

Domestic demand – Strength in June amid several favorable factors

- **Gross fixed investment (June): 28.8% y/y (nsa); Banorte: 28.5%; consensus: 23.8% (range: 12.2% to 30.0%); previous: 25.2%**
- **Private consumption (June): 4.3% y/y (nsa); Banorte: 5.1%; consensus: 4.6% (range: 3.0% to 5.6%); previous: 5.2%**
- **Investment climbed 3.1% m/m, with broad-based gains. Construction remained as the main driver (+4.2%), with machinery and equipment also positive (+2.1%)**
- **Consumption grew 0.3% m/m, rebounding after a decline in the previous month. Imported goods led at +2.4%, with the domestic component (-0.1%) dragged by goods**
- **We keep expecting domestic demand strength in 2H23, with both consumption and investment as key drivers for the expansion in economic activity**

Investment kept growing in June at an accelerated pace. Investment increased 28.8% ([Chart 1](#)), its highest rate in little over two years. Inside, the two components maintained high rates of expansion. Dynamism in construction once again prevailed at +37.1%, with the non-residential sector being the main driver. Within machinery and equipment (+20.5%), the imported item was higher at 31.1%, with the domestic component at 6.4%. Details are presented in [Table 1](#).

With seasonally adjusted figures, investment rose 3.1% m/m ([Chart 3](#)), adding twelve months in a row to the upside. Inside, we highlight construction at +4.2%, rather large if we consider the +8.6% of the previous month. In line with May, we believe the boost comes from at least: (1) The effect of nearshoring on industrial spaces; and (2) government spending on infrastructure projects. Therefore, the non-residential sector has been most favored, up 8.2% in the period, with an accumulated expansion of 45.2% so far this year. Meanwhile, the residential category declined 2.6%, experiencing volatility amid high interest rates and elevated costs. Machinery and equipment accelerated at the margin to +2.1%. The imported component led at 4.1%, with a small drag from the domestic branch at -0.5%. In both instances, transportation equipment was stronger –likely related to improvements in the sector’s supply chains–, as seen in [Table 2](#).

Increase in consumption, with gains in the imported component. In annual terms, activity rose 4.3% ([Chart 5](#)). In our opinion, this was favored by: (1) Better economic dynamism; (2) a resumption in job creation; (3) MXN strength; and (4) a further moderation in price pressures. Inside, imported goods grew 22.4%, highlighting durable goods at +31.0%. Domestically (+0.9%), goods were negative at -2.8%, dragged by non-durables (-6.2%). On the contrary, services continued to expand at 5.5%. For further details, see [Table 3](#).

Sequentially, consumption grew 0.3% m/m, reversing May’s -0.1% ([Chart 7](#)). Dynamism is consistent with [INEGI’s GDP-proxy \(IGAE\)](#). Inside, imports added a fourth month of expansion at +2.4% –with MXN strength key for this.

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Nevertheless, the domestic branch declined for a second straight months at -0.1%. Weakness remained centered in goods (-0.6%), with services rebounding at the margin at 0.5% ([Table 4](#)).

Domestic demand will keep expanding in 2H23. Even though we forecast a moderation in the pace in the second half of the year, dynamism in these two sectors will likely prevail. In this sense, we highlight that the magnitude of the slowdown is more modest than contemplated at the beginning of the year. This is key for our 2023 full-year GDP forecast of 3.0%. In this regard, consumption's strength, and the resilience of some industrial sectors –which acted as drivers in the first semester– would continue to be present for the rest of the year.

Regarding investment, we believe that it still has space to keep advancing. Related to this, we highlight two public investment projects that will continue to boost the sector throughout 2023 and 2024: (1) The *Tren Maya* and satellite projects –six hotels, two parks, workshops, etc.; and (2) the *Corredor Interoceánico del Istmo de Tehuantepec* (CIIT). On the latter, impact in the medium- and long-term through private investments continues to add up. According to data from CIIT, as of June of this year there were 52 investment commitment projects that translate into US\$4.5 billion in expected outlays. We do not rule an increase driven by a federal government decree (at the beginning of June) as tax incentives were established to invest in the region. Measures include 100% excise tax discounts –during the first three years, with additional benefits ahead–, VAT exemptions for operations within and between other related projects, and an accelerated depreciation of investments for a six-year period.

Regarding consumption, we anticipate growth slightly below that observed in the first half of the year, with accumulated gains acting as a challenging base effect. In addition, we maintain some cautiousness about renewed inflationary pressures –with rebounds in food items and energy in the non-core component. Nevertheless, labor market strength and other consumption fundamentals will continue to drive the sector.

