Domestic demand – Mixed in February, albeit still broadly favorable

- **Gross fixed investment (February): 12.7% y/y (nsa); Banorte: 10.8%; consensus: 9.1% (range: 8.0% to 11.5%); previous: 7.8%**
- **Private consumption (February): 3.6% y/y (nsa); Banorte: 4.5%; previous: 7.3%**
- **Investment rebounded 1.9% m/m, driven mainly by machinery and equipment (2.9%), especially imports (6.0%). On the other hand, construction rose 0.6% after a relevant loss in the previous month**
- **Consumption declined 0.4% m/m, below expectations. Nevertheless, it was seen after very vigorous growth since December. Imported goods backtracked 5.9%, affecting the total. The domestic component inched higher by 0.1%, explained exclusively by services' strength (+0.5%)**
- **Despite a likely moderation in the short-term, fundamentals for domestic demand still support our relative optimism about this year's GDP**

Investment improved substantially in February. In annual terms, investment picked up 12.7% (Chart 1), above consensus (9.1%) and relative to the previous month, in part because of a more favorable base effect. By sectors, the strongest impulse came from machinery and equipment at 17.5% (Chart 2), also favorable. The domestic component stood at 20.3%, while imports stayed high (16.0%) Construction (8.9%) was also healthy, noting the non-residential sector, which keeps showing more vigorous dynamics. Details are presented in Table 1.

With seasonally adjusted figures, it rebounded 1.9% m/m (Chart 3), completely reversing January's modest 0.2% drop. We highlight machinery & equipment (2.9%), which we believe is at least partially related to MXN strength. In this respect, imports surged 6.0%. Although an appreciation implies a negative accounting effect on capital goods imports when expressed in local currency, it may well be more than compensated by higher demand because of a lower price on goods purchased abroad. On the other hand, the domestic component inched higher at 0.1%, suggesting some substitution among them, even if only partial (Table 2). Moreover, it is consistent with some signs of weakness in industrial production. Construction was positive, at 0.6%. As we have stated repeatedly in recent months, the non-residential sector led higher (2.3%), in our view related to the Federal Government's infrastructure projects and nearshoring efforts from the private sector. In turn, the residential sector declined 1.0%.

A modest setback in consumption after recent strength. The result came in at 3.6% a/a, once again more modest (Chart 5). Similar to investment, to some extent this was also due to base effects. Imported goods led (5.7%), with gains centered on non-durable goods. The domestic category reached 3.4%, with durable goods (10.2%) and services (6.2%) as the strongest. For further details, see Table 3.

More importantly though, it fell 0.4% m/m. Even though we saw further growth, it is not that concerning as this happened after two very strong months (Chart 7).

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As a result, this component of aggregate demand is 6.1% above pre-pandemic levels (Dec-2019). The slowdown is relatively consistent with economic activity in the period, especially the 0.1% decline in services. On the contrary, inflation kept moving to the downside, with the annual rate at 7.62%. Domestic goods were higher (0.1%), albeit likely with a strong payback on imports due to unusual strength in January (Chart 8). The latter contracted 5.9%, in the same direction than non-oil consumption goods imports within the trade balance, despite recalling that these are expressed in USD (with a negative effect from MXN strength) and in nominal terms.

Despite a likely moderation in the short-term, fundamentals for domestic demand still support our relative optimism about this year's GDP. The 1Q23 preliminary GDP report implies an additional deceleration in March, mainly affected by industry and primary activities. In this respect, investment could be slightly more impacted. Nevertheless, we believe this would be temporary and of a modest magnitude. In this respect, IMEF's PMI manufacturing rebounded to expansion in April, reaching 50.6pts. The same indicator, compiled by *S&P Global*, remained stable at 51.1pts. Details in the latest report mention an additional improvement in demand, with a renewed expansion in production and job creation due to an acceleration in new business. Specifically, new products and projects, along with contracts with new clients, supported the expansion. In our view, this suggests an eventual need to increase production capacity, to a significant extent helped by higher demand because of nearshoring, which would show up in investment. Lastly, they warn about less US demand, consistent with some weakness of the manufacturing sector in said country.

For consumption, job creation in March, which was also released today, showed an additional decline in the unemployment rate and strong job gains. Meanwhile, average hourly wages picked up 10.6% y/y, above headline inflation for the same month at 6.8% (1H-April: 6.2%), providing some relief to households. Another relevant factor is that remittances have maintained good dynamism, although their purchasing power diminishes with a stronger MXN. Banking credit has also been recovering. We still believe that fundamentals will support additional growth. Despite of this, short-term signals are more mixed, among them the 2.6% y/y (in real terms) decline in ANTAD's same-store sales (unchanged for total stores), along with a moderation in AMIA sales, and debit and credit card transactions. On the other hand, IMEF's PMI non-manufacturing declined to 52.2pts in April from 53.5pts previously. Despite pointing to a deceleration, it has been relatively high at least since last November. Broadly speaking, we think that this is still consistent with our call of 2.6% growth in private consumption this year, a key piece behind our relative optimism about GDP growth in 2023 at 2.0%.

