

Domestic demand – The divergence between consumption and investment extended to May

- **Gross fixed investment (May): 6.0% y/y (nsa); Banorte: 6.4%; consensus: 8.4% (range: 5.4% to 9.7%); previous: 18.3%**
- **Private consumption (May): 2.6% y/y (nsa); Banorte: 4.1%; consensus: 3.5% (range: 2.5% to 4.3%); previous: 8.0%**
- **Investment grew 0.7% m/m, adding five months to the upside. Construction was once again the driver, climbing 2.4%, albeit with a mixed performance inside. Machinery and equipment fell 1.3%, dragged by the imported component**
- **Consumption declined 0.4% m/m, second consecutive month to the downside. Imported goods contracted 3.6%, with the domestic total at +1.1% –with goods supporting the expansion at 1.3%–**
- **Performance in the remainder of the quarter is likely to remain positive, albeit at a slower pace than seen in today's report. Following this, we expect some headwinds to become more prominent, consistent with our view of a moderation in economic activity**

Investment growth continues, although at a slower pace. GFI advanced 6.0% y/y ([Chart 1](#)), with the month being characterized by a negative base effect. With seasonally adjusted figures, investment grew 5.6% y/y, noting a slightly positive calendar effect. Back to original data, construction led the expansion again at +9.8% –with the non-residential component slowing to +8.3% (previous: +22.4%), but with residential more stable, at +11.7%. Machinery and equipment added another month of growth, at 2.1%, albeit with relevant moderations inside. Imported goods came in at 3.7%, with the domestic component at -0.1%. Additional details are presented in [Table 1](#).

With seasonally adjusted figures, investment achieved a fifth month of gains, at 0.7% m/m ([Chart 3](#)). Inside, construction accelerated to 2.4%, its highest expansion since October. The result is consistent with what was seen in the [industrial production report](#). In detail, the non-residential component posted a small setback at -0.2% -which would be more related to the result of infrastructure works in the month. The residential category grew 6.6%, quite positive considering the advance seen in the previous two months. Machinery and equipment fell 1.3%. Weakness was centered on the imported component (-1.6%), with a decline in 'others' (-2.2%), but with transportation positive at +3.1%. Finally, the domestic component contracted 0.5%. This was explained by the 0.8% decline in transportation. For more details see [Table 2](#).

Additional sequential decline in consumption. In the annual comparison, the indicator grew 2.6% ([Chart 5](#)), with challenging base and negative calendar effects. Fundamentals were mixed, with [job creation](#) and wage growth, but with weakness in [remittances](#). In addition, and as seen in the previous month, household disposable income may have been affected by the absence of payments from social programs to comply with electoral rules. Imported goods remained strong, at 9.6% –with double digit gains in durable and semidurable components–, while the domestic sector was more modest, at 1.2%. Within the latter, both services (0.8%) and goods (1.5%) grew. With seasonally adjusted figures, consumption grew 2.8% y/y ([Table 3](#)).

Sequentially, consumption fell 0.4% m/m ([Chart 7](#)), adding two months lower. Losses centered on imported goods (-3.6%), although services were also negative at -0.4%. Finally, domestic goods expanded 0.7%. As a result, the domestic total advanced 0.3%, as seen in [Table 4](#).

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The second half of the year would be characterized by a moderation in domestic demand, both due to base effects and some headwinds. With figures up to May, and in conjunction with the timely figures for June, we believe that the second quarter will be the most dynamic of the year. Following this, our trajectory incorporates a slowdown in both investment and consumption. However, it is relevant to note that we still see some drivers that would continue to provide some dynamism, while negative factors would be related to specific distortions and challenging base effects.

At the end of 2Q24, the outlook for investment was characterized by exchange rate adjustments that could be reflected in imported machinery and equipment, although we do not expect a substantial change in its trend. On the other hand, momentum in construction would continue, giving room for investment to close with an expansion. On consumption, we recognize a moderation due to the end of electoral campaigns. However, on the positive side we note: (1) The strength of consumption fundamentals, such as employment and credit; (2) the reactivation of the Benito Juárez Scholarships (with payments to senior citizens resuming until July); and (3) the start of summer discounts and the continuation of promotional campaigns in supermarkets.

For the rest of the year, we believe that performance will be more modest. Nevertheless, and starting with consumption, we believe there will be several factors that will provide support, including: (1) High levels of employment; (2) wage growth; (3) one-off events that usually mean additional economic spillover (e.g., festivals, sports competitions); (4) discount campaigns, both physical and online; (5) the expansion of banking credit; and (6) the normalization of social program transfers. On the other hand, we remain attentive to the trajectory of inflation. Specifically, pressures in the non-core item could lead households to reorganize their spending, postponing the purchases of durable goods or certain services in favor of other categories.

