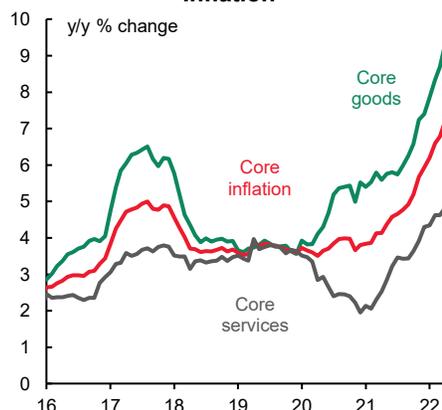
Mexico: Monthly Inflation & Its Main Components



Sources: Scotiabank Economics, INEGI.

Chart 4

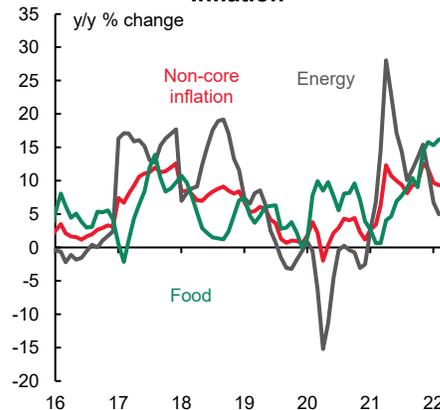
Mexico: Core Goods & Services Inflation



Sources: Scotiabank Economics, INEGI.

Chart 5

Mexico: Non-Core Components Inflation



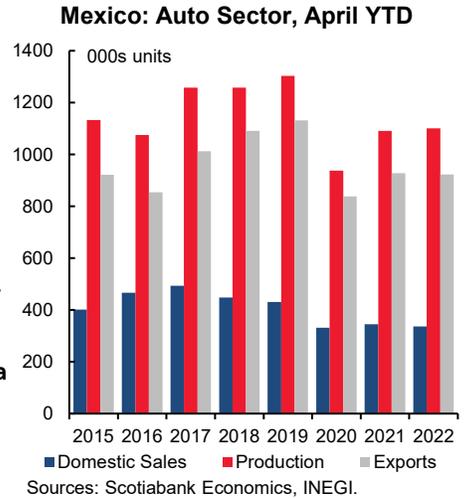
Sources: Scotiabank Economics, INEGI.

II. The auto sector struggles amid persistent global chain disruptions

Data released by [INEGI](#) show that auto production fell on a yearly basis in April, while sales and exports remained at roughly the previous year’s level (chart 6). Production dropped -6.6% m/m in April (0.8% y/y), to 251,547 units assembled. Sales went from -1.2% y/y in March to -1.0% y/y in April, with 83,459 transactions, while exports totalled 241,286 units, equivalent to an annual increase of 2.9%, up from 2.5% y/y in March. In the January-to-April period, production totaled 1,100,592 units, its lowest level since 2017 (excluding 2020), representing an increase of 0.9% in the year to date (YTD). In the same period, 336,841 were sold and 922,278 units exported, the lowest levels of these indicators since 2015, and 2016, respectively, equivalent to declines of -2.4% and -0.6% YTD, with respect to the same period a year earlier.

—Brian Pérez & Miguel Saldaña

Chart 6



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