

Domestic demand – Investment gains continue as consumption takes a pause

- Gross fixed investment (July): 29.1% y/y (nsa); Banorte: 29.9%; consensus: 29.0% (range: 20.3% to 32.0%); previous: 28.8%
- Private consumption (July): 4.0% y/y (nsa); Banorte: 4.1%; consensus: 4.7% (range: 4.1% to 6.0%); previous: 4.3%
- Investment rose 0.5% m/m. Inside, construction (1.9%) added a seventh month of gains, while machinery and equipment had a setback (-0.9%), facing a rather challenging base
- Consumption was flat (0.0% m/m). The domestic component increased 0.3%, with the imported one declining 1.1% after relevant gains in the previous four months
- Going forward, we believe that the balance of risks for domestic demand is still favorable. However, some headwinds prevail, highlighting higher inflation during the last quarter of the year and a high interest rate environment, to name a few

The positive trend for investment continued in July, both in annual and sequential terms. GFI increased 29.1% y/y, accelerating at the margin, and maintaining double-digit rate growth for a tenth month in a row ([Chart 1](#)). Both components were positive. Construction came in at 37.4%, with significant growth in the non-residential sector (71.1%). Within machinery and equipment (+19.8%), the imported item was higher at +21.3%, with the domestic category at 17.5%. Details are presented in [Table 1](#).

With seasonally adjusted figures, investment rose 0.5% m/m ([Chart 3](#)). Inside, performance was mixed, although remaining highly positive in general terms. Construction stood out once again, up by 1.9% and with seven months of improvements. In our opinion, the sector continues to be boosted by government spending on key projects (e.g. *Tren Maya* and *Corredor Interoceánico del Istmo de Tehuantepec*), where we think there are important efforts to finish them before the end of the current presidential term, as well as by the consolidation of a higher demand for industrial spaces. As such, the non-residential component continues to gain dynamism, with an expansion of 2.2%. Somewhat surprisingly considering its recent performance, the residential component rebounded 1.2%, possibly helped by improvements in input costs –with a 0.5% m/m decrease in the sector's PPI. Machinery and equipment fell 0.9%. The total was dragged by a decline in imported goods (-3.7%), which faced a more challenging base, although in our opinion still with a favorable outlook given that the Mexican peso remained strong. On the contrary, the domestic component climbed +3.1%. Performance inside both categories was mixed, with generalized declined in the former, while all components rose in the latter, as seen in [Table 2](#).

A pause in consumption after gains in the previous month. In annual terms, sector rose 4.0% ([Chart 5](#)). We believe that the overall outlook continues to be positive, with relevant drivers such as: (1) The appreciation of the MXN, benefiting imported goods prices; (2) a relative moderation in inflation –despite increases in some non-core items; and (3) [further gains in wages](#). Consistent with this, inside, imported goods increased by 19.4%, with strength centered in durables (21.4%). On the other hand, domestic goods declined by 1.0%, dragged by non-durables (-3.3%). Moreover, services remained positive at 3.0%. For further details, see [Table 3](#).

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Sequentially, consumption posted null growth (0.0% m/m), recognizing a relatively more challenging base, as well as relevant progress in previous months ([Chart 7](#)). In detail, the domestic component rebounded 0.3%, with gains in goods (1.4%), but with services lower (-0.6%). Meanwhile, the imported category declined 1.1%, although only after rather sizeable expansions in the previous four months ([Table 4](#)).

We believe that dynamism in domestic demand will prevail for the remainder of the year and into 2024. Our forecast for activity in upcoming quarters contemplates an additional expansion, which will be based mainly on investment and consumption. However, with the figures we have so far, we think that there is a possibility in which results will be better than we anticipated, introducing upside risks to our estimates. Investment will probably remain as the main driver, at least considering growth rates –with quite a relevant boost from construction. On the other hand, consumption will continue to show strength, with the resilience of fundamentals being key to foster additional growth.

However, we believe that the outlook maintains some risks, each with a larger or lesser impact for each sector. In this sense, among the most relevant we highlight: (1) Higher inflation pressures, with harsh weather conditions and increases in energy prices; (2) high interest rates for a longer period, impacting consumption and investment decisions; (3) some doubts regarding the dynamism of the global economy, despite some resilience in the US; and (4) a more challenging base effect, at least for investment with significant gains since August 2022. However, we think that the overall impact of these factors would be relatively limited, at least in the short-term. We believe that many of the positive factors mentioned throughout this report will continue to contribute to performance in the following months, supporting activity in general terms.

In sum, we think that this strength will be key to face higher external uncertainty in coming months, something that we believe is quite relevant considering that in some previous episodes, the position of the economy looked more vulnerable than it currently seems to be. Therefore, we think that domestic demand will remain as a relevant driver for activity not only in the remainder of the year but also in 2024. Along with the fact that many of the points described will continue to be present, we recognize an additional boost from government spending, both in investment –due to the continuity in key projects– and in consumption –with the increases of the social programs’ transfers amounts.

