

## Domestic demand – Investment shoots up while consumption moderates at the margin

- **Gross fixed investment (May): 17.4% y/y (nsa); Banorte: 14.8%; consensus: 9.7% (range: 2.9% to 15.2%); previous: 6.2%**
- **Private consumption (May): 3.9% y/y (nsa); Banorte: 5.1%; previous: 2.4%**
- **Investment climbed 4.5% m/m, with a significant boost from construction (7.6%). Machinery and equipment were also positive, up 1.2%, adding six months on the upside**
- **Consumption fell 0.3% m/m. Despite some support from imported goods (2.7%), the domestic component dragged the total at -0.9%.**
- **We expect domestic demand to remain resilient, driven by both consumption and investment, with local conditions still strong. However, risks from abroad remain elevated**

**Investment accelerates significantly in May.** Investment increased 17.4% ([Chart 1](#)), surprising to the upside. As such, both major categories now show double-digit expansions. Within construction (13.2%) the boost comes mainly from non-residential activity, with the residential sector still more limited. On machinery and equipment (22.0%) both sectors were higher. Details are presented in [Table 1](#).

With seasonally adjusted figures, investment expanded 4.5% m/m ([Chart 3](#)), its largest increase since mid-2020, building up on gains from the last three months. Inside, construction was the main driver, rocketing 7.6%, with the result consistent with the [industrial production report](#). We highlight two factors behind the expansion: (1) Higher government spending on infrastructure works; and (2) the boost from increased demand for industrial spaces. As such, the main beneficiary has been the non-residential sector at +9.7%. Meanwhile, the residential category rebounded 6.8%, although not enough to offset for the -7.7% of the previous month, suggesting that some issues remain. Machinery and equipment climbed 1.2%, adding six months of improvements. The expansion was driven by the two components, although to a higher extent by the domestic branch at 1.6%. The imported component rose 1.1%. Nevertheless, in both the main driver was transportation equipment, with others flat or negative, as seen in [Table 2](#).

**Consumption takes a step back after a couple months of increases.** In annual terms, the figure accelerated to 3.9% ([Chart 5](#)), with positive skews from base and calendar effects. However, we believe the result is still consistent with the sector as a key driver for growth. Inside, imported goods increased 21.5%, with all three subcategories posting double-digit increases. In the domestic front (+1.5%), services remain positive at 3.8%. However, goods declined 0.9%, impacted by contractions in semi-durables and non-durables. For details, see [Table 3](#).

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Sequentially, consumption fell 0.3% m/m, breaking with two months of gains ([Chart 7](#)). Results are consistent with services' figures in [INEGI's GDP-proxy](#), which also declined. In detail, imported goods grew 2.7%, which we associate to Mexican peso strength. Domestic consumption backtracked 0.9%, lower both in services (-1.1%) –noting a rather challenging base– and goods (-0.9%), adding four months of declines ([Chart 8](#)). Overall, we believe services are still responding to changes in consumption patterns, while domestic goods may be suffering from a substitution effect as imported items have become cheaper in local currency.

**The economy will stay supported by both consumption and investment.** The short-term outlook looks favorable, with more dynamism than anticipated since the beginning of the year. [GDP in 2Q23](#) (3.7% y/y) along with other timely figures, suggest that activity will maintain momentum in coming months. Therefore, as we have affirmed in previous reports, domestic demand will likely stay as the main driver of growth.

On consumption, the consolidation of fundamentals –especially [employment](#)–, will allow household spending to remain high. We believe upcoming figures –for June and July– will post relevant expansions, benefiting from sales events (*e.g. Hot Sale, Amazon Prime Day* and *Temporada Naranja*) and other seasonal factors. However, in our opinion, the main risk is an increase in inflationary pressures, over which we remain on the look as evidence from non-core prices is turning more adverse.

Regarding investment, despite the fact that signs of a global slowdown are still present –with further monetary tightening in advanced economies–, data from our main trading partner –the US– suggests that activity will remain positive. In this context, 2Q23 GDP figures surprised to the upside at 2.4% q/q annualized (previous: 2.0%), with gross fixed investment up notably (+4.9%) after four quarters of declines. In this context, some indicators reflect that manufacturing could begin to improve. *S&P Global's* manufacturing PMI for July rose to 49.0pts, its highest level since April, with significant increases in new orders and production. Similarly, in Mexico, IMEF's manufacturing PMI shows better dynamism (51.8pts), recovering from the weakness of previous months. In the domestic front, another key element to consider is government spending on infrastructure projects –which include everything from improvements and expansions of ports to the efforts to finish the *Tren Maya* on time– implying significant economic spillovers. Regarding input prices, construction PPI registered its first contraction of the year in June. If this continues in the short-term, the residential sector could receive some much-needed relief, considering the relevant lag it has had so far in the year. Finally, we believe that MXN appreciation will continue to support imported machinery and equipment in a context of increased interest amid nearshoring efforts.

