

Domestic demand – Positive results despite a small setback in investment

- **Gross fixed investment (April): 6.1% y/y (nsa); Banorte: 4.4%; consensus: 6.5% (range: 4.4% to 12.6%); previous: 9.0%**
- **Private consumption (April): 2.5% y/y (nsa); Banorte: 4.1%; previous: 3.3%**
- **Investment fell 0.3% m/m, with a significant drag from construction (-2.1%). Meanwhile, machinery and equipment recorded its fifth consecutive month higher, at 2.3%**
- **Consumption rose 0.5% m/m, building up on March's +0.3%. Imported goods were once again the main driver at 2.8%. The domestic component was somewhat mixed at 0.3%, boosted by services (1.0%)**
- **Going forward, we expect domestic demand to remain driven by consumption –with fundamentals providing stability–, while investment endures challenges from the global slowdown and high rates. Nonetheless, both will continue providing support to activity through the remainder of the year**

Investment takes a small step back in April. In annual terms, investment increased 6.1% ([Chart 1](#)). Figures continue to moderate as base effects normalized further. By sectors, the boost came from machinery and equipment at 13.3% ([Chart 2](#)), accumulating double-digit gains for the last nine months. The imported component stood at 13.0%, with the domestic an inch higher at 13.9%. Construction was practically unchanged at 0.1%, with a rather negative base effect in the residential sector (at -10.7%). Details are presented in [Table 1](#).

With seasonally adjusted figures, investment fell 0.3% m/m ([Chart 3](#)), not enough to offset the 0.5% expansion from the previous month. Inside, machinery and equipment maintained dynamism at +2.3%. Outperformance was driven by the imported component at +4.3%, in our view supported by the Mexican peso's appreciation trend, which favors purchasing inputs abroad. The domestic component advanced just 0.2%, somewhat weak after two months of losses, as seen in [Table 2](#). The latter is consistent with positive results in [industrial production](#) –specifically in manufacturing. On the other hand, construction fell 2.1%. The decline centered in residential at -7.5%, a bit surprising even considering a challenging base effect after +5.6% in March. On the contrary, non-residential construction rose 2.4%, likely supported by government spending in key infrastructure projects.

Consumption keeps accelerating. In annual terms, the indicator rose 2.5% y/y ([Chart 5](#)), with base effects also impacting. Inside, imported goods remained high at 7.7%, with non-durables leading. The domestic category came in at 2.8%, with services standing out. However, within goods performance is mostly negative (-2.3%), dragged by semi-durables and non-durables. For details, see [Table 3](#).

July 5, 2023

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Sequentially, consumption rose 0.5% m/m, gaining momentum after 0.3% last month ([Chart 7](#)). Results were relatively in line with services in [INEGI's GDP-proxy](#) report. In addition, we believe some boost may have come from [a further moderation in inflationary pressures](#). Inside, imported goods were higher at 2.8%, consistent with non-oil consumption goods imports within the trade balance. Finally, the domestic category was more mixed at 0.3%. Services were rather strong at 1.0%, while goods kept declining, now at -0.4% ([Chart 8](#)).

Domestic demand will remain as a key driver for growth, albeit with some additional headwinds for investment. We continue to see signs of a slowdown when analyzing global economic activity. We highlight China's weakness relative to expectations. However, the US has proved to be a bit more resilient, even despite higher recession expectations. In this context, some indicators reflect that global manufacturing has been weak in 2Q23. *S&P Global's* manufacturing PMI for the US recorded its third consecutive drop in June (to 46.3pts), while Caixin's PMI in China has oscillated around the 50pts threshold since March. In our view, this represents a challenge for companies' investment as they will likely pull back CAPEX as conditions remain uncertain –especially in a high interest rate environment. However, other positive factors remain, including: (1) The strength of the MXN; and (2) higher spending on investment/infrastructure by the government. Regarding the latter, outlays in 2023 have been aimed at both key projects (*e.g. Tren Maya, Dos Bocas refinery, and Corredor Transistmico*) as well as maintenance of transportation infrastructure. On the latter, this year's Spending Budget includes plans to expand eleven national ports, of which Veracruz, Altamira, and Lázaro Cárdenas stand out.

Regarding consumption, we maintain our optimism on resilient fundamentals. First of all, [the labor market keeps showing strength](#) –despite some seasonal headwinds in the last two months– with unemployment rates near historical lows and average wages accelerating further. Meanwhile, [remittances continue to exceed US\\$5,000 million monthly](#). Despite the appreciation of the MXN, signs seem to be indicating that migrants could compensate for purchasing power losses by adjusting the monthly amount sent. In addition, other elements that may be supportive include: (1) A further moderation in inflation; (2) a healthy expansion in [banking credit](#); and (3) higher purchasing power in imported goods due to MXN strength.

All in all, we maintain our view that domestic demand will continue driving GDP growth in coming quarters, especially consumption. In any case, we also still expect a favorable effect from investment.

