

July 2, 2024

Domestic demand – Investment grows in April, but consumption moderates

- Gross fixed investment (April): 18.1% y/y (nsa); Banorte: 20.7%; consensus: 17.9% (range: 4.6% to 21.0%); previous: 3.0%
- Private consumption (April): 8.0% y/y (nsa); Banorte: 8.3%; consensus: 8.1% (range: 4.2% to 9.3%); previous: 1.6%
- Investment grew 0.9% m/m, adding four months to the upside. Construction climbed 1.6%, with strength in both of its components. But machinery and equipment dropped 0.8%, dragged by the domestic category
- Consumption fell 0.9% m/m, erasing March's gain and with broad declines inside. Imported goods contracted 0.7%, with the domestic category at -1.0% as goods led the decline at -2.0%
- Domestic demand likely accelerated in the remainder of 2Q24, with consumption rebounding and investment remaining strong –mainly due to construction. Further ahead, the outlook remains challenging, albeit with some positive drivers still in play

Investment accelerates, with construction in the driver's seat. GFI advanced 18.1% y/y, ([Chart 1](#)), benefiting from a positive calendar effect due to the timing of the *Easter* holiday. Adjusting for this, investment grew 10.5% y/y (sa figures). Back to original figures, construction grew 13.5% –with the non-residential component still quite high at 18.7%, along with strength also in residential at 6.7%. Machinery and equipment came in at 5.3%, with imported goods (6.9%) again outperforming the domestic item (1.2%), with MXN strength still likely a key driver. Additional details are presented in [Table 1](#).

With seasonally adjusted figures, investment climbed 0.9% m/m ([Chart 3](#)) stringing four months higher and accumulating an expansion of 2.8% in said period. Construction was up 1.6%, quite positive considering the +1.3% of the previous month but consistent with the result in [industrial production](#). Strength was again widespread, noting the non-residential component at +1.8% –still pushed by both infrastructure projects and nearshoring efforts. Meanwhile, the residential branch grew 1.4%, accelerating at the margin. We believe some of the push could be related to more modest cost increases, as suggested by the slight moderation in the sector's PPI. Machinery and equipment fell 0.8%. Weakness centered on the domestic component (-3.0%), particularly in transportation (-5.5%), contrasting with other signs of strength. The imported one was practically unchanged at -0.1%, with the drag coming from 'others' (-1.9%) More details in [Table 2](#). We continue to believe that a substitution effect is permeating due to MXN strength, a situation that will likely moderate in coming months.

Sequential decline in consumption, erasing gains from the previous month. In the annual comparison, the indicator accelerated to 8.0% ([Chart 5](#)), also benefited by the calendar effect. Fundamentals were mixed, with remittances and wages higher, but with job losses. In addition, we believe households' disposable income could have been affected by a lack of payments related to social programs that were brought forward to January and February to comply with electoral rules. Inside, imported goods remained high (39.1%) –with all three sub-sectors maintaining double-digit expansions–, while the domestic sector (3.2%) was propped up by goods (4.2%) –especially durables at 20.9%. With seasonally adjusted figures, consumption grew 3.4% y/y. For details, see [Table 3](#).



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Sequentially, consumption declined 0.9% m/m ([Chart 7](#)), erasing March's expansion. Losses were widespread, with weakness centered in domestic goods (-2.0%) but also in imported ones at -0.7%. On the contrary, services were up by just an inch at +0.1%. Additional details are presented in [Table 4](#).

Positive signs for the remainder of 2Q24, with the outlook further ahead remains somewhat challenging. Today's results and timely figures for May and June are relatively more encouraging for the rest of the second quarter, consistent with our path for both investment and consumption. The drivers include construction on the investment side and services for consumption, both without necessarily implying weakness in other categories.

