April 3, 2024

Domestic demand – Slow start at the turn of the year, albeit with a more favorable short-term outlook

- **Gross fixed investment (January): 15.3% y/y (nsa); Banorte: 18.1%; consensus: 17.9% (range: 14.2% to 18.1%); previous: 13.4%**
- **Private consumption (January): 2.9% y/y (nsa); Banorte: 3.9%; consensus: 3.7% (range: 3.5% to 3.9%); previous: 4.4%**
- **Investment climbed 0.1% m/m, also noting an upward revision to December's figures. Construction advanced 0.3%, with machinery and equipment stringing a four-month slide at -0.2%**
- **Consumption fell 0.6% m/m, with a mixed performance inside. The imported component rebounded by 0.4%, while domestic goods and services contracted by 0.8% –with goods disappointing at -1.7%–**
- **Looking ahead, we believe investment will be positive, recognizing a relevant boost from public spending in the short-term. Consumption will likely gather pace as soon as February, with an optimistic view permeating through 1H24**

GFI uptick in January, with construction behind gains. GFI advanced 15.3% y/y, accelerating vs. December (Chart 1). Construction remains high at 20.8% –with the non-residential component still the most elevated at 29.8%, but with the residential gathering some pace at 10.1%. Machinery and equipment also improved, coming in at 9.7%, with imported goods (15.2%) better relative to domestic ones (2.4%). For further details, see Table 1.

With seasonally adjusted figures, investment picked up 0.1% m/m (Chart 3), although noting relevant revisions to the series, especially an upward adjustment for December. The push came from construction at +0.3%, more modest than in the industrial production report. Inside, the residential sector rebounded 6.8%, albeit noting that it came after an accumulated decline of 12.8% in the previous two months. Meanwhile, the non-residential sector declined by 3.6%, facing a challenging base effect and likely dragged by investment related to the oil sector. Machinery and equipment contracted by 0.2%, adding four months of sequential declines. The drag came in from the domestic component (-1.3%), especially transportation (-1.5%), which contrasts with its performance in the IP report. However, strength remained in the imported branch at +0.8%. We believe that MXN gains continue as the most relevant driver, likely triggering a substitution effect. In this sense, transportation rocketed by 16.5%. More details can be seen in Table 2.

Sequential decline in consumption, in line with other figures for the period. In annual terms, the indicator stood at 2.9% (Chart 5), decelerating once again. Fundamentals were mixed with a slightly negative skew, noting: (1) Job losses, but an increase in average wages –pushed by the minimum wage hike; (2) remittances below US$5,000 million with a seasonal drag; and (3) consumer credit that continues to expand, although at a slower pace. Inside, imported goods remained high (+17.5%) –with all three sub-branches maintaining double-digit expansions–, while the domestic sector (+0.5%) was propped up by services. For details, see Table 3.

Sequentially, consumption fell 0.6% m/m (Chart 7). The contraction was solely based on domestic goods at -1.7%, noting increases in imported ones (0.4%) and services (0.3%), as seen in Table 4. This seems to support our view of a relevant substitution effect in goods, while demand for services remains high despite the pandemic having ended for almost a year.

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Domestic demand will remain as the main driver of activity, expecting greater dynamism in 1H24. We expect the push from both investment and private consumption, recognizing that several of the drivers that helped them in 2023 remain present, among them: (1) Budgeted spending for government projects; (2) investment to build industrial spaces; (3) strength in consumption fundamentals; and (4) other favorable aspects, such as MXN appreciation and the effect of spending related to federal and local elections. In this sense, different sectors of activity already show signs of improving or an extension in their strength in 1Q24.

On investment, construction will continue to lead the charge. However, we highlight two points. First, we anticipate that sector divergence will continue. Residential construction will likely remain weaker at the margin, recognizing that input prices – specifically labor costs– have rebounded in the first two months of the year. In this regard, the *Centro de Estudios de Ingeniería de Costos* of the *Mexican Chamber of the Construction Industry* (CMIC in Spanish) estimates that labor costs for a 90m^2 house stand at $127.3 thousand (2023: $120.1 thousand; +6% y/y). On the contrary, the non-residential component is more positive, with support of both private spending (fully associated with demand for industrial spaces) and public investment (with the aim to finish key infrastructure projects). Secondly, the appreciation of the MXN could have a net positive effect. According to the CMIC, 60% of the sector's inputs are imported, with the US as the main supplier (50%).

On consumption, we maintain our view that higher disposable income in households benefiting from social programs, as well as strength in fundamentals (including the increase in wages) will provide a relevant boost. Nevertheless, we recognize some challenges from higher price volatility –as well as the upward persistence of the core– and the possible loss of purchasing from remittances when expressed in local currency.

