

Domestic demand – Broad acceleration in February

- **Gross fixed investment (February): 12.5% y/y (nsa); Banorte: 11.3%; consensus: 12.7% (range: 10.9% to 17.8%); previous: 14.6%**
- **Private consumption (February): 5.3% y/y (nsa); Banorte: 6.2%; consensus: 5.2% (range: 3.9% to 6.2%); previous: 2.9%**
- **Investment grew 0.7% m/m after a modest decline in the previous month. Construction fell 1.3% –with weakness in the residential sector–, but with machinery and equipment up 2.6% –with gains across both components–**
- **Consumption rebounded 0.6% m/m, with broad increases inside. Imported goods grew 2.6%, with the domestic total at +0.6% –with services leading with a 0.7% expansion–**
- **Going forward, we believe both items could accelerate, with positive factors for each of them. However, towards the second half of the year, consumption will be more decisive in sustaining domestic activity**

Investment acceleration in February, with machinery and equipment up. GFI advanced 12.5% y/y, moderating vs. January ([Chart 1](#)). Construction grew 12.7% –with the non-residential component still high at 21.2%, but the residential weaker at 1.7%. Machinery and equipment came in at 12.3%, with imported goods (17.2%) again outperforming the domestic item (5.4%). We should remember that these results are skewed up by the leap year effect. Adjusting for this, investment grew 10.7% y/y (sa figures). Additional details are presented in [Table 1](#).

With seasonally adjusted figures, investment climbed 0.7% m/m ([Chart 3](#)) after declining 0.2% the previous month. Machinery and equipment advanced 2.6%. Strength centered on the imported component (4.5%), particularly in ‘others’ (5.0%). The domestic one was also positive at 2.0%, with transportation equipment (4.6%) rising again. More details in [Table 2](#). At the margin, we continue to believe that a substitution effect is permeating among the items due to MXN strength. However, momentum related to nearshoring will continue to benefit both. On the contrary, the drag came from construction at -1.3%, relatively consistent with the trends in [industrial production](#) for the period. Inside, the residential sector concentrated the loss at -5.6%, recognizing a complicated base effect, as well as a series of challenges such as high prices and elevated interest rates. Meanwhile, the non-residential sector rebounded 1.1%, likely gaining momentum from work on priority projects.

Sequential rebound in consumption. In the annual comparison, the indicator accelerated to 5.3% ([Chart 5](#)). Fundamentals were mixed again, although noting strength in [employment and wages](#), along resilience in consumer loans. In addition, households’ disposable income increased significantly because of the advanced payment of social programs to comply with electoral restrictions. Inside, imported goods remained high (31.1%) –with all three sub-sectors maintaining double-digit expansions–, while the domestic sector (1.8%) was propped up by services (3.8%). With seasonally adjusted figures, consumption grew 3.9% y/y. For details, see [Table 3](#).

Sequentially, consumption rebounded 0.6% m/m ([Chart 7](#)). Gains were widespread, with the boost centered in imported goods (2.6%). Meanwhile, services (0.7%) and domestic goods (0.3%) were more modest. Additional details are presented in [Table 4](#). We believe results continue suggesting that a relevant substitution effect persists in goods given MXN strength, while services continue to climb despite relevant inflationary pressures in them.

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We expect an acceleration in domestic demand in coming months, with dynamism in both components. In the short-term, we believe that both consumption and investment could post a better performance, with positive drivers in play for each.

On the former, fundamentals are likely to remain strong, even despite some signs of a [moderation in remittances](#) after a slow start to the year. Meanwhile, labor market tightness will continue to support an environment of higher employment and increased wages. In this regard, and as mentioned recently in a [View from the Top](#), we believe some discretionary sectors such as tourism could show positive results. We could also add the possible spillover from the *Hot Sale* discount program that will take place from May 15th to the 23rd, in which at least 600 brands are expected to participate. This is relevant since this promotion has gained strength in the last couple of years, becoming the second most important after *El Buen Fin* for certain sectors. Nevertheless, risks persist from [high inflation in services](#), as well as the void that could exist towards the end of 2Q24 due to the temporary suspension of social programs' transfers –which will resume in July-August.

Turning to investment, construction is likely to maintain a more dynamic path as government projects accelerate, anticipating higher spending on this front at the federal level. On the sidelines, news related to industrial construction remain positive, with new investment announcements from local and foreign companies becoming a constant. However, risks persist for the residential sector, mainly related to prices –with those tied to labor now being one of the most relevant.

Following this, we expect consumption to take a more dominant role in domestic demand in 2H24, with a limited impact in employment from the slowdown in economic activity. However, the moderation in construction would be more noticeable due to the completion of federal projects, which would drag down total investment, despite a still-positive view on machinery and equipment due to nearshoring.