Focusing on the short-term, known figures for May are mostly positive. In investment, the trend is clearer. We continue to believe efforts to complete infrastructure works are underpinning civil engineering works. Meanwhile, interest in industrial construction projects (e.g. industrial parks) continues, with [company announcements](#)—both local and foreign—being a constant. Machinery and equipment will likely maintain a positive trend as well, with the domestic sector relatively resilient, although still on the look for the possible effect that recent exchange rate adjustments could have on imports. On consumption, there were several drivers in 2Q24, most notably *Mother's Day* and *Father's Day* holidays as well as the federal elections. In addition, we must consider the beginning of summer discounts and other promotions, such as the *Hot Sale*—with a relevant impact at least on [prices](#). On fundamentals, figures are more mixed, with [remittances](#) limited, but with a strong [labor market](#) and [credit](#).

For the second half of the year the challenges remain. But considering a more limited performance in 1H24, figures be better in the sequential comparison. In addition, some of the drivers in previous periods will likely continue at the margin, although probably at a slower pace. For construction, we highlight: (1) Expansions of several ports—especially in the Pacific for their routes to Asia; and (2) growth of industrial parks, with demand still flourishing. On the last point, the *Mexican Association of Industrial Parks* (AMPIP in Spanish) has indicated that in the 2024-2028 period demand will continue to grow, projecting an investment of US\$3 billion this year alone. One example of the latest investment announcements is Finsa's fifth industrial park. It has 79 hectares and the capacity to house up to 20 companies, with the potential to create up to 35,000 direct and indirect jobs. Regarding consumption, some fundamentals could remain resilient—particularly employment—which, along with a more predictable social program payment calendar, could provide greater stability. Nevertheless, we will continue to monitor the potential impact from the slowdown in activity on household incomes and, consequently, its possible effects on spending.

Gross fixed investment

Table 1: Gross fixed investment

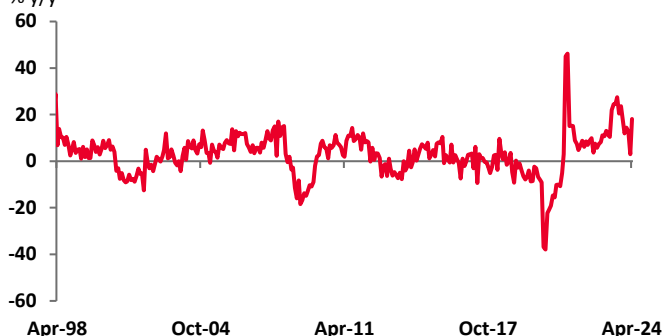
% y/y nsa

| | nsa | | | | sa | |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Apr-24 | Apr-23 | Jan-Apr'24 | Jan-Apr'23 | Apr-24 | Apr-23 |
| Total | 18.1 | 10.5 | 11.9 | 11.3 | 10.5 | 12.5 |
| Construction | 16.8 | 7.7 | 14.4 | 6.1 | 13.5 | 8.8 |
| Residential | 11.2 | -9.5 | 4.1 | -3.7 | 6.7 | -9.9 |
| Non-residential | 21.5 | 27.7 | 23.0 | 15.9 | 18.7 | 29.3 |
| Machinery and equipment | 19.5 | 13.7 | 9.2 | 17.5 | 5.3 | 17.7 |
| Domestic | 9.0 | 15.2 | 3.8 | 16.5 | 1.2 | 19.2 |
| Transportation Equipment | 21.0 | 20.0 | 13.5 | 26.4 | 9.4 | 22.7 |
| Other machinery and equipment | -1.7 | 11.3 | -5.0 | 8.7 | -7.5 | 14.9 |
| Imported | 26.7 | 12.7 | 13.1 | 18.2 | 6.9 | 17.3 |
| Transportation Equipment | 46.8 | 59.1 | 38.3 | 62.2 | 33.3 | 56.4 |
| Other machinery and equipment | 23.8 | 8.3 | 9.7 | 14.1 | 3.1 | 13.0 |