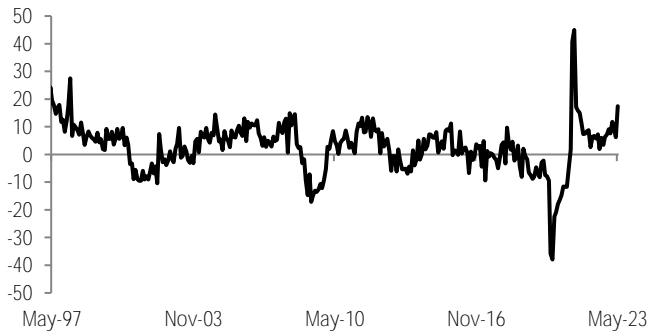
## Gross Fixed Investment

Table 1: Gross fixed investment  
% y/y nsa

	nsa				sa	
	May-23	May-22	Jan-May'23	Jan-May'22	May-23	May-22
Total	17.4	5.8	10.4	6.0	15.1	7.7
Construction	13.2	-1.3	4.5	2.9	12.9	0.4
Residential	1.7	-5.6	-2.4	-3.4	1.5	-9.5
Non-residential	25.0	3.5	10.8	9.3	24.1	10.8
Machinery and equipment	22.0	14.8	17.8	10.2	17.7	16.7
Domestic	20.2	4.1	18.3	3.0	16.8	15.4
Transportation Equipment	26.3	7.2	25.4	3.4	21.8	20.7
Other machinery and equipment	10.5	-0.7	9.3	2.5	7.8	10.2
Imported	23.1	22.4	17.6	14.7	17.9	16.9
Transportation Equipment	55.4	19.7	50.9	10.3	54.8	45.7
Other machinery and equipment	18.4	22.7	13.2	15.3	12.5	13.4

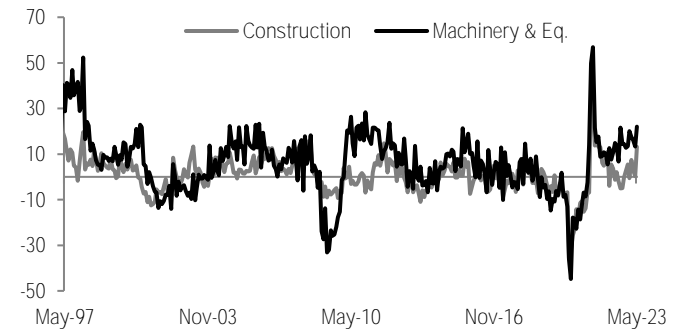
Source: INEGI

Chart 1: Gross fixed investment  
% y/y



Source: INEGI

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



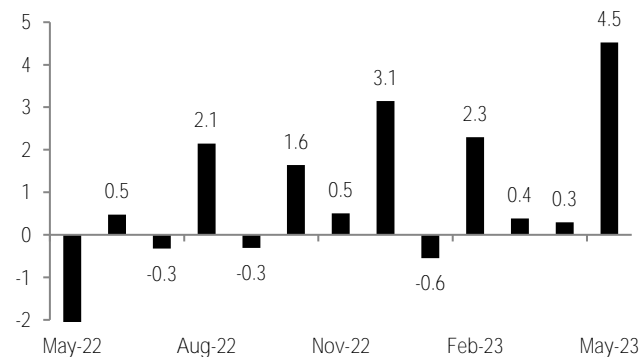
Source: INEGI

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

	% m/m					% 3m/3m	
	May-23	Apr-23	Mar-23	May-Mar'23	Feb-Apr'23	May-Mar'23	Feb-Apr'23
Total	4.5	0.3	0.4	3.5	3.3		
Construction	7.6	-2.3	0.7	1.7	0.2		
Residential	6.8	-7.7	4.0	0.0	-1.3		
Non-residential	9.7	3.9	-2.3	4.5	1.6		
Machinery and equipment	1.2	2.3	0.5	5.2	6.8		
Domestic	1.6	0.2	-1.1	-0.1	2.3		
Transportation Equipment	2.2	-0.2	0.8	2.0	4.9		
Other machinery and equipment	-1.8	2.5	-3.7	-2.0	0.8		
Imported	1.1	4.4	0.5	8.0	8.8		
Transportation Equipment	5.5	0.7	10.0	17.0	16.6		
Other machinery and equipment	0.0	4.9	-0.5	6.4	7.1		

