January 15, 2025

Domestic demand – Mixed signals in October, but the deceleration trend prevailed

- **Gross fixed investment (October): -2.6% y/y (nsa); Banorte: -2.0%; consensus: -2.8% (range: -4.2% to -1.0%); previous: -2.9%**
- **Private consumption (October): 1.4% y/y (nsa); Banorte: 2.9%; consensus: 1.4% (range: 0.4% to 2.9%); previous: 0.9%**
- **Investment grew 0.1% m/m after two months of declines. Inside, machinery and equipment came in +1.2%, with dynamism centered in the imported component. Construction fell 0.9%, with relevant losses in the non-residential component**
- **Consumption contracted 0.7% m/m, adding two months to the downside. The domestic item was the main drag at -1.0% –caused by a setback in goods (-1.5%)–, with the imported branch at -0.5%**
- **We believe some of the headwinds seen in 4Q24 will remain in place in 2025, especially in the first half of the year. Consumption will be the driver of domestic demand, with investment more subdued considering greater challenges for an acceleration**

Investment stalls in the tenth month of the year. GFI came in at -2.6% y/y in October (Chart 1), close to consensus (-2.8%). The calendar effect was positive –with one more working day in the annual comparison. Thus, with seasonally adjusted figures the result was lower at -4.5% y/y. Back to original figures, machinery and equipment returned to positive at 7.8%. Inside, advances were registered in both items, with the domestic one leading by 8.3% and the imported branch slightly lower at 7.5%. In contrast, construction was negative for a third consecutive month at -11.0%, with weakness centered in the non-residential component at -16.6%. Additional details are presented in Table 1.

Regarding monthly figures, investment climbed just 0.1% m/m (Chart 3) after two months of sharp losses. Construction contracted again, now by -0.9%. This figure contrasts with the results for this sector in industrial production, although it is consistent with the decline in 'mining-related services'. In this sense, the non-residential sector contracted 2.4%, while the residential branch a 1.5% –rather positive considering the +6.0% in the previous month. Machinery and equipment rebounded 1.2%, with imports leading at 3.7%, but with the domestic one falling 1.6%. On the former, the main boost was in 'others' (4.6%), with transportation more restrained (1.0%). For more details see Table 2.

Consumption takes a step back. In annual terms, the total grew 1.4% (Chart 5), also supported by an additional working day. With seasonally adjusted figures, the print was lower at 0.5% y/y (Table 3), similar to investment. On fundamentals, their behavior was mixed. In the labor market, more than 400 thousand jobs were created, with the unemployment rate at a historical low, although with real wages moderating slightly. Remittances marked a new sequential decline, while consumer credit remained somewhat stable. Inside, the imported item came in at 6.0%, with semi-durable goods (27.4%) remaining as the highest. The domestic branch rose 0.7%, with services resilient at 1.5%, although with goods down by 0.1% –with non-durable goods (-1.1%) concentrating losses.

On a sequential basis, consumption declined 0.7%, adding to September's losses (Chart 7). This is largely explained by the -1.0% in the domestic item –with the largest decline in goods (-1.5%), while services were more modest (-0.3%). On the other hand, the imported item contracted by 0.5%, as shown in Table 4.

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Domestic demand in 2025 will rely on consumption. The end of 2024 implied lower dynamism vs. 3Q24, with investment suffering more from the uncertainty of the upcoming change in the US administration. Consumption would have moderated by a lesser magnitude, with a favorable seasonality due to end-of-year purchases. Looking into 2025, domestic demand and activity in general will be mainly supported by consumption as external demand may remain somewhat weak. We anticipate that consumption will have more limited growth during the first half of the year, gaining momentum as the months go by. For investment, the outlook will be similar, albeit without ruling out a contraction in 1H25.

Delving deeper into consumption, November would have been the month that boosted results in 4Q24. ANTAD same-store sales grew 4.5% y/y in real terms. In addition, sales during *El Buen Fin* increased by 15.1% y/y ($173.8 billion) according to Concanaco-Servytur. Looking ahead to 2025, some positive factors will be in place at the beginning of the year, such as the 12% minimum wage hike, new social programs, and the increase in real terms of those already established. However, fundamentals may be heterogeneous given more complex economic factors. In this regard, we will be looking into the net effect of US immigration policies on remittances, as well as employment demand –especially at the beginning of the year and in the formal sector.

For investment, headwinds are more palpable and were evident at least since 4Q24. Fiscal consolidation –which implies lower government spending on physical investment– as well as the uncertainty caused by Trump's protectionist discourse are the main brakes. Focusing on domestic issues, the federal government presented this week the *Plan Mexico*, a strategy that includes industrial and trade policies with an eye on economic growth framed within the 2025-2030 National Development Plan. Although the figures presented are for the six-year period, they are a starting point on expectations about investment. We recall that the budget allocated for government infrastructure works in 2025 stands at $800 billion. Thus, one of the aspects to highlight is the focus on investment. Firstly, one of the goals is for the country to attract US$100 billion in FDI by 2030 and to achieve US$277 billion in total investments, with an estimated 2,000 potential projects. Highlighted sectors included textiles, automotive, pharmaceutical, agribusiness, and semiconductors. Another relevant point was the figure of mixed investment, which according to President Claudia Sheinbaum, differs from the concept of public-private partnership since it will now be understood as an investment with a better balance of risks between the government and the private sector. Under this scheme, it is estimated that private investment could amount to $54.3 billion over the next six years.