Source: INEGI

Chart 1: Gross fixed investment

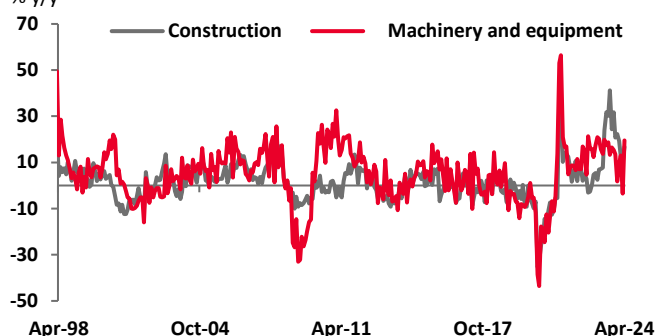
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector

% y/y



Source: INEGI

Table 2: Gross fixed investment

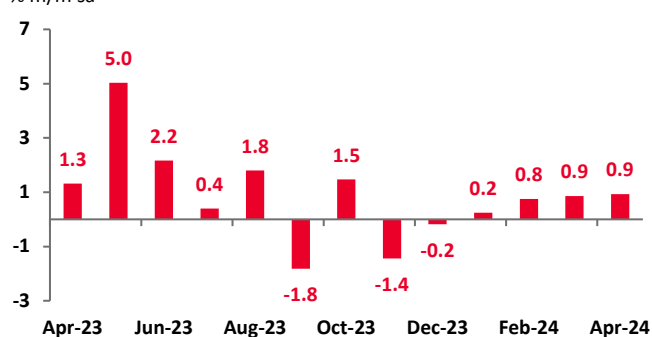
% m/m sa; % 3m/3m sa

| | % m/m | | | % 3m/3m | |
|--------------------------------|-------------|------------|-------------|------------|-------------|
| | Apr-24 | Mar-24 | Feb-24 | Feb-Apr'24 | Jan-Mar'24 |
| Total | 0.9 | 0.9 | 0.8 | 1.7 | 0.4 |
| Construction | 1.6 | 1.3 | -1.2 | 0.1 | -1.3 |
| Residential | 1.4 | 1.2 | -4.7 | -0.6 | -2.6 |
| Non-residential | 1.8 | 2.0 | 1.2 | 1.1 | -0.8 |
| Machinery and equipment | -0.8 | 0.4 | 2.8 | 2.8 | 1.7 |
| Domestic | -3.0 | 1.0 | 2.3 | 0.6 | -0.4 |
| Transportation Equipment | -5.5 | 2.3 | 4.5 | 2.3 | 0.5 |
| Other machinery and equipment | -1.0 | -1.8 | -0.1 | -1.7 | -0.6 |
| Imported | -0.1 | 0.1 | 3.9 | 4.9 | 3.9 |
| Transportation Equipment | 7.7 | -2.2 | -0.8 | 11.0 | 12.2 |
| Other machinery and equipment | -1.9 | 0.4 | 4.2 | 3.9 | 3.1 |