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-23	May-22	Jan-May'23	Jan-May'22	May-23	May-22
Total	3.9	7.7	4.1	8.0	3.0	6.7
Domestic	1.5	6.6	2.8	7.2	0.7	6.1
Goods	-0.9	3.9	0.0	3.3	-1.9	3.1
Durables	17.6	0.5	11.0	-2.3	--	--
Semi-durables	-2.8	7.2	0.4	1.5	--	--
Non-durables	-2.8	3.7	-1.3	4.3	--	--
Services	3.8	9.4	5.4	11.1	3.8	9.1
Imported goods	21.5	16.6	14.0	15.1	16.1	10.8
Durables	21.1	26.3	12.5	21.3	--	--
Semi-durables	15.3	24.4	8.2	29.9	--	--
Non-durables	25.2	6.0	18.6	3.9	--	--

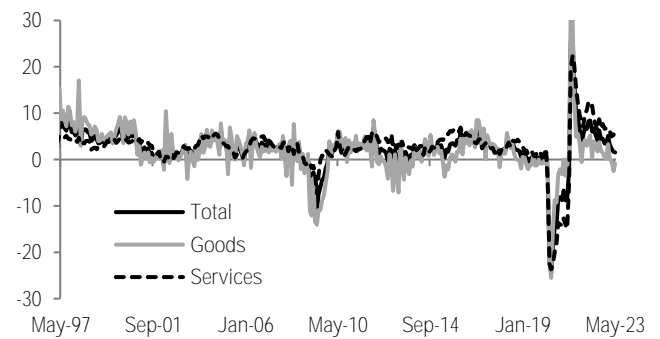
Source: INEGI

Chart 5: Private consumption  
% y/y



Source: INEGI

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



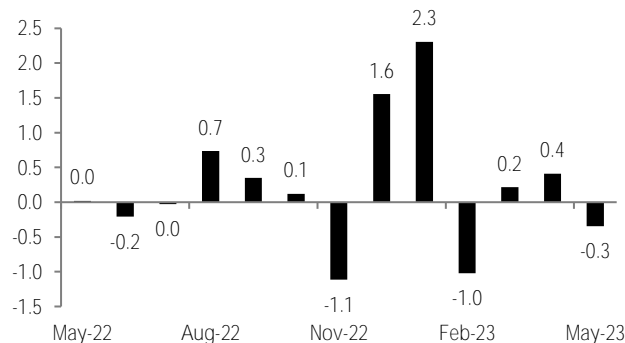
Source: INEGI

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

	% m/m			% 3m/3m	
	May-23	Apr-23	Mar-23	May-Mar'23	Feb-Apr'23
Total	-0.3	0.4	0.2	0.4	1.3
Domestic	-0.9	-0.1	-0.2	-0.3	0.8
Goods	-0.9	-0.6	-0.2	-1.1	-0.1
Services	-1.1	1.0	0.0	0.7	1.8
Imported goods	2.7	3.3	3.8	6.9	5.9

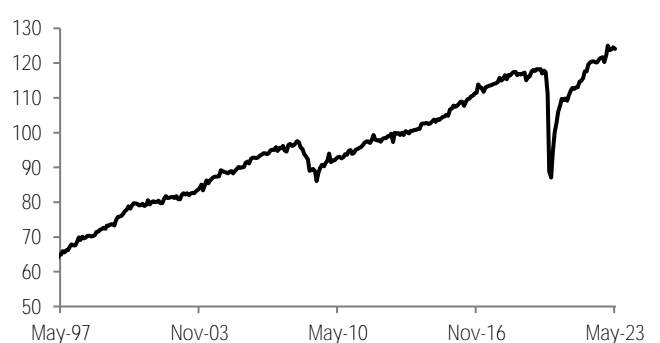
Source: INEGI

Chart 7: Private consumption  
% m/m sa



Source: INEGI

Chart 8: Private consumption  
Index sa



Source: INEGI

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cuautencos Mora and Andrea Muñoz Sánchez, 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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