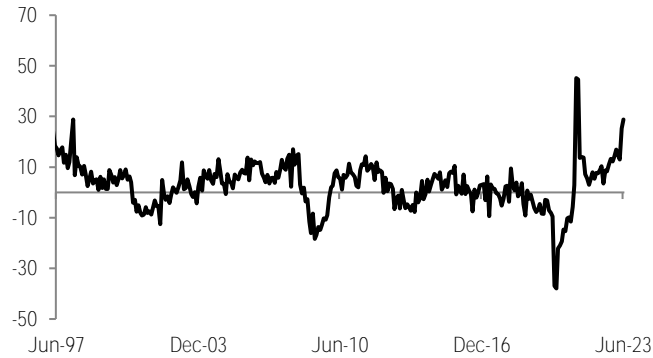
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Jun-23	Jun-22	Jan-Jun'23	Jan-Jun'22	Jun-23	Jun-22
Total	28.8	10.4	18.8	8.0	28.6	10.1
Construction	37.1	6.3	17.9	5.8	36.9	6.1
Residential	0.5	-0.7	-1.9	-1.3	0.8	0.2
Non-residential	71.5	13.8	38.3	14.3	70.3	13.2
Machinery and equipment	20.5	14.9	19.9	10.6	20.1	13.8
Domestic	6.4	10.4	12.3	4.5	7.7	8.8
Transportation Equipment	26.0	2.9	25.8	1.1	27.2	1.7
Other machinery and equipment	-8.5	16.9	1.9	7.2	-7.2	15.4
Imported	31.1	18.5	25.5	15.7	28.0	18.0
Transportation Equipment	92.9	13.4	69.6	7.4	88.4	11.9
Other machinery and equipment	24.4	19.1	21.0	16.6	22.6	19.0

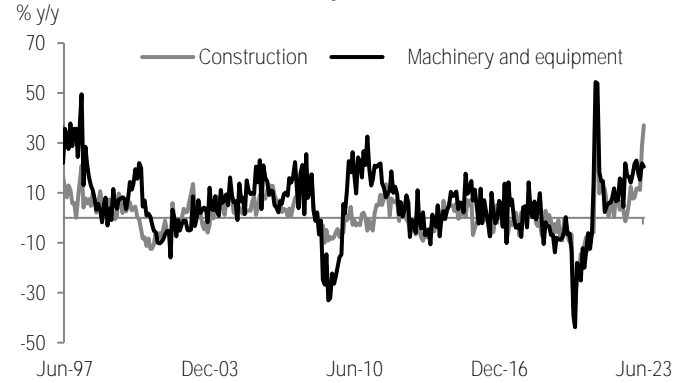
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector



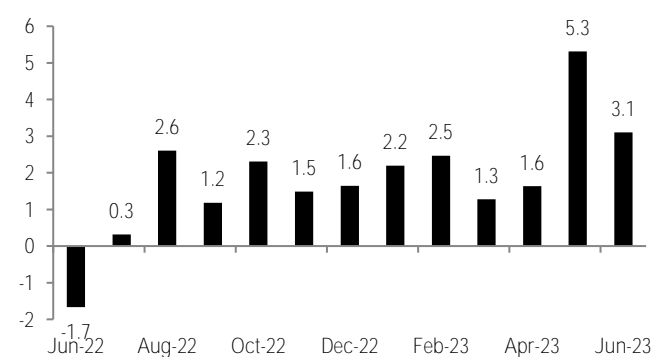
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Table 2: Gross fixed investment
% m/m sa: % 3m/3m sa

	% m/m			% 3m/3m	
	Jun-23	May-23	Apr-23	Apr-Jun'23	Mar-May'23
Total	3.1	5.3	1.6	8.1	6.7
Construction	4.2	8.6	1.5	11.9	9.3
Residential	2.1	1.2	1.8	3.8	3.7
Non-residential	-0.5	0.0	-0.7	-2.3	-2.6
Machinery and equipment	4.1	1.1	3.3	7.7	8.3
Domestic	3.1	5.3	1.6	8.1	6.7
Transportation Equipment	4.2	8.6	1.5	11.9	9.3
Other machinery and equipment	2.1	1.2	1.8	3.8	3.7
Imported	-0.5	0.0	-0.7	-2.3	-2.6
Transportation Equipment	4.1	1.1	3.3	7.7	8.3
Other machinery and equipment	3.1	5.3	1.6	8.1	6.7