Gross fixed investment

Table 1: Gross fixed investment

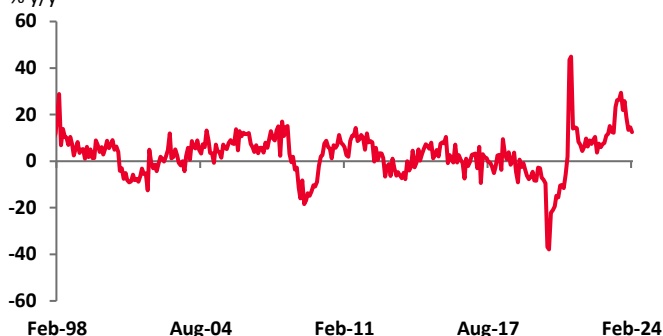
% y/y nsa

	nsa				sa	
	Feb-24	Feb-23	Jan-Feb'24	Jan-Feb'23	Feb-24	Feb-23
Total	12.5	15.1	13.5	13.4	10.7	14.9
Construction	12.7	6.7	16.0	4.6	14.2	8.3
Residential	1.7	-6.5	5.3	-3.0	2.8	-5.0
Non-residential	21.2	19.6	24.6	11.7	22.6	21.3
Machinery and equipment	12.3	25.1	11.0	24.1	6.7	23.1
Domestic	5.4	18.4	3.9	20.1	3.2	16.5
Transportation Equipment	18.8	27.2	13.9	30.0	16.5	26.1
Other machinery and equipment	-6.3	11.7	-5.0	12.5	-8.1	9.5
Imported	17.2	30.2	16.2	27.2	11.8	28.3
Transportation Equipment	52.8	51.9	53.9	54.7	49.2	51.9
Other machinery and equipment	12.3	27.7	11.6	24.5	6.9	25.4

Source: INEGI

Chart 1: Gross fixed investment

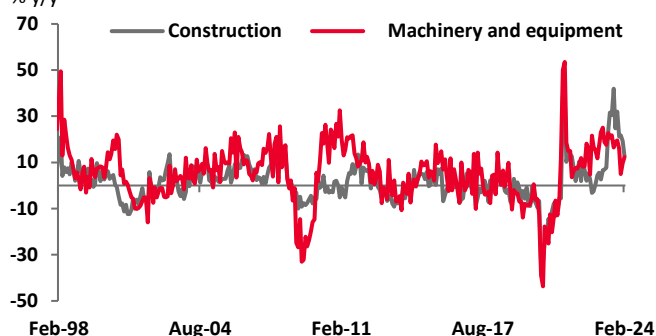
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector

% y/y



Source: INEGI

Table 2: Gross fixed investment

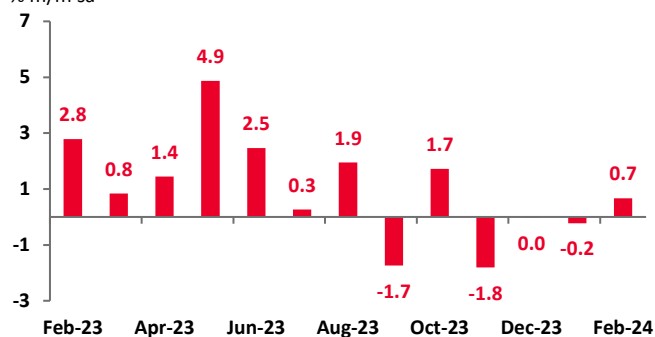
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Feb-24	Jan-24	Dec-23	Dec-'23-Feb'24	Nov-'23-Jan'24
Total	0.7	-0.2	0.0	-0.6	-1.4
Construction	-1.3	-0.7	1.1	-0.5	-1.8
Residential	-5.6	5.9	-3.8	-5.1	-2.7
Non-residential	1.1	-4.4	4.1	2.2	-1.6
Machinery and equipment	2.6	0.0	-0.7	-0.5	-0.8
Domestic	2.0	-1.3	0.1	-1.8	-2.0
Transportation Equipment	4.6	-0.2	-4.0	-3.0	-1.6
Other machinery and equipment	-0.2	-0.5	3.9	0.0	-3.1
Imported	4.5	1.7	-1.2	1.4	0.2
Transportation Equipment	2.4	17.1	-2.8	4.6	0.4
Other machinery and equipment	5.0	-0.8	-1.1	0.6	0.0

Source: INEGI

Chart 3: Gross fixed investment

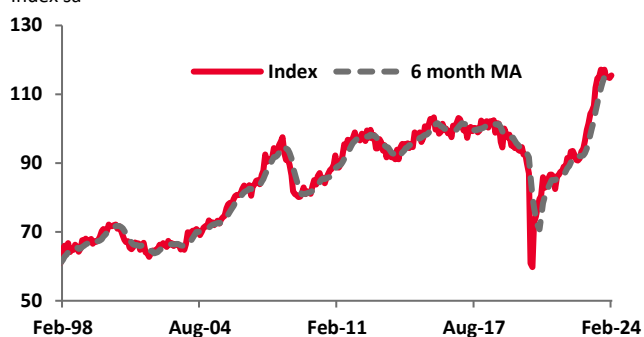
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment