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

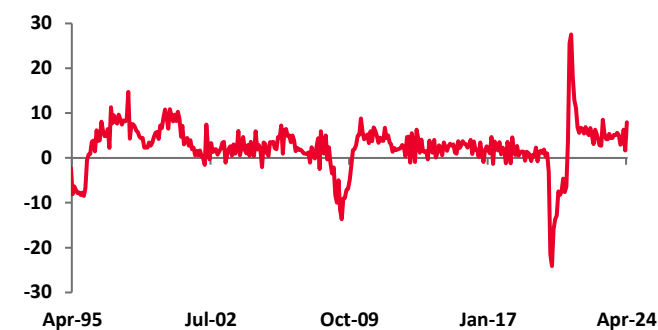
% y/y nsa

| | nsa | | | | sa | |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Apr-24 | Apr-23 | Jan-Apr'24 | Jan-Apr'23 | Apr-24 | Apr-23 |
| Total | 8.0 | 4.2 | 4.8 | 5.6 | 3.4 | 5.3 |
| Domestic | 3.2 | 1.4 | 1.3 | 2.7 | -0.1 | 2.4 |
| Goods | 4.2 | -0.9 | 0.1 | 1.0 | -1.6 | 0.7 |
| Durables | 20.9 | 9.2 | 11.7 | 11.8 | - | - |
| Semi-durables | 6.6 | 0.4 | 0.0 | 0.5 | - | - |
| Non-durables | 1.6 | -2.3 | -1.3 | -0.1 | - | - |
| Services | 2.1 | 4.1 | 2.6 | 4.8 | 2.0 | 4.2 |
| Imported goods | 39.1 | 21.1 | 25.1 | 26.8 | 20.0 | 25.2 |
| Durables | 58.0 | 8.3 | 31.9 | 15.7 | - | - |
| Semi-durables | 48.0 | 6.0 | 32.1 | 6.8 | - | - |
| Non-durables | 27.2 | 34.8 | 19.9 | 41.1 | - | - |

Source: INEGI

Chart 5: Private consumption

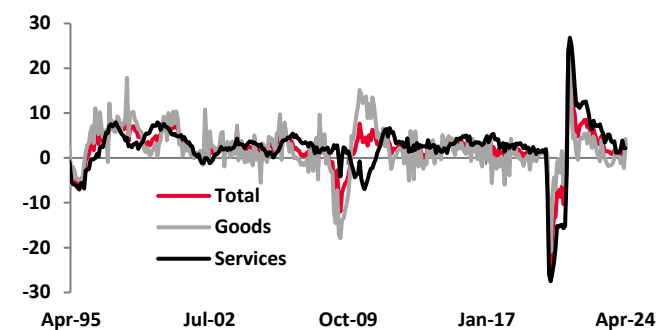
% y/y



Source: INEGI

Chart 6: Domestic consumption: Goods and services

% y/y



Source: INEGI

Table 4: Private consumption

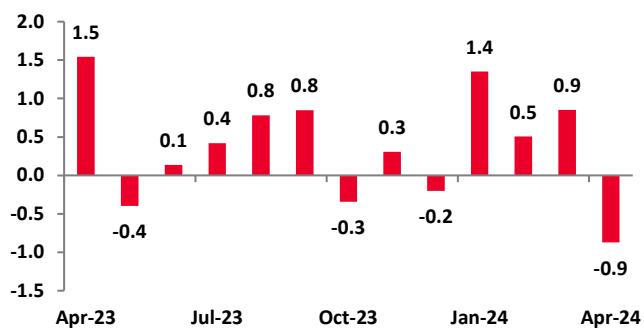
% m/m sa; % 3m/3m sa

| | % m/m | | | % 3m/3m | |
|-----------------------|-------------|------------|------------|------------|-------------|
| | Apr-24 | Mar-24 | Feb-24 | Feb-Apr'24 | Jan-Mar'24 |
| Total | -0.9 | 0.9 | 0.5 | 1.6 | 1.9 |
| Domestic | -1.0 | 0.5 | 0.2 | 0.2 | 0.3 |
| Goods | -2.0 | 1.6 | -0.4 | -0.5 | -0.5 |
| Services | 0.1 | -0.2 | 0.7 | 1.1 | 1.3 |
| Imported goods | -0.7 | 1.2 | 1.4 | 8.2 | 11.9 |

Source: INEGI

Chart 7: Private consumption

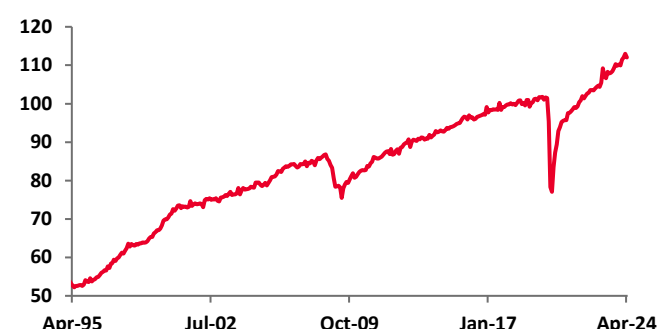
% m/m sa



Source: INEGI

Chart 8: Private consumption

Index sa



Source: INEGI

Analyst Certification.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernández, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V. for the provision of our services.

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