

Domestic demand – Setback in investment, but consumption kept climbing in September

- Gross fixed investment (September): 21.9% y/y (nsa); Banorte: 22.1%; consensus: 25.0% (range: 22.1% to 31.8%); previous: 29.2%
- Private consumption (September): 4.5% y/y (nsa); Banorte: 4.0%; consensus: 4.0% (range: 3.1% to 4.0%); previous: 4.5%
- Investment fell 1.5% m/m. Construction dragged the headline at -5.0% –although only after gains in the last twelve months–, with machinery and equipment still positive at +2.7%
- Consumption climbed 0.8% m/m, adding fourth month of improvements. The imported component once again drove the advance (1.8%), albeit with domestic goods and services also up at 0.8%
- We believe that dynamism in consumption will likely pick up by the end of the year. Meanwhile, we expect investment to rebound, with relevant drivers from both the public and private sectors

Investment takes a step back in September, dragged by construction. GFI grew 21.9% y/y, adding ten months with double-digit expansions ([Chart 1](#)), but moderating at the margin as the base effect becomes more challenging. Construction remains high at 24.8% –with most of the push from the non-residential component at 39.0%. ‘Machinery and equipment’ was also strong at 18.8% –as both the imported (17.1%) and domestic (21.5%) components drove the headline. For further details, see [Table 1](#).

Nevertheless, with seasonally adjusted figures, it fell 1.5% m/m ([Chart 3](#)). The main hit came from construction at -5.0%, its first loss in twelve months. This is broadly in line with the results in the [industrial production report](#), where the in civil engineering within construction translated into -11.3% for the non-residential sector. Considering that progress on government projects is slated to continue, not only in the remainder of the year, but also into 2024, a rebound is very likely. The residential sector rebounded 3.4%, which although positive, still suggests that the category is underperforming. ‘Machinery and equipment’ grew 2.7%, improving for a second month in a row. Imported The domestic component was stronger at 4.1%, in our view pushed by dynamism in key sectors within manufacturing, such as transportation. More details can be seen in [Table 2](#).

Consumption continues pushing ahead. In annual terms, it climbed 4.5% ([Chart 5](#)). Activity remains underpinned by healthy fundamentals, noting: (1) [Further wage gains](#), despite a continuation in job losses; (2) an acceleration in [remittances’ growth](#); and (3) additional [consumer loans](#). Outperformance remains in imported goods (+20.8%) relative to domestic ones (0.0%), with durables at the head of both. For further details, see [Table 3](#).

Sequentially, consumption rose 0.8% m/m, climbing for a fourth straight month ([Chart 7](#)). The imported component kept driving the total at +1.8%. This is notable given the additional depreciation of the MXN. The domestic branch advanced 0.8%, with strength in goods (1.2%), although with services also climbing (0.5%), as seen in [Table 4](#). Another positive factor that could have driven growth is more modest inflation.

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Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com



Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com



Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com



Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com



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Weak outlook for consumption in October, with structural drivers for investment still in place. This mixed performance will likely extend to next month, albeit with opposite moves. Specifically, signals for consumption are more challenging, both because of timely data (e.g. ANTAD and auto sales) and on a more difficult base effect. GFI will likely rebound, expecting today's figure to be just noise and not a trend change. After this, the outlook for both remains positive, at least through 1H24.

As elaborated on last week's [View from the Top](#), consumption in November is likely to be very positive, with a significant spillover from discount events such as *El Buen Fin*, *Black Friday*, and *Cyber Monday*, to name a few. After this, year-end purchases and other sales will likely consolidate in the remainder of 2023. For next year, increases social programs' outlays –and the early disbursement to comply with electoral rules–, healthy fundamentals, and overall dynamism in economic activity will continue driving growth, at least in the first half of 2024.

On investment, positive news are still popping up. Comments from several cement companies (e.g. Holcim, Moctezuma, Cruz Azul, and Fortaleza) regarding drivers for domestic construction include: (1) Nearshoring; (2) the push to end current infrastructure projects; and (3) favorable expectations about upcoming investment announcements of the future federal government. Regarding the latter, Jaime Gil Tinoco, President of the *National Cement Chamber*, stated that “...in the last six years, there has been a lot [of spending in] infrastructure, and this will continue...”. In this sense, he also mentioned that they expect cement production to climb 2% in 2024. Another recent investment is a new hydrogen plant in the *Corredor Interoceánico del Istmo* in Oaxaca by *Copenhagen Infrastructure Partners*, totaling US\$10 billion. While some details (when the project will break ground or its time to be completed) are still unknown, it suggests appetite to invest, not just from local companies. We do believe some challenges remain for the residential sector, with high input prices still weighing. According to the *Mexican Chamber of Construction* (CMIC in Spanish), a stronger MXN has supported the decline in some raw materials such as steel and machinery and equipment. Nevertheless, expectations on cement are still more challenging. In addition, they state that high interest rates have also impacted the sector.