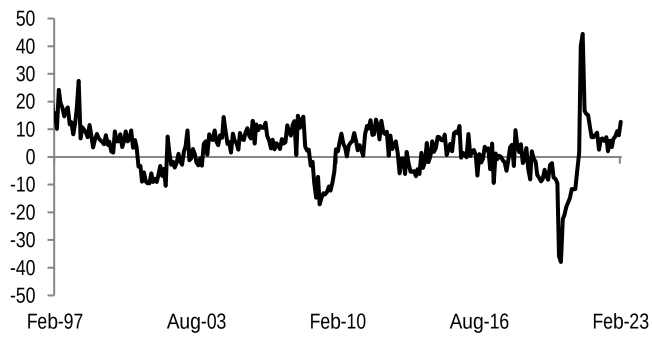
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Feb-23	Feb-22	Jan-Feb'23	Jan-Feb'22	Feb-23	Feb-22
Total	12.7	2.7	10.2	5.7	12.4	7.3
Construction	8.9	-3.8	4.1	3.5	9.0	-0.3
Residential	-1.9	-10.5	-1.6	-8.2	-1.5	-1.1
Non-residential	18.8	3.2	8.6	15.1	18.9	0.3
Machinery and equipment	17.5	12.6	18.8	9.1	16.5	18.0
Domestic	20.3	4.7	19.9	5.5	20.2	17.9
Transportation Equipment	26.7	1.0	28.5	1.6	26.3	27.6
Other machinery and equipment	13.0	9.4	10.4	10.3	12.9	7.2
Imported	16.0	17.5	18.1	11.1	14.8	17.2
Transportation Equipment	41.3	13.8	44.4	5.9	40.5	52.4
Other machinery and equipment	12.6	18.0	15.0	11.8	11.5	13.5

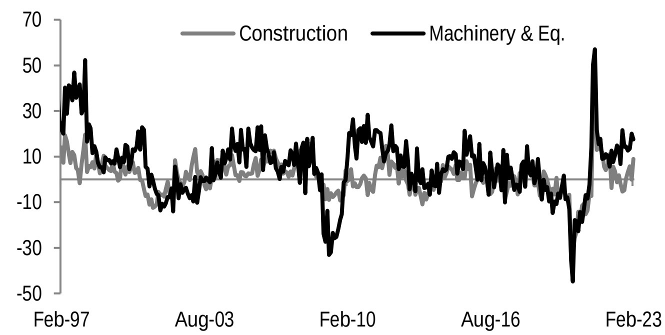
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector
% y/y



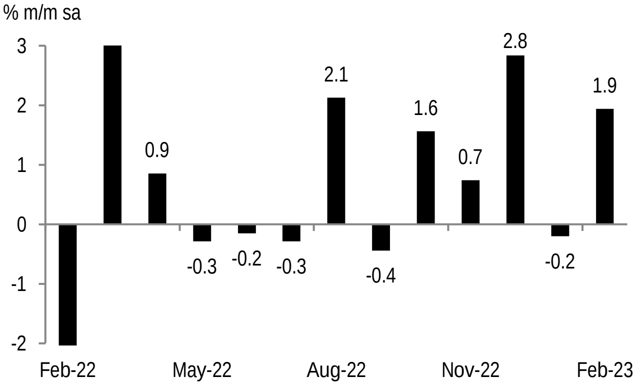
Source: INEGI

Table 2: Gross fixed investment
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Feb-23	Jan-23	Dec-22	Dec'22-Feb'23	Nov'22-Jan'23
Total	1.9	-0.2	2.8	4.4	3.5
Construction	0.6	-0.5	2.0	4.0	4.5
Residential	-1.0	-1.0	0.0	0.2	0.5
Non-residential	2.3	0.6	1.4	6.4	8.0
Machinery and equipment	2.9	1.3	4.1	5.6	2.3
Domestic	0.1	2.2	7.2	12.4	9.7
Transportation Equipment	-0.3	2.5	9.9	14.1	9.0
Other machinery and equipment	0.1	2.5	3.4	8.5	8.1
Imported	6.0	-0.7	2.9	1.9	-1.7
Transportation Equipment	3.8	1.9	7.0	5.8	2.0
Other machinery and equipment	7.1	-1.1	1.6	1.4	-1.9

