

Domestic demand – Dynamism in investment continues, with consumption rebounding in August

- Gross fixed investment (August): 32.0% y/y (nsa); Banorte: 29.3%; consensus: 28.0% (range: 26.3% to 31.0%); previous: 29.1%
- Private consumption (August): 4.1% y/y (nsa); Banorte: 4.2%; consensus: 4.0% (range: 2.3% to 4.2%); previous: 4.0%
- Investment rose 3.1% m/m. Inside, strength in construction continued, up 5.2%. Meanwhile, machinery and equipment was more modest at +0.9%, despite a more favorable base
- Consumption accelerated to 0.5% m/m. The imported component (+3.0%) resumed its upward trend after a fall in July. On the other hand, the domestic item was marginally negative at -0.1%
- We believe that domestic demand will continue growing in the short-term, boosted by both consumption and investment. Nevertheless, we expect some factors such as renewed price pressures along high interest rate to turn into more relevant headwinds towards the end of the year

Investment accelerates in August, both in annual and in sequential terms. GFI rose 32.0% y/y, adding eleven months with double-digit expansion ([Chart 1](#)). Inside, both categories maintain their upward trend. Construction continued as the main driver, at 48.1%, with the non-residential component at 99.5%. Machinery and equipment was also strong at 15.2%, highlighting dynamism of the imported sector (17.8%), with domestic component at +11.3%. Details are presented in [Table 1](#).

With seasonally adjusted figures, investment rose 3.1% m/m ([Chart 3](#)). Looking at the breakdown, both sectors showed progress. The boost came once again from construction at +5.2%. Our interpretation about these figures remains the same, with dynamism being fueled by government infrastructure projects and construction spaces dedicated to industry (parks and warehouses) throughout the country. The latter is reflected in the non-residential item, up 10.9%. On the contrary, activity in the residential component fell 3.6%, still weak despite some signs of improvements on input prices. Machinery and equipment grew 0.9%. Inside, imported goods resumed their expansion trend at +0.9%, this after a decline in July and despite a slight depreciation of the Mexican peso in the period. Meanwhile, the domestic component increased 0.6%, boosted by 'others' (3.3%), although limited by the decline in transportation (-2.9%) as seen in [Table 2](#).

Consumption continues to grow. In annual terms, activity in the sector rose 4.1% ([Chart 5](#)). This result happened in a context with somewhat mixed signals, with: (1) [Job losses, but increases in wages](#); (2) the depreciation of the MXN; (3) [increased inflationary pressures](#), especially in the non-core component; and (4) [a healthy flow of remittances](#). As such, imported goods increased 23.3%, highlighting durable goods at 33.6%. Meanwhile, domestic goods rose 0.6%, also supported by durables (+17.4%) and by services (+2.1%). For further details, see [Table 3](#).

Sequentially, consumption advanced at 0.5% m/m, adding a third month of gains below the half a percentage point ([Chart 7](#)). The imported item rebounded 3.0%, more than compensating for the 1.0% loss in the previous month. Meanwhile, the domestic component declined 0.1%, with services flat (0.0%), but with goods down 0.2% ([Table 4](#)).

November 3, 2023



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We anticipate a favorable performance for domestic demand in the short-term, although with additional challenges towards the end of the year. Timely signs suggest that dynamism in domestic demand will continue at least in September –closing 3Q23 with favorable results, which would be consistent with the [0.9% q/q expansion in the period's GDP](#). However, we identified some challenges for 4Q23, that we will address below. Focusing in the short-term, we believe that investment will remain as the main driver, albeit with consumption also growing. In broad terms, and considering both, we think that dynamism will center on: (1) Construction, especially at the 'civil engineering works' line –within [industrial production](#)– and 'non-residential' –in this report; (2) imported goods –benefitting both machinery and equipment and consumption goods; and (3) services, although with some doubts at the margin about these. On timely data, consumer fundamentals continued to strengthen in September, highlighting [a relevant surprise in remittances](#), [stability in the unemployment rate](#), with wages once again accelerating, and lastly, with [consumer loans](#) improving at the margin. In line with this, within the [trade balance](#), non-oil consumer goods rose 3.0%. Finally, ANTAD's and AMIA's figures are encouraging, with data from same-stores at +0.3% y/y in real terms and +5.4% m/m in auto sales (seasonally adjusted figures). Regarding investment, we note an increase in capital goods imports (+3.6% m/m), while anecdotal evidence points to continuity in both public and private works.

For the last quarter, although we believe that domestic demand will remain as the driver, we think that growth rates could be more moderate in both sectors, recognizing: (1) Important challenges for prices –with persistence to the upside in services and with relevant risks for different items in the non-core component; (2) a possible moderation in construction due to a challenging base effect, progress already achieved in some public works, as well as possible delays due to expectations of a harsher winter in some regions; (3) expectations that high interest rates will continue for longer than anticipated, potentially impacting both consumption and investment decisions; and (4) temporary factors that slow down consumption (e.g. lower disposable income in households technical stoppages in the auto sector due to the six-week strike in the US). Regarding this last point, it is important to clarify that effects may be limited and that in the future they may be compensated if the auto makers implement some type of recovery plan to production. Finally, in the aggregate, we maintain our vision –which we have proposed since the beginning of the year– that domestic demand will be the driving force of activity, in a context of higher uncertainty for external demand, situation that we believe will extend to 2024.