Gross fixed investment

Table 1: Gross fixed investment

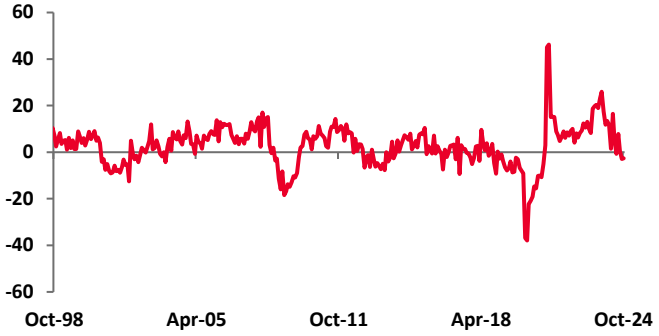
% y/y nsa

	nsa				sa	
	Oct-24	Oct-23	Jan-Oct'24	Jan-Oct'23	Oct-24	Oct-23
Total	**-2.6**	**25.9**	**4.7**	**16.9**	**-4.5**	**24.2**
Construction	**-11.0**	**38.0**	**3.9**	**17.5**	**-11.6**	**36.8**
Residential	-2.9	21.3	4.7	**2.3**	-3.5	20.2
Non-residential	-16.6	52.3	3.4	**32.3**	-16.3	51.7
Machinery and equipment	**7.8**	**13.5**	**5.5**	**16.3**	**4.2**	**11.6**
Domestic	8.3	11.1	4.7	**15.4**	5.0	12.0
Transportation Equipment	15.1	33.3	12.8	27.6	10.2	33.9
Other machinery and equipment	1.0	-5.8	-3.2	5.5	-0.2	-4.8
Imported	7.5	15.2	6.1	17.0	4.3	10.7
Transportation Equipment	7.6	42.6	24.8	53.9	7.4	43.0
Other machinery and equipment	7.5	11.6	3.3	13.0	3.7	7.1

Source: INEGI

Chart 1: Gross fixed investment

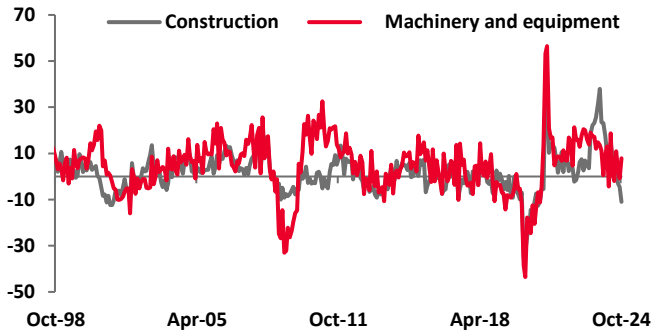
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector

% y/y



Source: INEGI

Table 2: Gross fixed investment

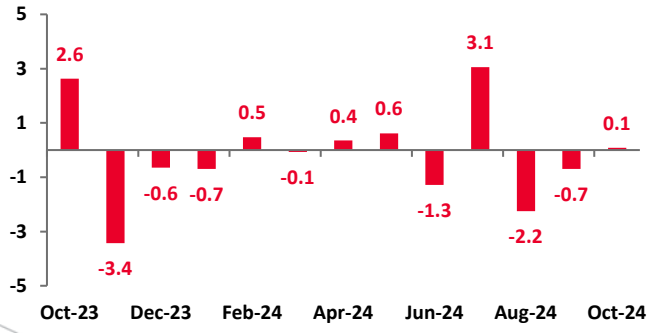
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Oct-24	Sep-24	Aug-24	Aug-Oct'24	Jul-Sep'24
Total	**0.1**	**-0.7**	**-2.2**	**-1.1**	**0.6**
Construction	**-0.9**	**-0.2**	**-3.9**	**-3.1**	**-0.6**
Residential	1.5	6.0	-6.3	-0.5	1.1
Non-residential	-2.4	-4.3	-1.2	-4.4	-2.2
Machinery and equipment	**1.2**	**-1.0**	**0.1**	**1.3**	**1.9**
Domestic	-1.6	0.8	-0.9	2.2	5.5
Transportation Equipment	-1.2	2.3	-1.5	5.0	9.4
Other machinery and equipment	-1.9	-0.3	-0.6	-0.3	2.3
Imported	3.7	-3.1	1.7	0.8	-0.4
Transportation Equipment	1.0	-2.2	-5.6	-3.5	-0.2
Other machinery and equipment	4.6	-3.3	3.2	1.7	-0.5

