

October 2, 2024

Domestic demand – Broad strength in July, consistent with early figures

- Gross fixed investment (July): 6.4% y/y (nsa); Banorte: 5.5%; consensus: 4.8% (range: 1.7% to 6.2%); previous: -1.1%
- Private consumption (July): 5.2% y/y (nsa); Banorte: 4.8%; consensus: 4.4% (range: 1.2% to 4.9%); previous: 0.4%
- Investment recovered ground by growing 1.8% m/m. The boost came from construction (2.7%) –with the push mostly from the residential sector–, with machinery and equipment up 0.9%
- Consumption rose 0.8% m/m, adding two months higher. Inside, the main driver was imported goods (4.1%), with the domestic total (0.2%) also contributing
- The outlook for the second half of the year maintains relevant challenges for domestic demand. Headwinds will be concentrated in investment. On the other hand, consumption could be more resilient, with some circumstantial points being key for this

Sequential rebound in July's investment. GFI grew 6.4% y/y ([Chart 1](#)), with two more working days in the annual comparison. Thus, with seasonally adjusted figures it was lower at +3.9% y/y. Back to original figures, machinery and equipment maintained the highest expansion rate at 9.5%. In detail, imported goods grew 10.2%, with the domestic item at 8.4%. Meanwhile, construction returned to positive territory at 3.8% –albeit with non-residential still to the downside at -1.0%. Additional details are presented in [Table 1](#).

In sequential terms, investment grew 1.8% m/m sa, resuming its positive trend –after the only decline so far this year in the previous month at -0.7% ([Chart 3](#)). Inside, performance was mostly positive but still highly dependent on base effects. Thus, construction advanced 2.7%, with machinery and equipment more modest at +0.9%. Regarding the former, the result is relatively in line with the [industrial production report](#). Non-residential construction grew 0.9% –regaining ground after two months of declines. In the residential branch, the increase was stronger at 5.0%, albeit noting increased volatility for this category in the last three months. Regarding machinery and equipment, the imported item was the weakest (+0.4%), dragged by 'others' (-1.7%). The domestic category has added two months of gains, now at 1.3%. Inside, transportation kept improving (+4.3%), but with 'others' also negative (-2.8%). For more details, see [Table 2](#).

Resilience in consumption. In the annual comparison, it expanded 5.2% ([Chart 5](#)), also helped by more working days. With seasonally adjusted figures, the category advanced 3.4% y/y ([Table 3](#)). Fundamentals were mostly positive. [Job creation was broad](#) and average wages accelerated. [Consumer credit](#) moderated slightly, although double-digit advances were maintained. In contrast, [remittances were affected](#) by a challenging base effect, although with purchasing power gains better relative to earlier in the year. Inside, imported goods kept the highest growth at 23.9%, driven by semi-durables (+48.8%). The domestic item came in at 2.7%, with goods back to positive territory (3.5%) –with strength in durables at 13.8%–, but with services more modest at 1.8%.

Sequentially, consumption added one more month up, now at 0.8% m/m ([Chart 7](#)). Gains were centered on imports (4.1%). Locally, the advance was marginal, at 0.2%. In detail, goods were slightly more dynamic at 0.3%, with services more restrained at 0.2% ([Table 4](#)).



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Headwinds for domestic demand will persist in 2H24, especially in investment, although with consumption exhibiting resilience. Our outlook for the remainder of the year contemplates a moderation in overall activity levels. For domestic demand, several elements are worth considering, especially in investment. However, as we have mentioned previously, we see some items or categories that will keep growing or at least maintain some momentum. In this context, our expected path for the rest of the semester is heterogeneous and we cannot rule out higher volatility.

Focusing on the third quarter, the slowdown will be centered on investment, something we had identified since the beginning of the year. The progress made in the first half, as well as the end of the current federal administration –usually implying a drop in infrastructure spending towards the second half of the year– are some of the headwinds. On the positive side, we continue to believe that construction of industrial spaces will remain an important support. Regarding consumption, we now anticipate a slightly better performance than what we foresaw at the start of the year. The reasons include: (1) Resilient demand for services –despite the inflationary pressures in this component; (2) solid fundamentals, where we highlight a tight labor market and remittances, favored by the depreciation of the Mexican peso; and (3) the normalization of social program payments. Given this, we do not rule out an acceleration of this item in sequential terms.

Towards the fourth quarter, the slowdown could deepen. Domestic demand would suffer from greater weakness on the external front, in addition to the factors already mentioned in the previous paragraph. It is important that this period could see some positive factors gathering pace, such as: (1) The beginning of less restrictive monetary policies in both Mexico and the US; (2) lower energy prices; (3) better conditions on the inflationary front; and (4) a decline in the level of uncertainty after the US elections, which would allow the definition of some investment projects. Finally, we do not rule out that consumption will continue to be resilient based on its fundamentals, although a negative base effect could limit further progress.