Regarding investment –as we have already mentioned in previous reports–, the role of construction as a driving force will be transformed, with government spending becoming less relevant. However, it is important to clarify that the dynamism we see today in the edification of industrial spaces gives very positive signs. In this sense, we do not rule out some level of resilience for construction in general due to this factor. Finally, regarding machinery and equipment, we believe that the strength of the automotive sector, agribusiness, household appliances, as well as the growth of transportation and logistics both within the country and in ports and customs will be catalysts for the segment.

Gross fixed investment

Table 1: Gross fixed investment

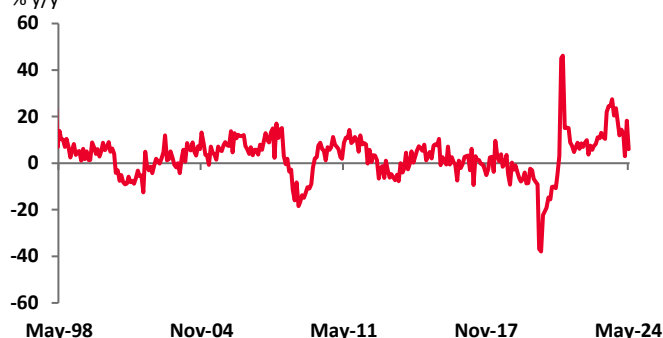
% y/y nsa

	nsa				sa	
	May-24	May-23	Jan-May'24	Jan-May'23	May-24	May-23
Total	6.0	21.9	10.6	13.5	5.6	19.6
Construction	9.8	24.0	13.5	9.6	9.2	22.8
Residential	11.7	3.0	5.8	-2.3	10.3	0.8
Non-residential	8.3	48.4	19.9	21.9	7.7	47.8
Machinery and equipment	1.8	19.8	7.6	18.0	2.1	15.5
Domestic	-0.4	16.0	2.9	16.4	-0.1	12.6
Transportation Equipment	4.9	27.7	11.6	26.6	5.0	24.3
Other machinery and equipment	-5.6	6.4	-5.1	8.3	-5.9	3.6
Imported	3.2	22.3	10.9	19.1	3.7	17.5
Transportation Equipment	34.7	60.4	37.4	61.7	34.0	59.1
Other machinery and equipment	-1.7	18.0	7.2	14.9	-0.9	13.2

Source: INEGI

Chart 1: Gross fixed investment

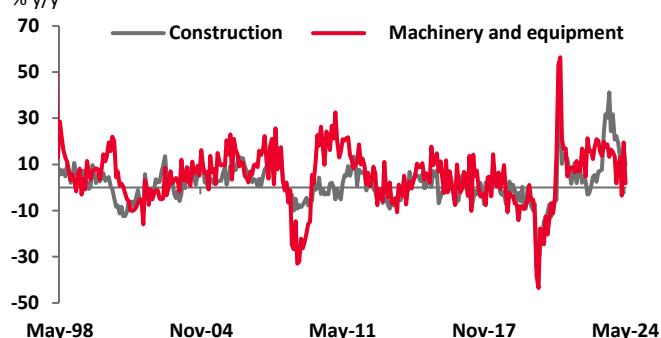
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector

% y/y



Source: INEGI

Table 2: Gross fixed investment

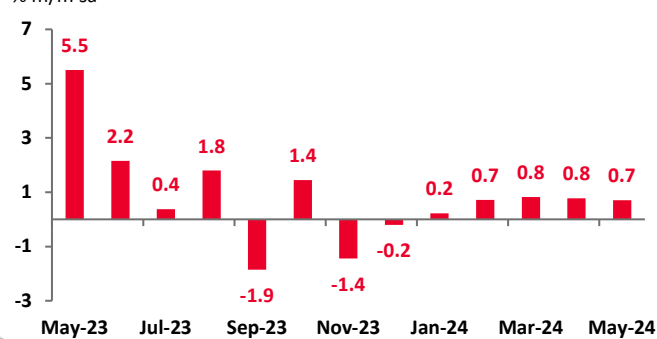
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	May-24	Apr-24	Mar-24	Mar-May'24	Feb-Apr'24
Total	0.7	0.8	0.8	2.1	1.6
Construction	2.4	2.0	1.4	2.6	0.4
Residential	6.6	1.2	1.3	3.5	-0.2
Non-residential	-0.2	1.9	2.1	2.2	1.0
Machinery and equipment	-1.3	-1.1	0.4	1.3	2.6
Domestic	-0.5	-3.1	1.0	-0.2	0.6
Transportation Equipment	-0.8	-5.5	2.1	0.8	2.1
Other machinery and equipment	0.6	-1.1	-1.8	-2.5	-1.7
Imported	-1.6	0.0	0.1	2.8	4.8
Transportation Equipment	3.1	7.7	-2.2	9.3	11.3
Other machinery and equipment	-2.2	-2.2	0.4	1.1	3.6

