

Domestic demand – Rebound in consumption as investment takes a slight step back in November

- **Gross fixed investment (November): 19.2% y/y (nsa); Banorte: 16.5%; consensus: 19.8% (range: 15.7% to 23.6%); previous: 25.5%**
- **Private consumption (November): 5.6% y/y (nsa); Banorte: 4.4%; consensus: 4.8% (range: 3.5% to 5.5%); previous: 5.2%**
- **Investment fell 1.3% m/m, with a mixed performance inside. Construction retreated by 2.8% –only its second drop so far this year–, with machinery and equipment rebounding 0.4%**
- **Consumption up 0.7% m/m, offsetting October's loss. The imported component led the uptick (6.3%), with domestic goods and services more modest at 0.2%**
- **We believe that the end of the year will be defined by the resilience of consumption, although with some uncertainty regarding investment. However, we expect both items to gain momentum at the start of 2024,, particularly the latter**

Decline in investment in November, dragged by construction. GFI advanced 19.2% y/y, decelerating vs. October ([Chart 1](#)). Construction explains much of this, moderating to 20.7% –although with differences prevailing within, still with high rates in the non-residential component. Machinery and equipment was more stable at 17.6%, with a moderation in the imported component. For further details, see [Table 1](#).

With seasonally adjusted figures, investment fell 1.3% m/m ([Chart 3](#)), only its second sequential decline in the year. Once again, the main impact came from construction, down 2.8%. This figure was already expected given its performance in the [industrial production report](#), where both edification and civil engineering works showed negative rates. However, weakness centered in the residential sector in this occasion, somewhat expected given prevailing declines throughout the year and a challenging base effect. Meanwhile, the non-residential component was more stable at -0.1%, in our opinion supported by both progress on key infrastructure projects and construction of industrial spaces. As such, the slight the moderation is likely related to temporary adjustments and not a change in the overall trend. Machinery and equipment rebounded by 0.4%, not enough to offset October's decline (-0.6%). Strength centered in the domestic component (1.0%), particularly in transportation equipment at +1.2%. Meanwhile, the imported component fell 0.1%, with transportation dragging the headline at -6.6%. This is consistent with prevailing distortions in the aftermath of the UAW strike in previous months. More details can be seen in [Table 2](#).

The upward trend for consumption resumed. In annual terms, the indicator increased 5.6% ([Chart 5](#)). Fundamentals were skewed to the downside, with: (1) Wages maintaining a positive behavior, although with job losses; (2) a negative seasonality in remittances; and (3) a slight moderation in consumer credit. The trend inside continued, with imported goods as the most dynamic (33.1%) relative to the domestic component (1.4%), although with the latter slowing at the margin. For details, see [Table 3](#).

Sequentially, consumption grew 0.7% m/m, more than erasing October's losses ([Chart 7](#)). The imported component resumed its favorable trend at 6.3%, supported by MXN appreciation. For its part, the domestic component advanced 0.2%, with strength centered in services (0.5%), with goods declining 0.2% on a more challenging base ([Table 4](#)). These results point to strong results from discount initiatives that are typically held in the period.

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We see a diverging trend for domestic demand between the first and second half of the year.

Domestic activity will remain the engine of the economy throughout 2024 –[recalling our estimate for GDP at 2.4%](#). We believe that dynamism will be centered in the first semester, betting on a slowdown in the second. Our expectation is based on four key pillars: (1) Higher government spending to complete priority projects; (2) private investment spending oriented to nearshoring-related projects; (3) [the increase to the minimum wage](#) and government programs that will boost households' income; and (4) strong consumer fundamentals. In addition, we identified some satellite factors that will have a positive impact, which we describe in more detail below.

On investment, our trajectory implies that it would be the main driver of growth. Thus, the dynamism seen in 2023 will continue in the first half, with public and private capital providing support. However, it could be more limited by 2H24. On the contrary, momentum in manufacturing could boost machinery and equipment and further construction projects. In this sense, manufacturing was the sector that registered most investment announcements in 2023 with US\$52.6 billion, according to the *Ministry of Economy*. Thus, we expect that the formalization and start of private projects will continue in 2024. In line with the latter, demand for industrial parks and warehouses this year is expected to result in an investment of US\$3.2 billion according to the *Mexican Association of Industrial Parks*. Other tailwinds would be related to an easier monetary stance starting in 1Q24.

On consumption, we believe that dynamism in the first quarter will be greater than at the end of 2023, given higher households' disposable income thanks to social programs transfers (with some payments made in advance to comply with the electoral ban). In addition, strength in fundamentals will continue, highlighting real wage growth –an expected response to the increase in the minimum wage– and [good dynamism in remittances](#). On the other hand, the performance of the MXN could also be an incentive for consumer goods imports –especially in 1Q24. Finally, we remain alert to inflation as we anticipate that it will close the year at 4.6% y/y, not ruling out that pressures could arise –particularly in the non-core component– that could undermine the advance of real wages or negatively impact consumer confidence.