Gross fixed investment

Table 1: Gross fixed investment

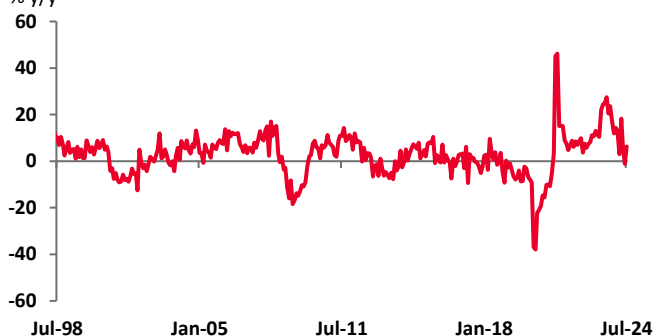
% y/y nsa

	nsa				sa	
	Jul-24	Jul-23	Jan-Jul'24	Jan-Jul'23	Jul-24	Jul-23
Total	6.4	24.7	8.2	16.7	3.9	24.9
Construction	3.8	30.2	9.9	15.5	3.4	29.6
Residential	11.1	3.8	6.2	-1.1	9.5	2.4
Non-residential	-1.0	56.1	12.6	32.2	-1.5	55.4
Machinery and equipment	9.5	18.7	6.4	18.0	4.2	18.9
Domestic	8.4	21.9	4.1	15.8	5.4	21.2
Transportation Equipment	19.5	36.4	12.7	27.9	15.0	35.2
Other machinery and equipment	-3.1	9.7	-4.2	6.1	-5.0	9.9
Imported	10.2	16.6	7.9	19.6	2.1	18.1
Transportation Equipment	46.5	53.8	32.5	65.0	44.2	52.7
Other machinery and equipment	5.5	13.0	4.4	15.1	-2.8	13.3

Source: INEGI

Chart 1: Gross fixed investment

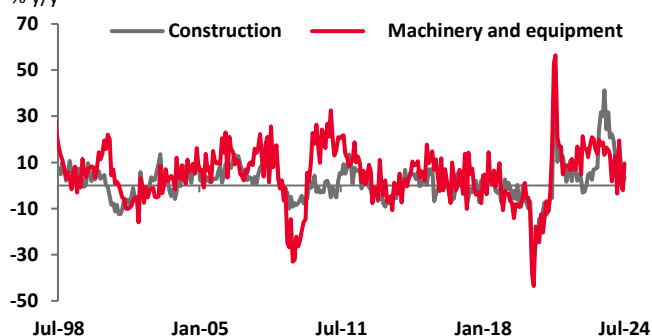
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector

% y/y



Source: INEGI

Table 2: Gross fixed investment

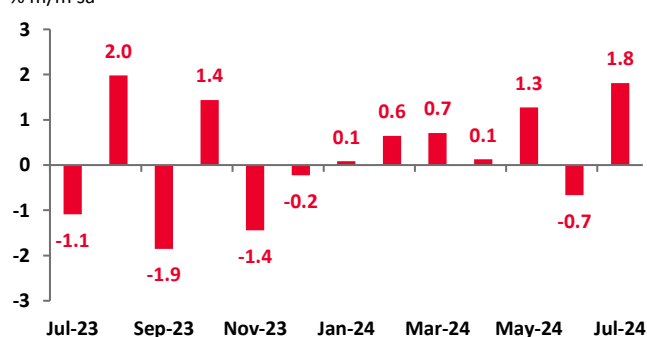
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Jul-24	Jun-24	May-24	May-Jul'24	Apr-Jun'24
Total	1.8	-0.7	1.3	1.8	1.4
Construction	2.7	-3.0	2.5	3.0	2.9
Residential	5.0	-4.8	5.6	5.3	2.7
Non-residential	0.9	-2.9	-0.4	-0.5	1.7
Machinery and equipment	0.9	1.7	-1.2	-0.4	-0.1
Domestic	1.3	5.0	0.0	2.4	0.7
Transportation Equipment	4.3	7.7	0.3	4.2	0.9
Other machinery and equipment	-2.8	3.0	0.6	0.6	-0.5
Imported	0.4	-0.8	-1.3	-2.1	-0.9
Transportation Equipment	12.1	-9.8	3.0	4.4	4.7
Other machinery and equipment	-1.7	0.5	-2.1	-3.7	-2.0

Source: INEGI

Chart 3: Gross fixed investment

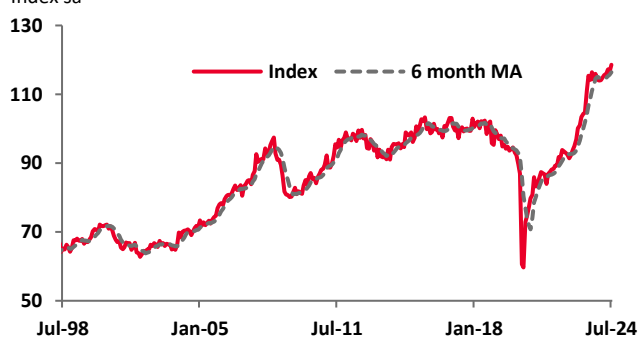
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment

Index sa



Source: INEGI

Private consumption

Table 3: Private consumption

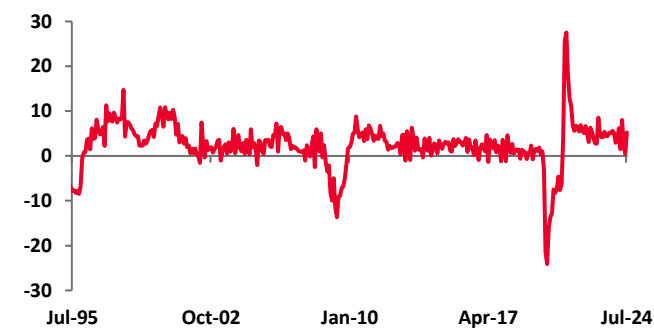
% y/y nsa

	nsa				sa	
	Jul-24	Jul-23	Jan-Jul'24	Jan-Jul'23	Jul-24	Jul-23
Total	5.2	4.5	3.8	5.2	3.4	4.8
Domestic	2.7	0.8	1.2	2.1	1.5	1.3
Goods	3.5	-1.6	0.6	-0.2	1.2	-1.1
Durables	13.8	12.1	12.3	12.3	-	-
Semi-durables	0.5	-0.2	-0.6	1.4	-	-
Non-durables	2.7	-3.4	-0.7	-1.9	-	-
Services	1.8	3.8	2.0	4.8	1.9	4.1
Imported goods	23.9	22.6	19.3	25.9	15.3	22.5
Durables	27.9	17.2	23.4	19.2	-	-
Semi-durables	48.8	10.8	32.5	9.2	-	-
Non-durables	13.1	30.4	13.0	36.3	-	-

Source: INEGI

Chart 5: Private consumption

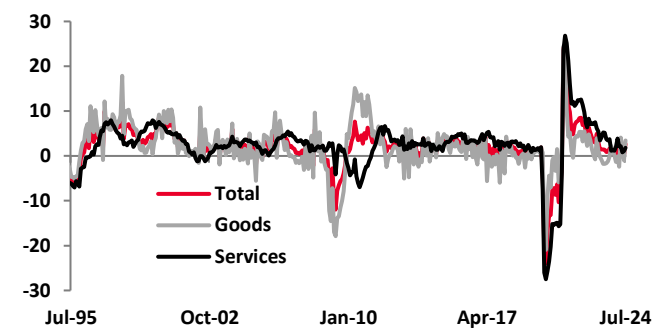
% y/y



Source: INEGI

Chart 6: Domestic consumption: Goods and services

% y/y



Source: INEGI

Table 4: Private consumption

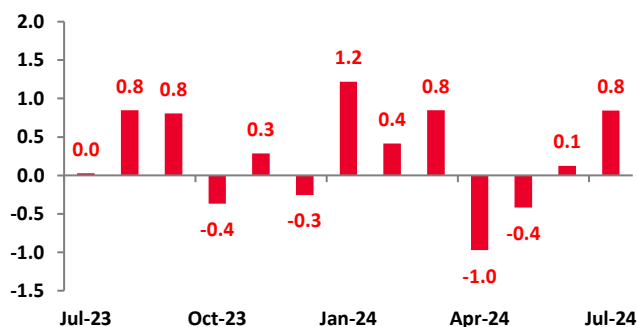
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Jul-24	Jun-24	May-24	May-Jul'24	Apr-Jun'24
Total	0.8	0.1	-0.4	-0.4	-0.5
Domestic	0.2	0.4	0.4	0.2	-0.2
Goods	0.3	0.3	0.8	0.4	-0.4
Services	0.2	0.3	-0.2	0.0	0.0
Imported goods	4.1	-1.2	-3.9	-3.7	-3.0

Source: INEGI

Chart 7: Private consumption

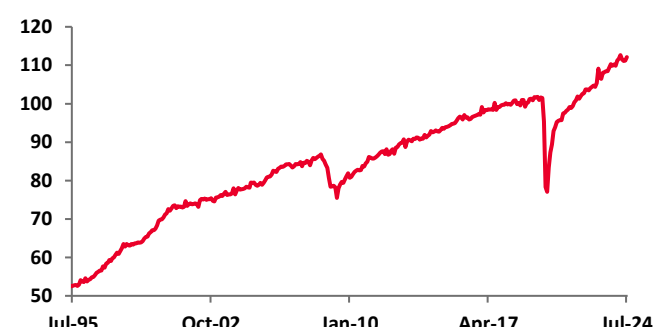
% m/m sa



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