Gross fixed investment

Table 1: Gross fixed investment

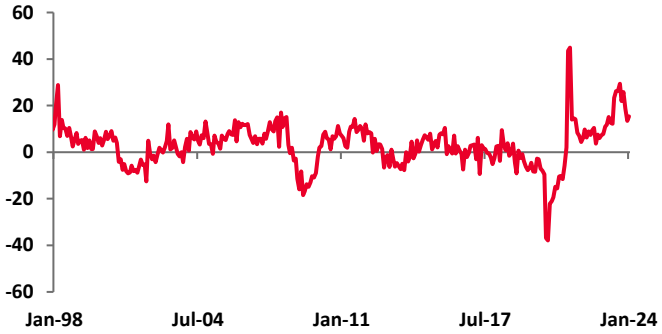
% y/y nsa

	nsa				sa	
	Jan-24	Jan-23	2023	2022	Jan-24	Jan-23
Total	**15.3**	**11.7**	**19.7**	**8.0**	**13.8**	**10.9**
Construction	**20.8**	**2.7**	**20.8**	**3.6**	**21.2**	**3.1**
Residential	10.1	0.6	1.8	**-3.5**	8.7	-0.3
Non-residential	29.8	4.5	39.2	**11.4**	31.8	5.9
Machinery and equipment	**9.7**	**23.1**	**18.5**	**13.2**	**6.0**	**21.3**
Domestic	2.4	21.7	14.1	**8.5**	-1.7	20.6
Transportation Equipment	9.1	32.8	26.6	10.1	4.9	31.3
Other machinery and equipment	-3.6	13.3	3.5	7.2	-7.3	11.4
Imported	15.2	24.2	21.6	16.9	11.5	20.7
Transportation Equipment	55.3	58.6	55.4	27.0	51.7	59.7
Other machinery and equipment	10.8	21.3	17.5	15.8	7.0	17.3

Source: INEGI

Chart 1: Gross fixed investment

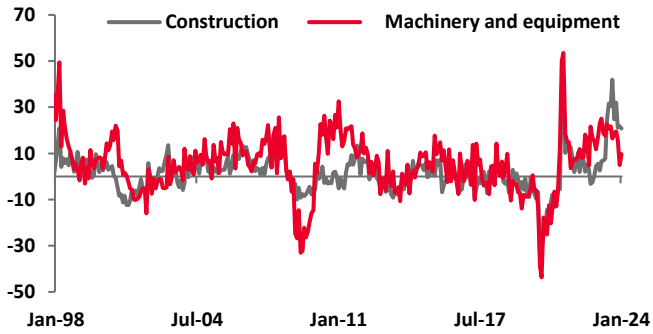
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector

% y/y



Source: INEGI

Table 2: Gross fixed investment

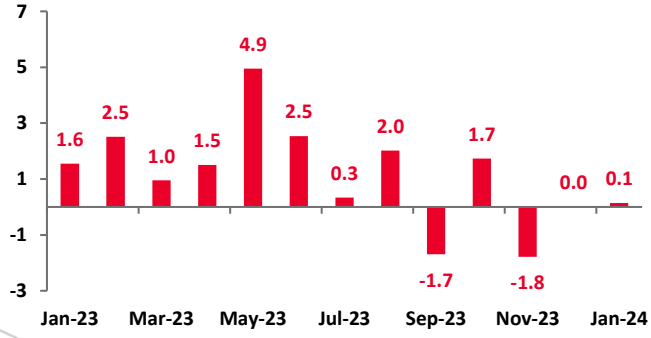
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Jan-24	Dec-23	Nov-23	Nov-'23-Jan'24	Oct-Dec'23
Total	**0.1**	**0.0**	**-1.8**	**-1.2**	**0.0**
Construction	**0.3**	**1.1**	**-2.7**	**-1.2**	**-0.1**
Residential	6.8	-3.9	-9.2	-2.2	4.1
Non-residential	-3.6	4.0	0.1	-1.5	-2.1
Machinery and equipment	**-0.2**	**-0.9**	**-0.8**	**-1.3**	**0.1**
Domestic	-1.3	0.0	-1.5	-2.3	-1.1
Transportation Equipment	-1.5	-4.6	0.1	-2.9	0.2
Other machinery and equipment	-0.4	3.9	-3.4	-3.1	-3.8
Imported	0.8	-1.7	0.1	-0.8	0.0
Transportation Equipment	16.5	-3.0	-6.0	-0.1	2.5
Other machinery and equipment	-1.4	-1.5	0.7	-1.0	-0.3

Source: INEGI

Chart 3: Gross fixed investment

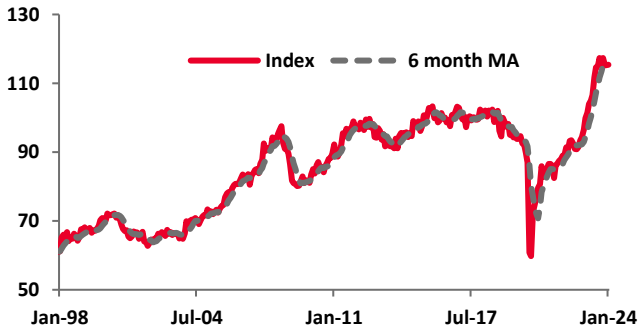
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment

Index sa



Source: INEGI

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Private consumption

Table 3: Private consumption

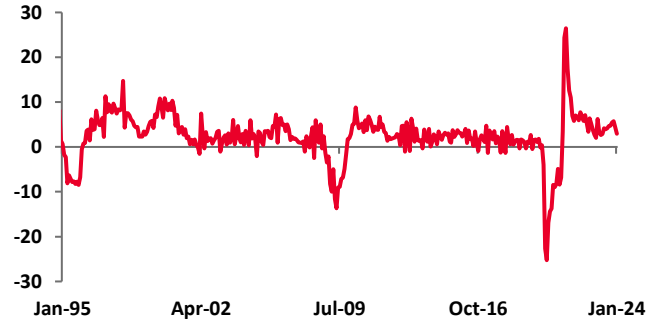
% y/y nsa

	nsa				sa	
	Jan-24	Jan-23	2023	2022	Jan-23	Jan-22
Total	**2.9**	**6.3**	**4.4**	**5.1**	**1.9**	**5.5**
Domestic	**0.5**	**4.7**	**1.7**	**6.1**	**-0.5**	**4.1**
Goods	-1.0	3.9	0.3	3.9	-2.5	3.1
Durables	7.9	13.0	13.8	2.5	-	-
Semi-durables	3.9	4.4	2.0	4.3	-	-
Non-durables	-3.0	2.8	-1.5	3.9	-	-
Services	2.3	5.7	3.3	8.9	2.1	5.7
Imported goods	**17.5**	**21.9**	**20.4**	**1.2**	**14.3**	**16.7**
Durables	19.0	30.5	27.6	19.0	-	-
Semi-durables	30.6	14.2	12.9	20.4	-	-
Non-durables	11.5	20.2	19.3	-12.6	-	-

Source: INEGI

Chart 5: Private consumption

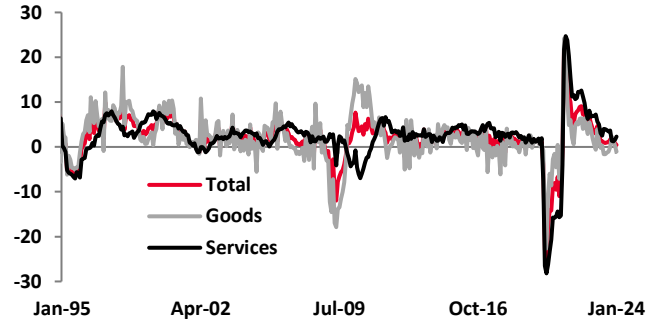
% y/y



Source: INEGI

Chart 6: Domestic consumption: Goods and services

% y/y



Source: INEGI

Table 4: Private consumption

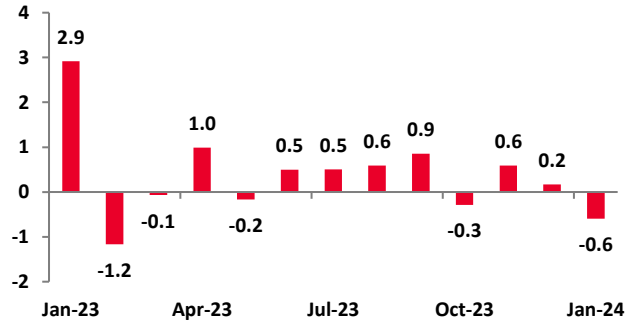
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Jan-24	Dec-23	Nov-23	Nov'23-Jan'24	Oct-Dec'23
Total	**-0.6**	**0.2**	**0.6**	**0.6**	**0.9**
Domestic	**-0.8**	**0.4**	**0.0**	**0.1**	**0.5**
Goods	-1.7	0.1	-0.3	-0.2	0.9
Services	0.3	0.6	0.2	0.4	0.0
Imported goods	**0.4**	**-1.7**	**6.0**	**4.4**	**4.1**

Source: INEGI

Chart 7: Private consumption

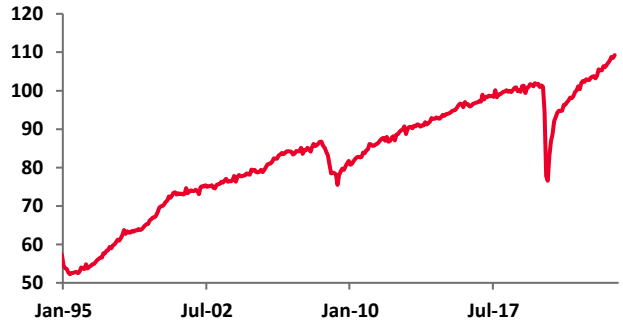
% m/m sa



Source: INEGI

Chart 8: Private consumption

Index sa



Source: INEGI

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