All in all, the outlook remains positive, although we see some challenges in 2H24, with certain risks both on the global and local scene which will likely impact domestic demand.

Gross fixed investment

Table 1: Gross fixed investment

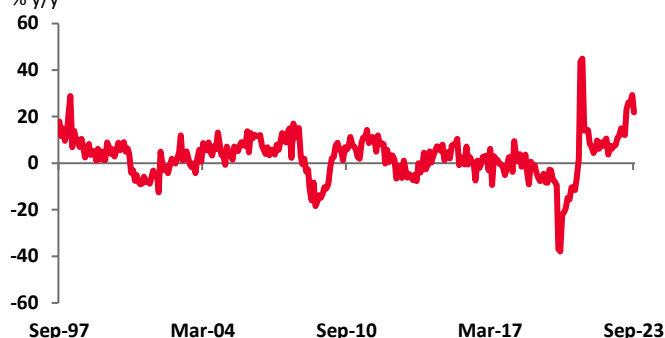
% y/y nsa

	nsa				sa	
	Sep-23	Sep-22	Jan-Sep'23	Jan-Sep'22	Sep-23	Sep-22
Total	21.9	6.1	19.8	7.7	23.5	7.3
Construction	24.8	-2.5	19.2	3.6	26.5	-1.2
Residential	8.5	-10.6	-0.4	-3.2	7.4	-10.7
Non-residential	39.0	5.8	38.7	11.4	42.7	8.1
Machinery and equipment	18.8	16.9	20.5	12.7	20.9	17.6
Domestic	21.5	7.0	16.5	6.5	22.7	9.6
Transportation Equipment	40.4	8.2	28.5	5.6	42.2	10.9
Other machinery and equipment	7.0	6.1	6.6	7.2	8.3	8.2
Imported	17.1	24.3	23.4	17.6	20.4	23.1
Transportation Equipment	47.1	70.7	62.0	21.0	44.2	66.8
Other machinery and equipment	12.6	19.4	19.0	17.2	16.5	19.5

Source: INEGI

Chart 1: Gross fixed investment

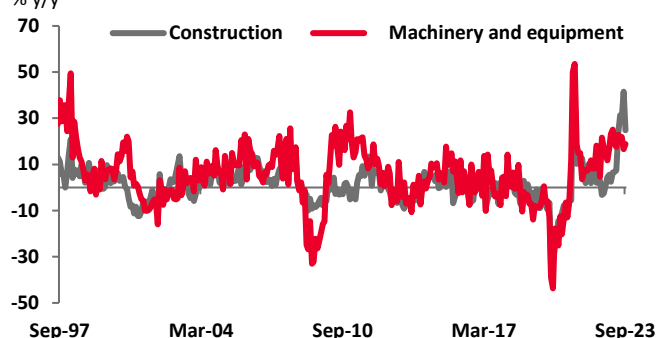
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector

% y/y



Source: INEGI

Table 2: Gross fixed investment

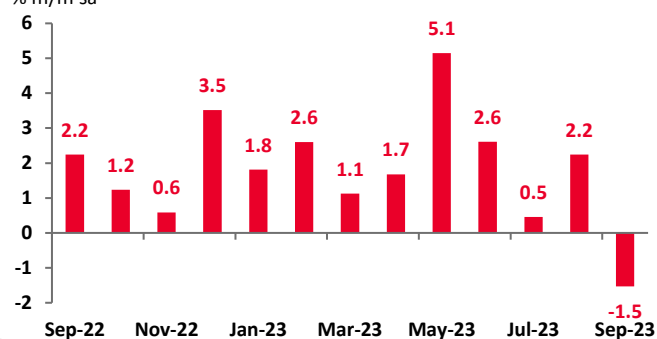
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Sep-23	Aug-23	Jul-23	Jul-Sep'23	Jun-Aug'23
Total	-1.5	2.2	0.5	4.9	7.8
Construction	-5.0	3.8	0.9	7.3	12.4
Residential	3.4	-3.2	1.4	0.7	-0.2
Non-residential	-11.3	9.2	0.2	9.9	19.9
Machinery and equipment	2.7	0.7	-0.4	2.3	3.1
Domestic	4.1	0.0	4.9	5.7	2.7
Transportation Equipment	7.5	-1.4	5.7	9.8	6.9
Other machinery and equipment	1.1	0.9	5.0	1.6	-1.4
Imported	1.7	0.9	-4.1	-0.1	3.4
Transportation Equipment	9.8	5.3	-11.6	1.9	5.7
Other machinery and equipment	0.6	0.3	-2.8	-0.2	3.1