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

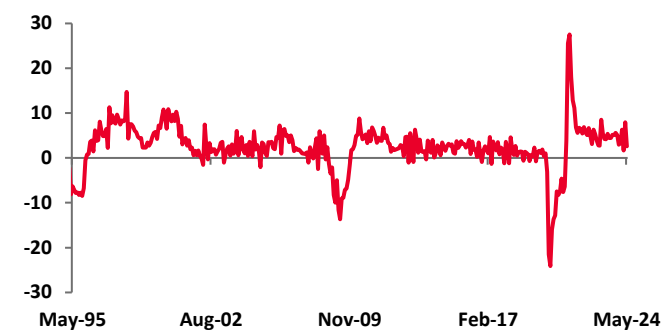
% y/y nsa

	nsa				sa	
	May-24	May-23	Jan-May'24	Jan-May'23	May-24	May-23
Total	2.6	5.4	4.3	5.6	2.8	4.4
Domestic	1.2	1.4	1.2	2.5	1.1	0.7
Goods	1.5	-1.8	0.4	0.4	1.3	-2.9
Durables	11.5	12.5	11.6	11.9	-	-
Semi-durables	-1.5	3.8	-0.3	1.2	-	-
Non-durables	0.8	-4.4	-0.9	-1.0	-	-
Services	0.8	5.2	2.2	4.9	0.7	4.9
Imported goods	9.6	30.4	21.8	27.5	12.2	26.5
Durables	15.0	24.4	27.9	17.6	-	-
Semi-durables	35.6	13.7	32.8	8.1	-	-
Non-durables	-1.2	40.3	15.5	40.9	-	-

Source: INEGI

Chart 5: Private consumption

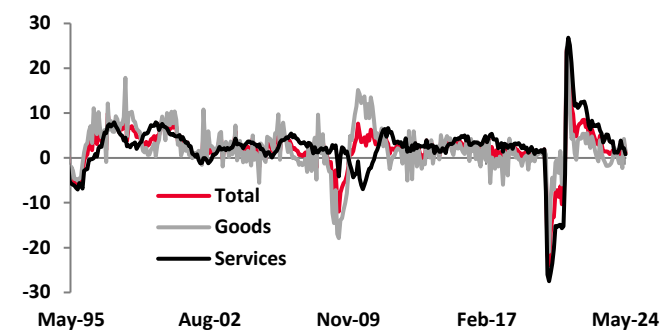
% y/y



Source: INEGI

Chart 6: Domestic consumption: Goods and services

% y/y



Source: INEGI

Table 4: Private consumption

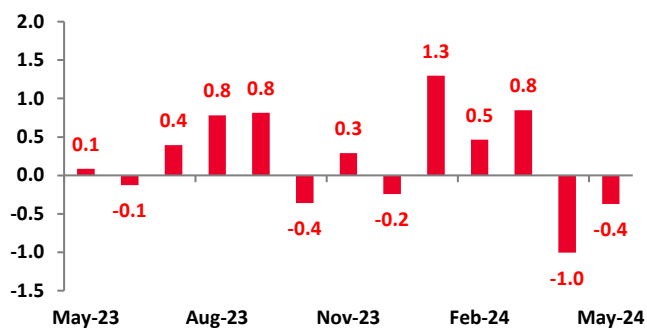
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	May-24	Apr-24	Mar-24	Mar-May'24	Feb-Apr'24
Total	-0.4	-1.0	0.8	0.8	1.5
Domestic	0.3	-1.0	0.5	0.0	0.2
Goods	0.7	-2.0	1.6	0.0	-0.4
Services	-0.4	0.0	-0.3	0.2	0.9
Imported goods	-3.6	-0.5	0.7	3.2	7.5

Source: INEGI

Chart 7: Private consumption

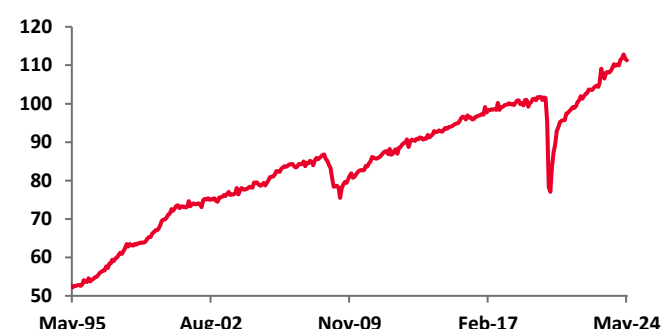
% m/m sa



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, 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, Jazmín 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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