Gross fixed investment

Table 1: Gross fixed investment

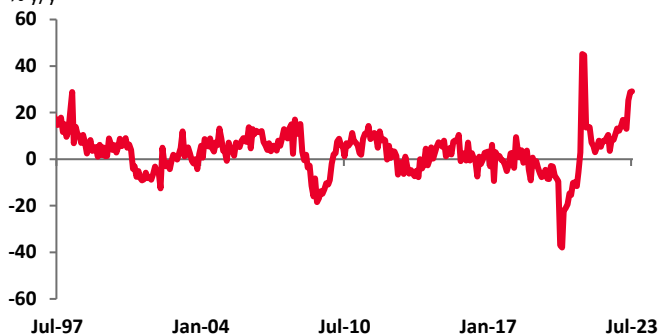
% y/y nsa

	nsa				sa	
	Jul-23	Jul-22	Jan-Jul'23	Jan-Jul'22	Jul-23	Jul-22
Total	29.1	3.6	20.3	7.4	29.5	5.3
Construction	37.4	2.9	20.6	5.4	37.2	3.1
Residential	3.5	-2.4	-1.1	-1.5	2.7	-2.9
Non-residential	71.1	8.9	43.0	13.5	70.9	9.3
Machinery and equipment	19.8	4.3	19.9	9.7	20.3	8.2
Domestic	17.5	-1.6	13.0	3.6	17.1	2.1
Transportation Equipment	36.9	-1.4	27.3	0.7	36.0	2.3
Other machinery and equipment	1.7	-1.7	1.9	6.0	2.1	1.4
Imported	21.3	8.7	24.9	14.6	23.1	12.1
Transportation Equipment	58.2	8.8	68.0	7.6	61.6	11.5
Other machinery and equipment	17.6	8.7	20.5	15.4	17.8	12.6

Source: INEGI

Chart 1: Gross fixed investment

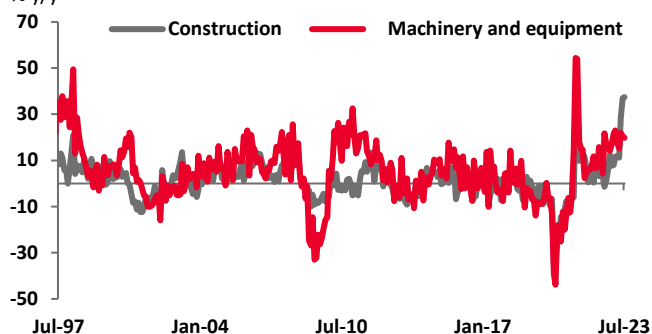
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector

% y/y



Source: INEGI

Table 2: Gross fixed investment

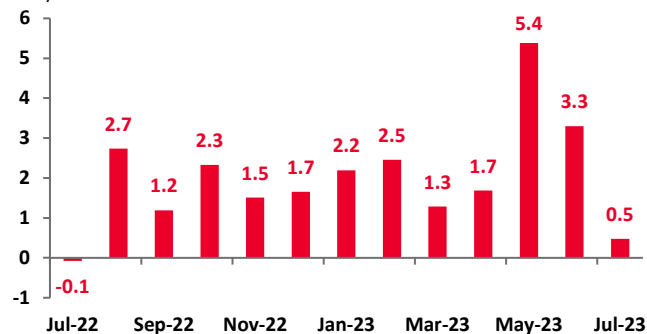
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Jul-23	Jun-23	May-23	May-Jul'23	Apr-Jun'23
Total	0.5	3.3	5.4	9.5	8.3
Construction	1.9	4.5	7.9	14.8	12.5
Residential	1.2	-2.6	5.8	3.6	1.5
Non-residential	2.2	7.2	11.7	24.5	23.0
Machinery and equipment	-0.9	2.0	1.2	3.1	3.8
Domestic	3.1	-0.2	0.4	0.6	-1.6
Transportation Equipment	5.4	2.2	2.8	5.7	1.6
Other machinery and equipment	1.7	-2.6	-2.3	-4.4	-4.6
Imported	-3.7	3.6	1.2	4.2	7.5
Transportation Equipment	-11.3	9.1	4.3	9.8	15.8
Other machinery and equipment	-3.0	3.3	0.1	2.9	6.2

Source: INEGI

Chart 3: Gross fixed investment

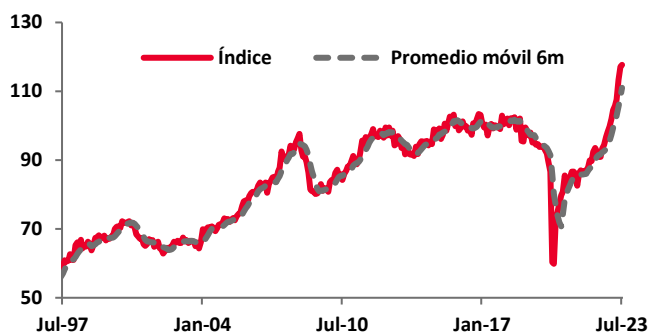
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment

Index sa



Source: INEGI

Private consumption

Table 3: Private consumption

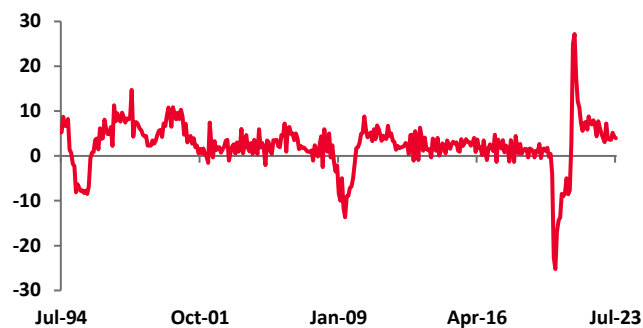
% y/y nsa

	nsa				sa	
	Jul-23	Jul-22	Jan-Jul'23	Jan-Jul'22	Jul-23	Jul-22
Total	4.0	4.4	4.5	6.8	4.3	5.7
Domestic	0.9	4.2	2.1	7.0	1.2	5.3
Goods	-1.0	2.3	-0.3	4.0	-0.8	3.7
Durables	19.6	-5.9	13.8	0.0	-	-
Semi-durables	0.4	5.1	2.7	-0.1	-	-
Non-durables	-3.3	2.7	-2.4	5.3	-	-
Services	3.0	6.7	5.0	10.8	3.5	7.4
Imported goods	19.4	6.1	18.7	13.0	19.1	10.8
Durables	21.4	20.5	20.9	24.6	-	-
Semi-durables	12.2	24.3	9.8	24.1	-	-
Non-durables	21.0	-4.3	20.5	4.9	-	-

Source: INEGI

Chart 5: Private consumption

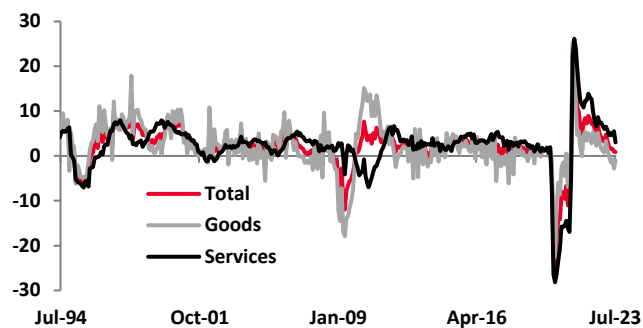
% y/y



Source: INEGI

Chart 6: Domestic consumption: Goods and services

% y/y



Source: INEGI

Table 4: Private consumption

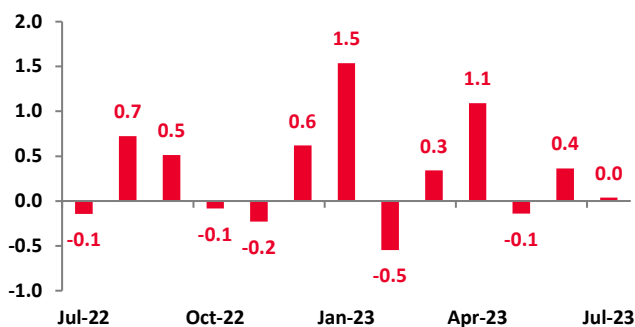
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Jul-23	Jun-23	May-23	May-Jul'23	Apr-Jun'23
Total	0.0	0.4	-0.1	1.0	1.2
Domestic	0.3	0.0	-0.9	-0.7	-0.5
Goods	1.4	-0.5	-1.4	-1.3	-1.4
Services	-0.6	0.1	-0.4	-0.1	0.5
Imported goods	-1.1	2.1	2.5	6.8	6.2

Source: INEGI

Chart 7: Private consumption

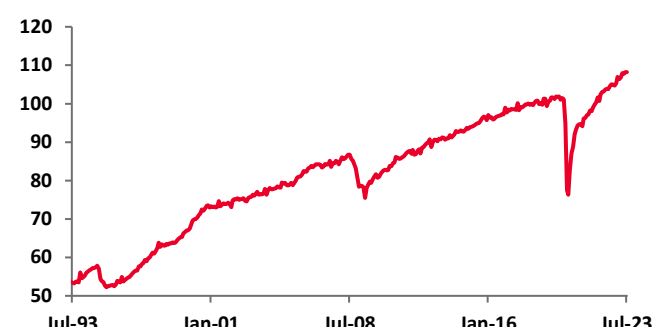
% m/m sa



Source: INEGI

Chart 8: Private consumption

Index sa



Source: INEGI

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