Gross fixed investment

Table 1: Gross fixed investment

% y/y nsa

	nsa				sa	
	Nov-23	Nov-22	Jan-Nov'23	Jan-Nov'22	Nov-23	Nov-22
Total	19.2	7.8	20.3	7.7	20.1	8.5
Construction	20.7	4.4	20.4	3.4	21.4	4.7
Residential	5.6	-4.8	2.0	-3.5	6.1	-4.5
Non-residential	34.4	14.4	38.5	11.1	35.1	14.4
Machinery and equipment	17.6	11.7	20.1	12.9	18.8	14.1
Domestic	16.1	9.1	16.2	6.9	16.1	11.8
Transportation Equipment	33.4	19.1	29.6	7.1	32.9	22.0
Other machinery and equipment	1.4	1.8	5.3	6.7	1.4	4.3
Imported	18.6	13.6	22.9	17.5	21.3	14.0
Transportation Equipment	43.4	28.6	58.5	26.0	45.2	29.2
Other machinery and equipment	15.0	11.7	18.7	16.5	17.5	13.7

Source: INEGI

Chart 1: Gross fixed investment

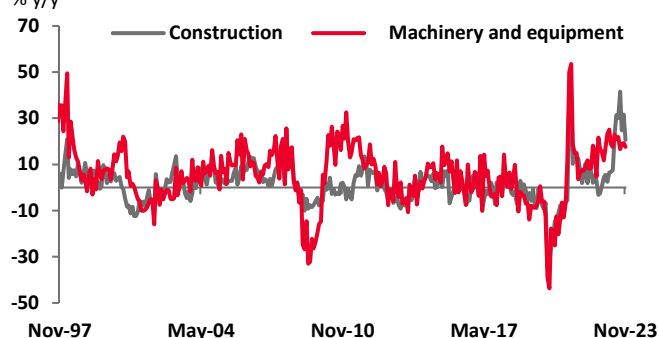
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector

% y/y



Source: INEGI

Table 2: Gross fixed investment

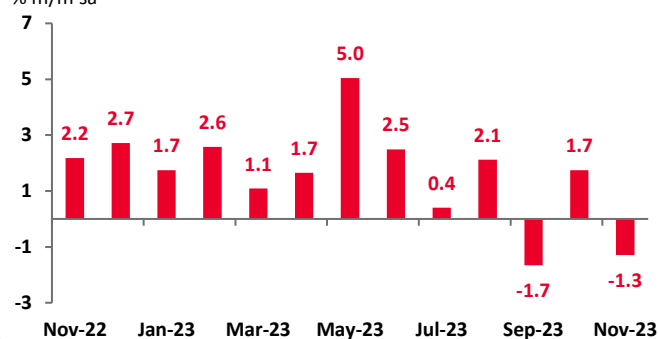
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Nov-23	Oct-23	Sep-23	Sep-Nov'23	Aug-Oct'23
Total	-1.3	1.7	-1.7	0.6	2.7
Construction	-2.8	3.7	-5.1	-0.9	3.5
Residential	-5.9	6.8	3.6	4.6	2.1
Non-residential	-0.1	1.6	-12.1	-5.7	3.4
Machinery and equipment	0.4	-0.6	2.6	2.6	2.3
Domestic	1.0	-1.8	3.8	4.3	4.4
Transportation Equipment	1.2	-1.2	7.2	7.6	7.4
Other machinery and equipment	0.4	-3.7	0.6	0.3	1.0
Imported	-0.1	-0.6	1.6	0.3	0.2
Transportation Equipment	-6.6	0.1	9.8	6.7	6.7
Other machinery and equipment	0.9	-0.6	0.5	-0.4	-0.5

Source: INEGI

Chart 3: Gross fixed investment

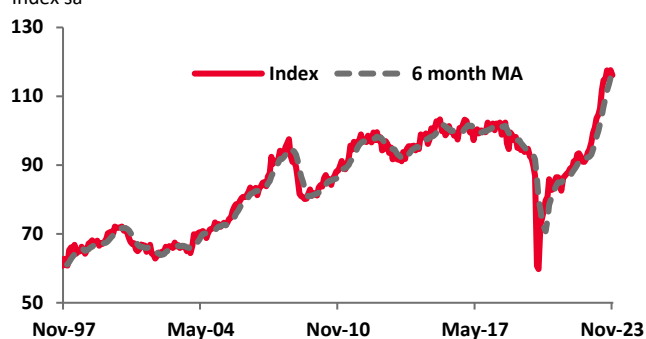
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment

Index sa



Source: INEGI

Private consumption

Table 3: Private consumption

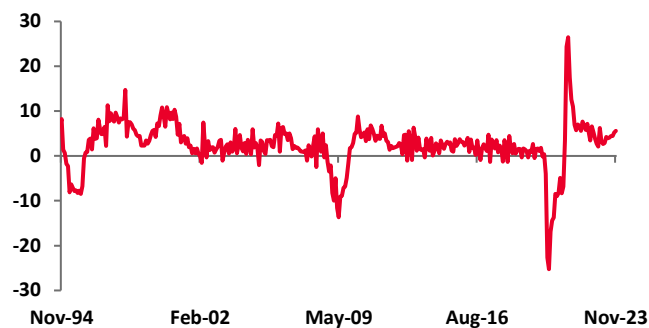
% y/y nsa

	nsa				sa	
	Nov-23	Nov-22	Jan-Nov'23	Jan-Nov'22	Nov-23	Nov-22
Total	5.6	2.8	4.3	5.4	5.8	3.1
Domestic	1.4	3.3	1.6	6.4	1.6	3.5
Goods	1.6	0.5	0.4	4.3	1.8	0.8
Durables	24.1	-2.2	14.5	1.4	-	-
Semi-durables	5.8	4.9	2.5	4.8	-	-
Non-durables	-1.8	0.0	-1.6	4.5	-	-
Services	1.3	7.0	3.2	9.0	1.2	7.1
Imported goods	33.1	-3.7	19.8	1.9	35.1	-1.3
Durables	38.6	3.9	26.0	22.6	-	-
Semi-durables	26.4	0.4	12.3	21.9	-	-
Non-durables	32.3	-9.4	19.2	-13.0	-	-

Source: INEGI

Chart 5: Private consumption

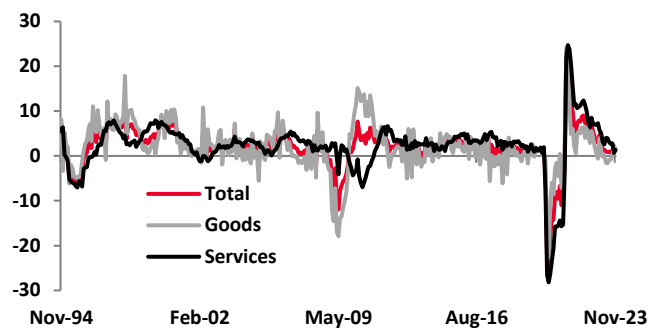
% y/y



Source: INEGI

Chart 6: Domestic consumption: Goods and services

% y/y



Source: INEGI

Table 4: Private consumption

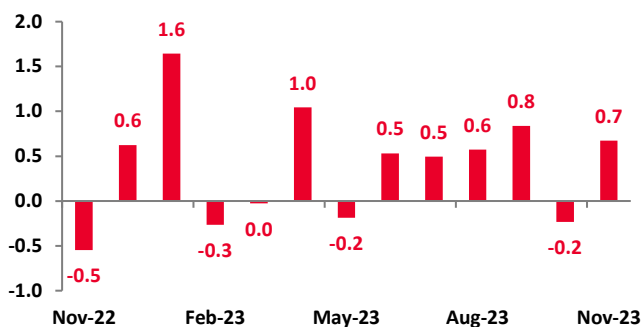
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Nov-23	Oct-23	Sep-23	Sep-Nov'23	Aug-Oct'23
Total	0.7	-0.2	0.8	1.5	1.6
Domestic	0.2	-0.1	0.8	1.0	0.9
Goods	-0.2	0.4	1.2	1.6	1.5
Services	0.5	-0.7	0.3	0.2	0.1
Imported goods	6.3	-1.3	1.9	5.3	4.7

Source: INEGI

Chart 7: Private consumption

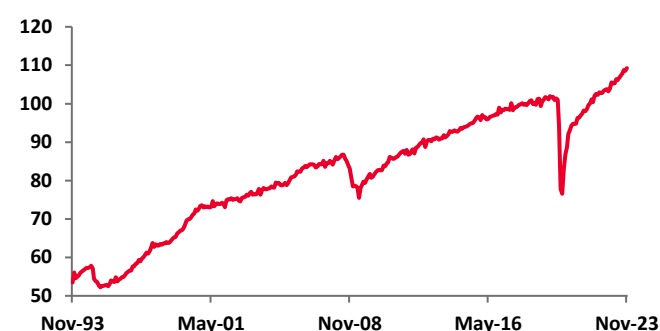
% m/m sa



Source: INEGI

Chart 8: Private consumption

Index sa



Source: INEGI

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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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