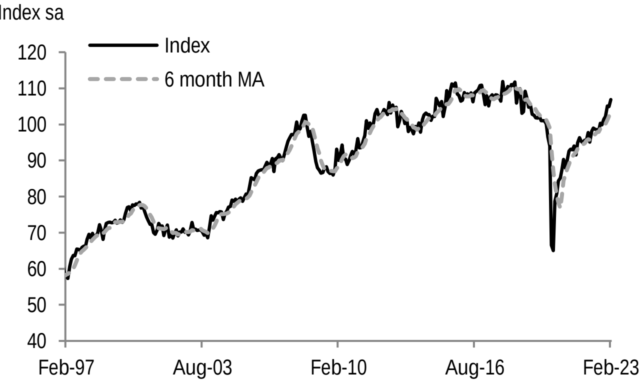
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

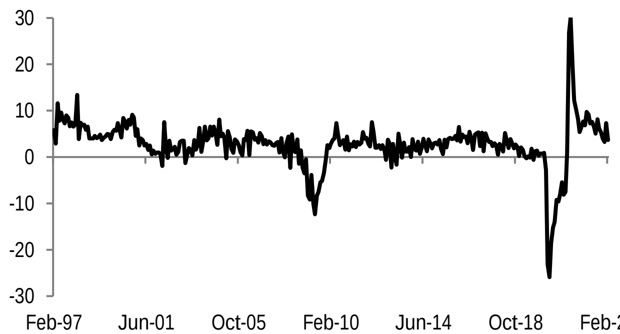
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Feb-23	Feb-22	Jan-Feb'23	Jan-Feb'22	Feb-23	Feb-22
Total	3.6	7.3	9.7	5.5	3.5	9.7
Domestic	3.4	5.1	8.4	4.3	3.3	8.4
Goods	0.3	3.4	4.3	1.9	0.2	4.1
Durables	10.2	13.5	0.0	11.8	--	--
Semi-durables	0.5	8.5	4.7	4.4	--	--
Non-durables	-0.9	1.7	4.7	0.5	--	--
Services	6.2	7.0	12.6	6.6	6.2	12.6
Imported goods	5.7	25.6	20.5	15.4	5.5	20.1
Durables	-0.6	29.0	23.5	13.7	--	--
Semi-durables	7.0	10.9	35.0	9.0	--	--
Non-durables	10.0	32.2	11.2	20.7	--	--

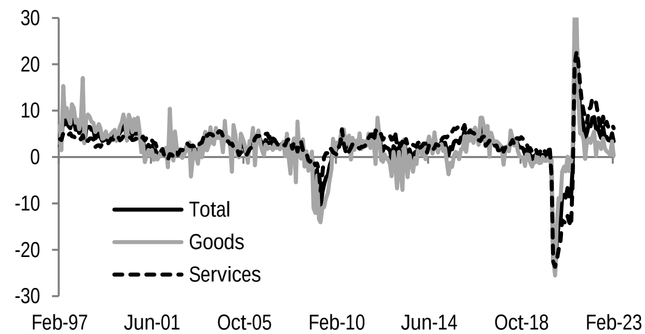
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

Chart 6: Domestic consumption: Goods and services
% y/y



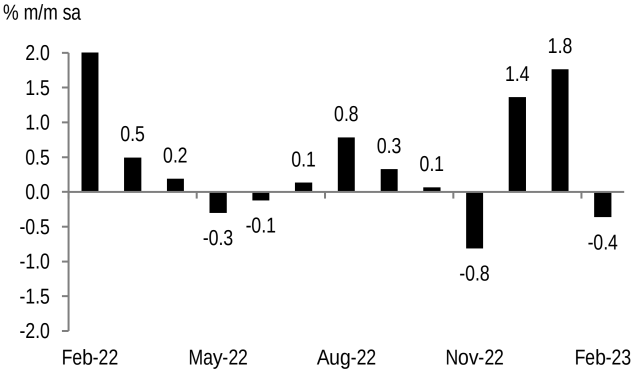
Source: INEGI

Table 4: Private consumption
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Feb-23	Jan-23	Dec-22	Dec'22-Feb'23	Nov'22-Jan'23
Total	-0.4	1.8	1.4	1.9	0.8
Domestic	0.1	0.9	1.3	1.9	1.2
Goods	-0.6	0.9	1.0	1.2	0.6
Services	0.5	0.9	2.3	2.6	1.4
Imported goods	-5.9	11.7	1.1	3.4	0.0

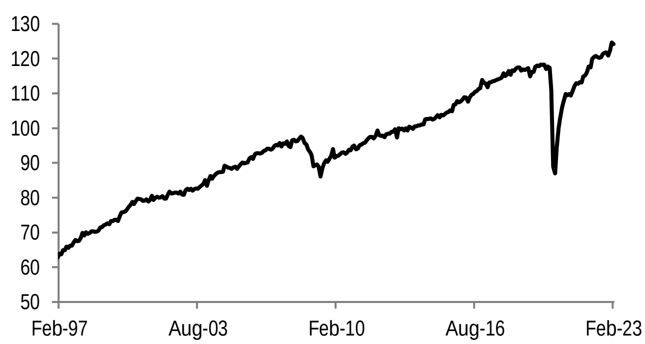
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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