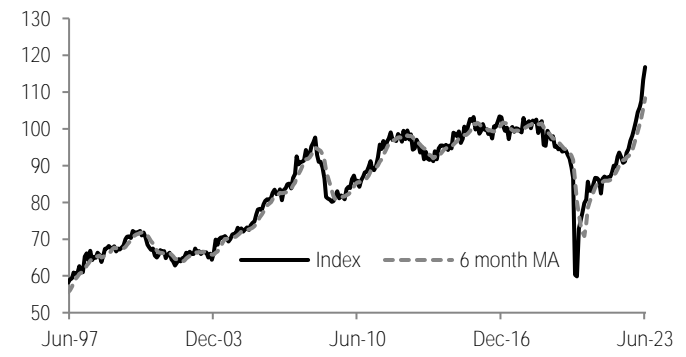
Source: INEGI

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	
	Jun-23	Jun-22	Jan-Jun'23	Jan-Jun'22	Jun-23	Jun-22
Total	4.3	6.8	4.6	7.3	4.1	6.9
Domestic	0.9	6.0	2.3	7.4	0.9	6.0
Goods	-2.8	4.6	-0.1	4.3	-2.9	4.7
Durables	14.4	0.7	12.9	1.0	--	--
Semi-durables	5.1	1.4	3.1	-0.9	--	--
Non-durables	-6.2	5.7	-2.2	5.7	--	--
Services	5.5	7.6	5.3	11.5	5.5	7.8
Imported goods	22.4	14.7	18.5	14.2	20.9	15.1
Durables	31.0	21.1	20.8	25.3	--	--
Semi-durables	14.4	27.9	9.4	24.0	--	--
Non-durables	20.9	8.4	20.5	6.6	--	--

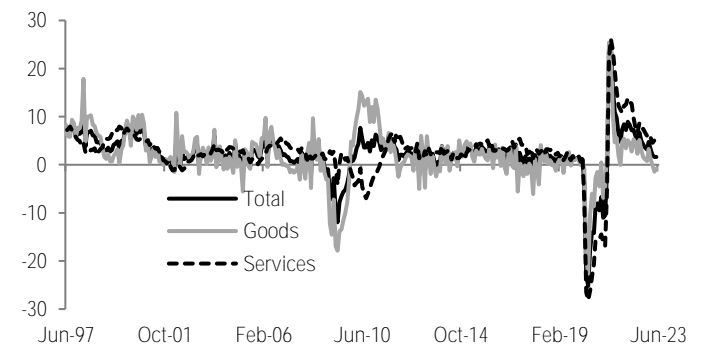
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



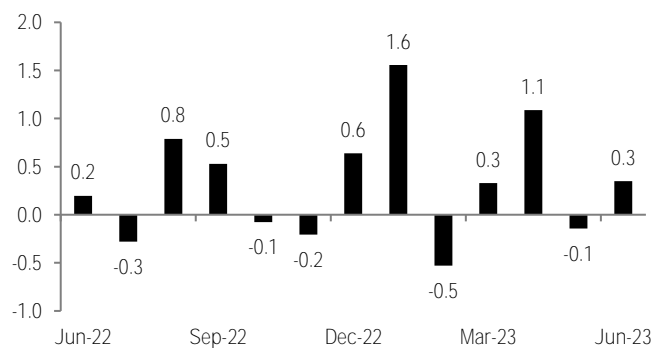
Source: INEGI

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

	% m/m			% 3m/3m	
	Jun-23	May-23	Apr-23	Apr-Jun'23	Mar-May'23
Total	0.3	-0.1	1.1	1.2	1.2
Domestic	-0.1	-0.9	0.5	-0.5	-0.4
Goods	-0.6	-1.5	0.2	-1.6	-1.3
Services	0.5	-0.3	0.8	0.9	0.9
Imported goods	2.4	2.6	2.8	6.7	8.1

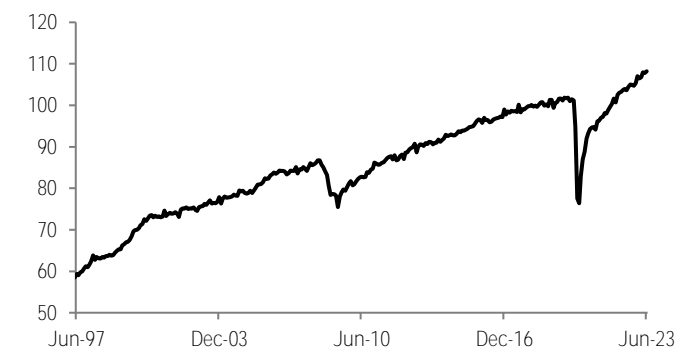
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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