Index sa



Source: INEGI

Private consumption

Table 3: Private consumption

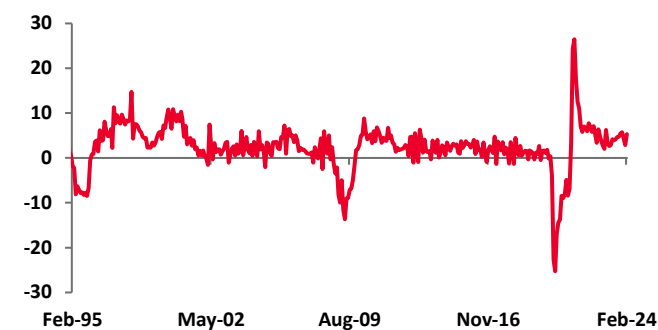
% y/y nsa

	nsa				sa	
	Feb-24	Feb-23	Jan-Feb'24	Jan-Feb'23	Feb-24	Feb-23
Total	5.3	3.2	4.0	4.8	3.9	3.2
Domestic	1.8	3.0	1.1	3.9	0.6	2.8
Goods	0.1	1.2	-0.5	2.6	-1.4	1.3
Durables	5.2	11.9	6.6	12.4	-	-
Semi-durables	2.5	-2.8	2.8	0.8	-	-
Non-durables	-1.1	0.7	-2.0	1.8	-	-
Services	3.8	5.0	2.9	5.4	2.7	4.8
Imported goods	31.1	5.1	23.9	13.4	24.8	4.3
Durables	36.4	8.6	27.0	19.3	-	-
Semi-durables	32.5	9.6	31.5	11.9	-	-
Non-durables	27.3	1.4	18.9	10.6	-	-

Source: INEGI

Chart 5: Private consumption

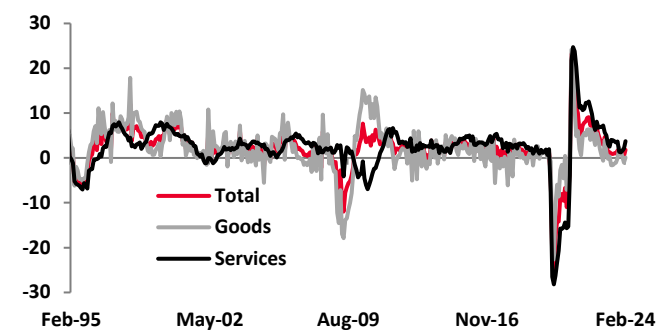
% y/y



Source: INEGI

Chart 6: Domestic consumption: Goods and services

% y/y



Source: INEGI

Table 4: Private consumption

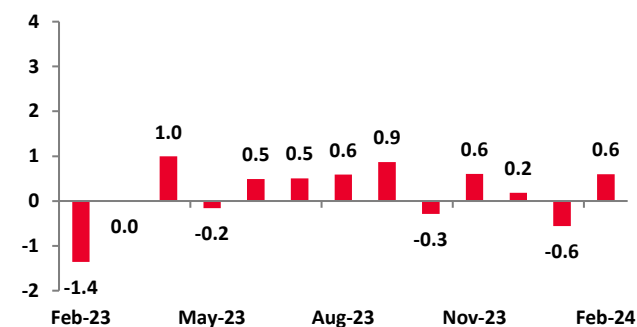
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Feb-24	Jan-24	Dec-23	Dec-'23-Feb'24	Nov-'23-Jan'24
Total	0.6	-0.6	0.2	0.3	0.6
Domestic	0.6	-0.8	0.3	-0.1	0.1
Goods	0.3	-1.7	0.1	-1.1	-0.2
Services	0.7	0.3	0.7	1.0	0.5
Imported goods	2.6	0.7	-1.6	3.3	4.9

Source: INEGI

Chart 7: Private consumption

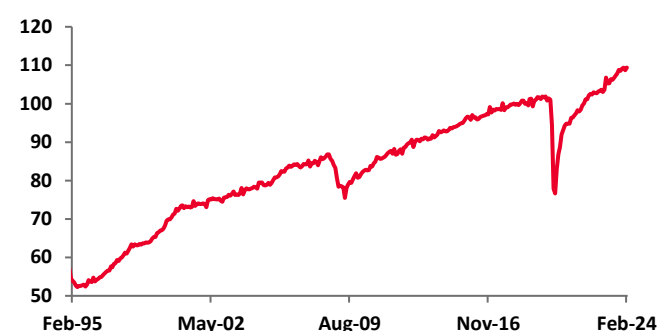
% m/m sa



Source: INEGI

Chart 8: Private consumption

Index sa



Source: INEGI

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