Gross fixed investment

Table 1: Gross fixed investment

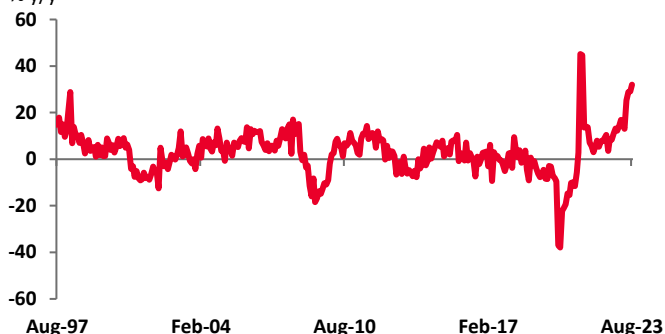
% y/y nsa

	nsa				sa	
	Aug-23	Aug-22	Jan-Aug'23	Jan-Aug'22	Aug-23	Aug-22
Total	32.0	8.7	21.8	7.5	31.5	7.0
Construction	48.1	-1.4	24.1	4.4	47.4	-2.5
Residential	-2.7	-8.0	-1.3	-2.4	-1.5	-7.6
Non-residential	99.5	6.3	50.4	12.5	96.2	5.3
Machinery and equipment	15.2	21.8	19.2	11.2	15.9	18.0
Domestic	11.3	18.5	12.8	5.4	10.9	14.8
Transportation Equipment	22.8	16.8	26.7	2.7	19.8	12.2
Other machinery and equipment	0.9	20.1	1.8	7.5	2.4	18.5
Imported	17.8	24.1	23.9	15.9	19.0	20.2
Transportation Equipment	42.6	34.9	63.9	11.2	41.1	33.2
Other machinery and equipment	14.7	22.9	19.7	16.4	16.5	18.7

Source: INEGI

Chart 1: Gross fixed investment

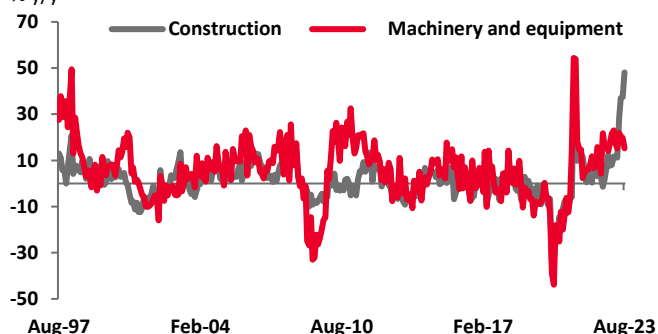
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector

% y/y



Source: INEGI

Table 2: Gross fixed investment

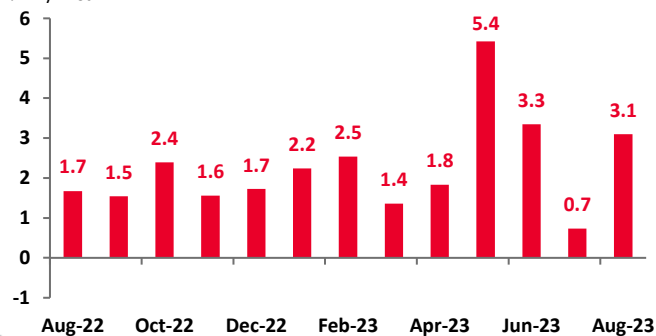
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Aug-23	Jul-23	Jun-23	Jun-Aug'23	May-Jul'23
Total	3.1	0.7	3.3	9.3	9.8
Construction	5.2	1.9	5.0	15.3	16.0
Residential	-3.6	1.0	-2.7	-1.0	3.4
Non-residential	10.9	3.2	8.4	26.9	27.2
Machinery and equipment	0.9	-1.1	1.9	3.0	3.0
Domestic	0.6	3.1	-0.2	2.2	0.5
Transportation Equipment	-2.9	4.9	2.1	5.5	5.2
Other machinery and equipment	3.3	1.8	-2.4	-1.0	-4.1
Imported	0.9	-4.2	3.8	3.1	4.1
Transportation Equipment	5.5	-11.5	9.3	5.2	10.0
Other machinery and equipment	0.4	-2.9	3.2	2.9	3.2

Source: INEGI

Chart 3: Gross fixed investment

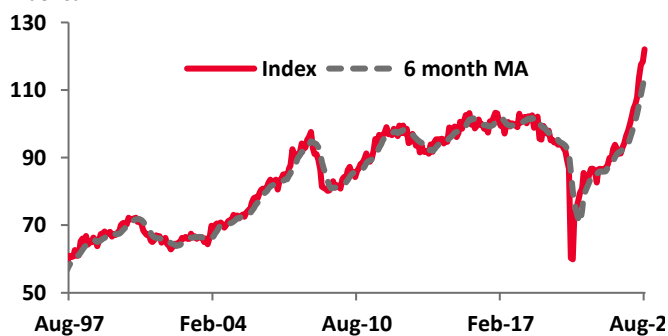
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment

Index sa



Source: INEGI

Private consumption

Table 3: Private consumption

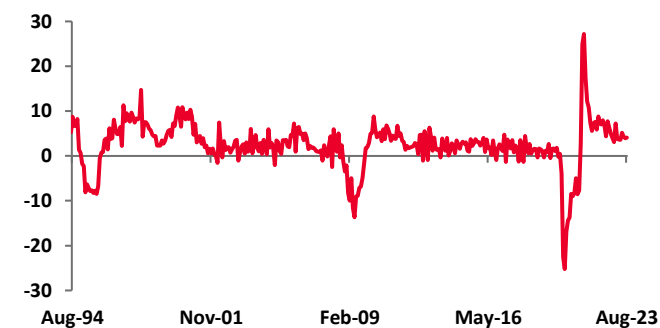
% y/y nsa

	nsa				sa	
	Aug-23	Aug-22	Jan-Aug'23	Jan-Aug'22	Aug-23	Aug-22
Total	4.1	7.7	4.5	7.0	4.0	6.6
Domestic	0.6	6.7	1.9	6.9	0.6	5.9
Goods	-0.6	5.2	-0.3	4.1	-0.9	3.6
Durables	17.4	5.8	14.2	0.7	-	-
Semi-durables	-5.6	8.0	1.6	0.9	-	-
Non-durables	-1.6	4.5	-2.3	5.2	-	-
Services	2.1	8.6	4.6	10.5	2.1	8.7
Imported goods	23.3	14.9	19.3	13.2	23.2	11.5
Durables	33.6	34.6	22.6	25.8	-	-
Semi-durables	12.7	38.6	10.3	26.1	-	-
Non-durables	22.4	0.7	20.8	4.3	-	-

Source: INEGI

Chart 5: Private consumption

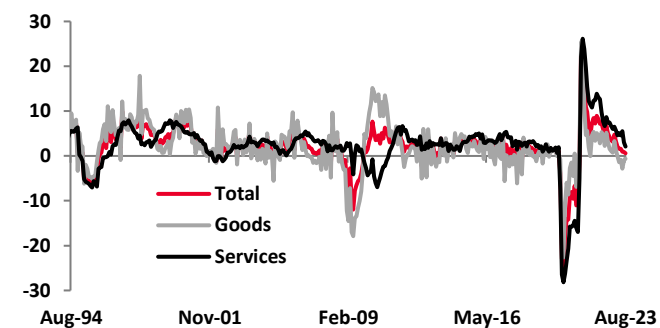
% y/y



Source: INEGI

Chart 6: Domestic consumption: Goods and services

% y/y



Source: INEGI

Table 4: Private consumption

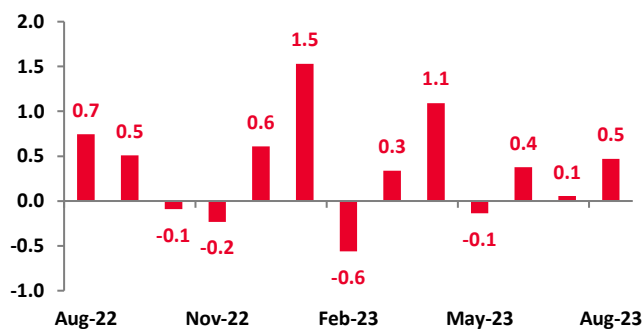
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Aug-23	Jul-23	Jun-23	Jun-Aug'23	May-Jul'23
Total	0.5	0.1	0.4	0.8	1.0
Domestic	-0.1	0.3	0.0	-0.3	-0.7
Goods	-0.2	1.4	-0.5	-0.5	-1.3
Services	0.0	-0.6	0.1	-0.4	-0.1
Imported goods	3.0	-1.0	2.1	5.1	6.9

Source: INEGI

Chart 7: Private consumption

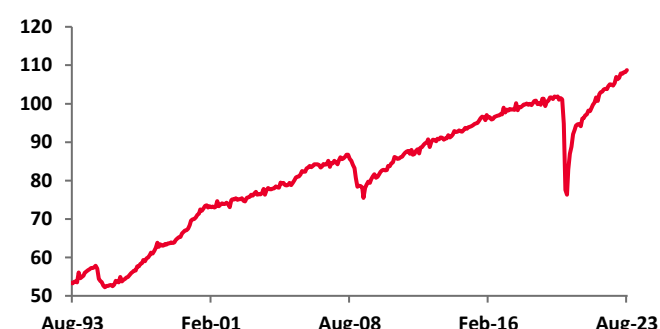
% m/m sa



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, Paula Lozoya Valadez, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cautencos 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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