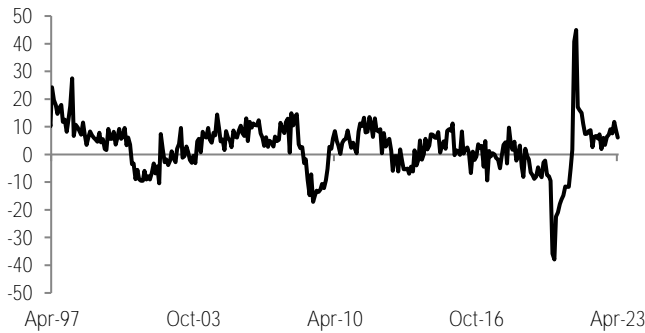
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

| | nsa | | | | sa | |
|-------------------------------|--------|--------|------------|------------|--------|--------|
| | Apr-23 | Apr-22 | Jan-Apr'23 | Jan-Apr'22 | Apr-23 | Apr-22 |
| Total | 6.1 | 6.7 | 8.6 | 6.1 | 7.0 | 8.6 |
| Construction | 0.1 | 3.6 | 2.4 | 4.0 | 0.1 | 2.3 |
| Residential | -10.7 | 2.1 | -3.6 | -2.8 | -10.0 | -0.1 |
| Non-residential | 10.6 | 5.0 | 7.7 | 10.7 | 10.0 | 5.1 |
| Machinery and equipment | 13.3 | 10.7 | 16.6 | 9.0 | 16.6 | 16.4 |
| Domestic | 13.9 | 0.0 | 17.7 | 2.7 | 15.3 | 17.6 |
| Transportation Equipment | 18.4 | 5.0 | 25.1 | 2.1 | 20.3 | 26.2 |
| Other machinery and equipment | 8.9 | -4.9 | 9.1 | 3.3 | 10.4 | 6.1 |
| Imported | 13.0 | 17.1 | 16.0 | 12.8 | 16.7 | 15.4 |
| Transportation Equipment | 46.6 | 22.2 | 49.5 | 7.6 | 45.1 | 59.0 |
| Other machinery and equipment | 8.8 | 16.5 | 11.9 | 13.5 | 13.3 | 9.5 |

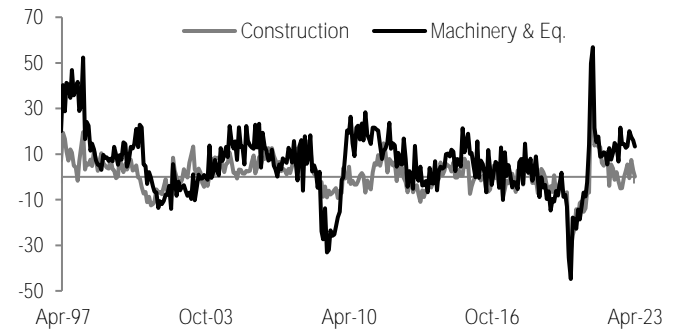
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



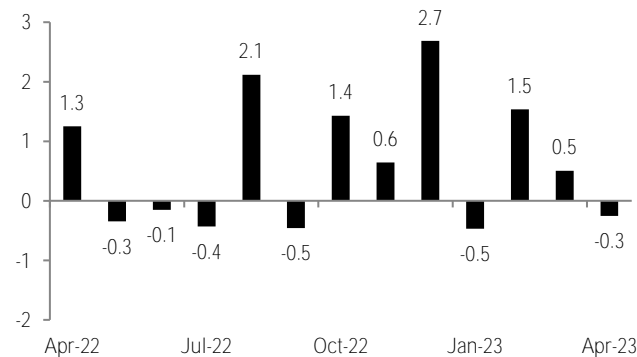
Source: INEGI

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

| | % m/m | | | | % 3m/3m | |
|-------------------------------|--------|--------|--------|------------|------------|--|
| | Apr-23 | Mar-23 | Feb-23 | Feb-Apr'23 | Jan-Mar'23 | |
| Total | -0.3 | 0.5 | 1.5 | 2.4 | 2.7 | |
| Construction | -2.1 | 0.6 | -0.2 | -0.6 | 1.0 | |
| Residential | -7.5 | 5.6 | -1.1 | -0.6 | 0.4 | |
| Non-residential | 2.4 | -2.0 | 1.1 | 1.0 | 2.0 | |
| Machinery and equipment | 2.3 | 0.5 | 3.2 | 6.8 | 6.3 | |
| Domestic | 0.2 | -1.0 | -0.4 | 2.3 | 6.2 | |
| Transportation Equipment | -0.6 | 0.7 | -0.4 | 4.4 | 9.3 | |
| Other machinery and equipment | 2.7 | -3.6 | 0.2 | 1.1 | 3.5 | |
| Imported | 4.3 | 0.4 | 6.2 | 8.7 | 4.5 | |
| Transportation Equipment | 0.6 | 9.4 | 4.2 | 15.5 | 12.8 | |
| Other machinery and equipment | 4.9 | -0.6 | 5.8 | 7.2 | 2.9 | |

Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

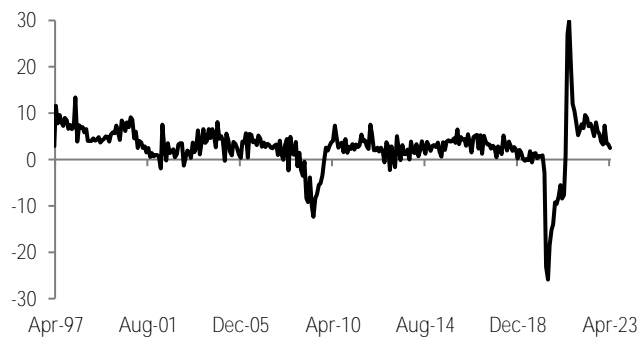
Private consumption

Table 3: Private consumption
% y/y nsa

| | nsa | | | | sa | |
|----------------|--------|--------|------------|------------|--------|--------|
| | Apr-23 | Apr-22 | Jan-Apr'23 | Jan-Apr'22 | Apr-23 | Apr-22 |
| Total | 2.5 | 7.2 | 4.2 | 8.1 | 3.5 | 7.5 |
| Domestic | 1.8 | 6.0 | 3.1 | 7.3 | 2.6 | 5.9 |
| Goods | -2.3 | 0.4 | 0.2 | 3.2 | -0.7 | 0.9 |
| Durables | 8.1 | -5.5 | 9.8 | -3.0 | -- | -- |
| Semi-durables | -3.6 | -5.7 | 1.3 | 0.1 | -- | -- |
| Non-durables | -3.4 | 2.4 | -1.0 | 4.5 | -- | -- |
| Services | 5.6 | 11.6 | 5.9 | 11.6 | 5.2 | 10.9 |
| Imported goods | 7.7 | 17.4 | 12.0 | 14.7 | 12.4 | 20.4 |
| Durables | 2.2 | 37.5 | 10.1 | 20.0 | -- | -- |
| Semi-durables | 7.5 | 24.6 | 6.5 | 31.4 | -- | -- |
| Non-durables | 12.7 | 0.8 | 16.9 | 3.3 | -- | -- |

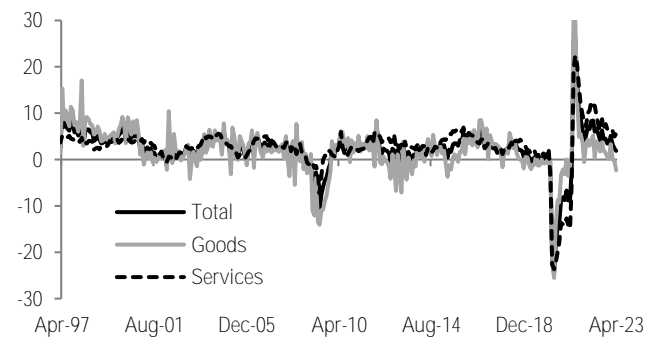
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



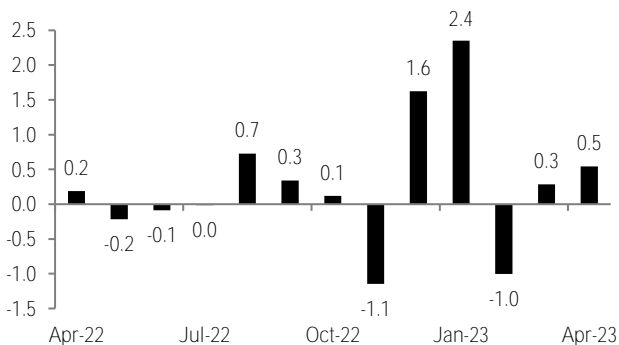
Source: INEGI

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

| | % m/m | | | % 3m/3m | |
|----------------|--------|--------|--------|------------|------------|
| | Apr-23 | Mar-23 | Feb-23 | Feb-Apr'23 | Jan-Mar'23 |
| Total | 0.5 | 0.3 | -1.0 | 1.4 | 2.5 |
| Domestic | 0.3 | -0.1 | 0.1 | 1.2 | 1.6 |
| Goods | -0.4 | -0.1 | -0.6 | 0.1 | 1.0 |
| Services | 1.0 | 0.2 | 0.4 | 2.1 | 2.2 |
| Imported goods | 2.8 | 3.7 | -5.5 | 5.5 | 8.4 |

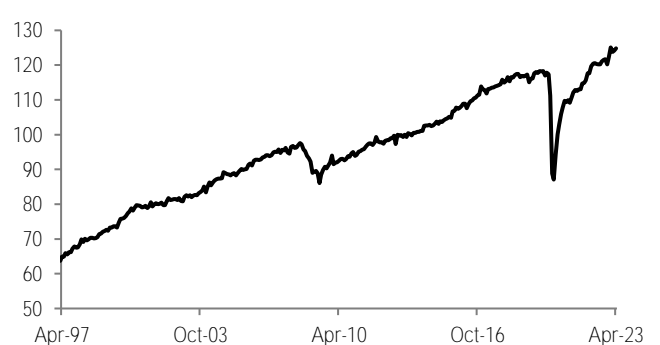
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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

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