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

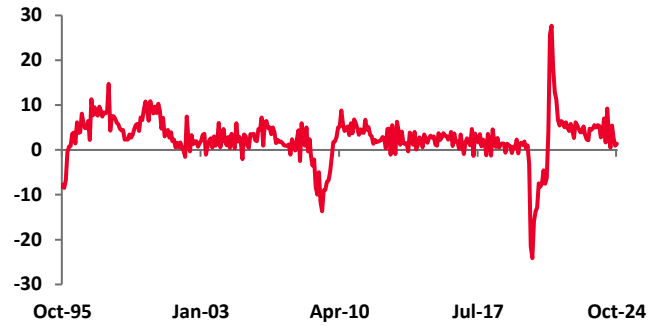
% y/y nsa

	nsa				sa	
	Oct-24	Oct-23	Jan-Oct'24	Jan-Oct'23	Oct-24	Oct-23
Total	**1.4**	**5.5**	**3.5**	**4.3**	**0.5**	**4.9**
Domestic	**0.7**	**2.8**	**1.4**	**2.3**	**-0.2**	**2.5**
Goods	-0.1	3.5	0.7	0.5	-1.7	2.7
Durables	8.0	13.1	10.0	10.3	-	-
Semi-durables	-0.3	10.8	0.2	3.8	-	-
Non-durables	-1.1	0.9	-0.4	-1.2	-	-
Services	1.5	2.0	2.2	4.4	1.6	2.1
Imported goods	**6.0**	**19.3**	**16.6**	**14.4**	**4.1**	**16.4**
Durables	1.8	36.1	17.9	24.7	-	-
Semi-durables	27.4	12.0	24.6	10.1	-	-
Non-durables	-0.6	12.3	12.3	10.4	-	-

Source: INEGI

Chart 5: Private consumption

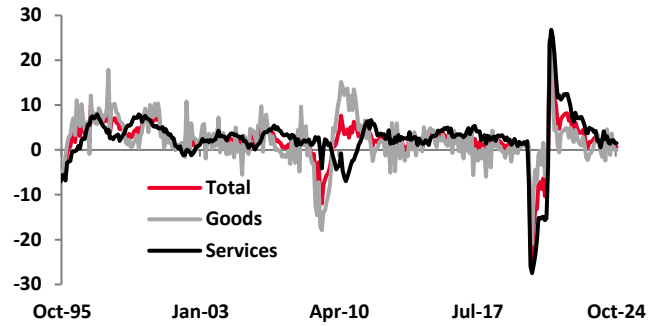
% y/y



Source: INEGI

Chart 6: Domestic consumption: Goods and services

% y/y



Source: INEGI

Table 4: Private consumption

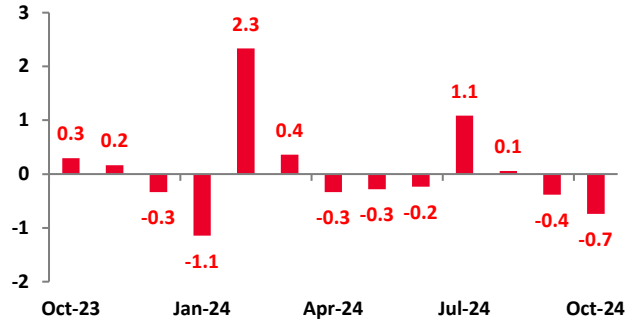
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Oct-24	Sep-24	Aug-24	Aug-Oct'24	Jul-Sep'24
Total	**-0.7**	**-0.4**	**0.1**	**0.2**	**0.7**
Domestic	**-1.0**	**0.2**	**0.2**	**0.4**	**1.0**
Goods	-1.5	0.3	0.1	0.3	1.4
Services	-0.3	0.0	0.1	0.4	0.5
Imported goods	**-0.5**	**-4.3**	**1.6**	**-1.4**	**-1.9**

Source: INEGI

Chart 7: Private consumption

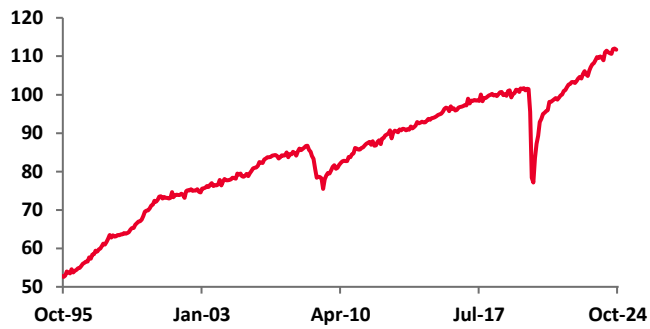
% m/m sa



Source: INEGI

Chart 8: Private consumption

Index sa



Source: INEGI

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