Source: INEGI

Chart 3: Gross fixed investment

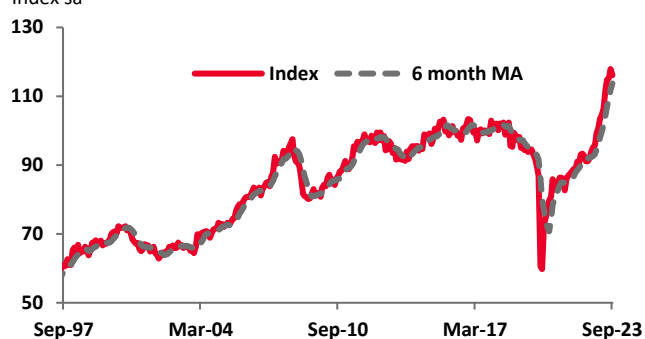
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment

Index sa



Source: INEGI

Private consumption

Table 3: Private consumption

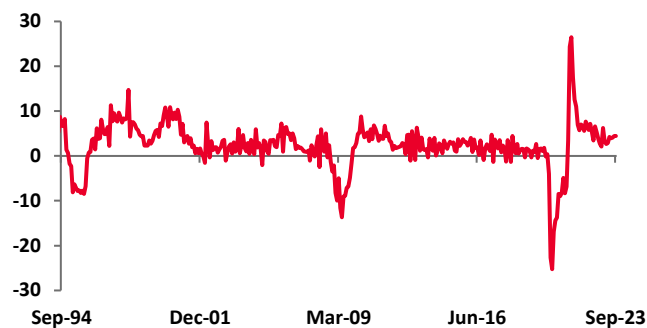
% y/y nsa

	nsa				sa	
	Sep-23	Sep-22	Jan-Sep'23	Jan-Sep'22	Sep-23	Sep-22
Total	4.5	5.3	4.0	5.9	5.0	5.1
Domestic	1.3	5.4	1.7	7.0	1.7	5.3
Goods	0.0	4.1	0.0	5.0	0.7	3.9
Durables	15.6	3.0	13.0	2.0	-	-
Semi-durables	0.7	7.3	1.4	4.9	-	-
Non-durables	-1.9	3.5	-1.7	5.4	-	-
Services	2.8	7.0	3.6	9.5	2.9	6.9
Imported goods	20.8	4.2	17.3	2.9	24.3	2.7
Durables	33.5	34.3	23.1	25.3	-	-
Semi-durables	8.1	24.7	10.7	26.2	-	-
Non-durables	19.1	-14.9	16.7	-12.9	-	-

Source: INEGI

Chart 5: Private consumption

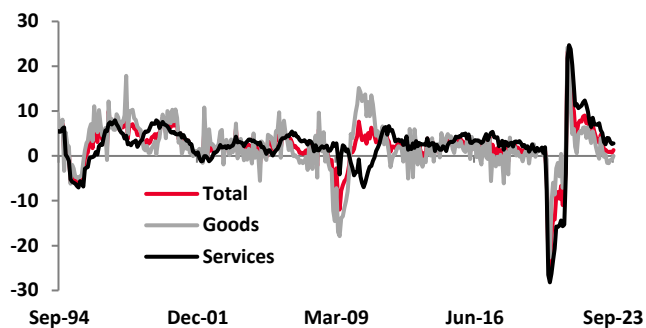
% y/y



Source: INEGI

Chart 6: Domestic consumption: Goods and services

% y/y



Source: INEGI

Table 4: Private consumption

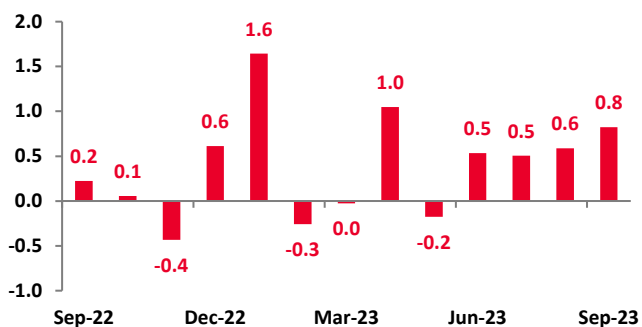
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Sep-23	Aug-23	Jul-23	Jul-Sep'23	Jun-Aug'23
Total	0.8	0.6	0.5	1.5	1.3
Domestic	0.8	0.1	0.5	0.6	0.1
Goods	1.2	-0.3	1.0	0.5	-0.6
Services	0.5	0.2	0.0	0.6	0.7
Imported goods	1.8	3.6	-0.8	4.6	5.7

Source: INEGI

Chart 7: Private consumption

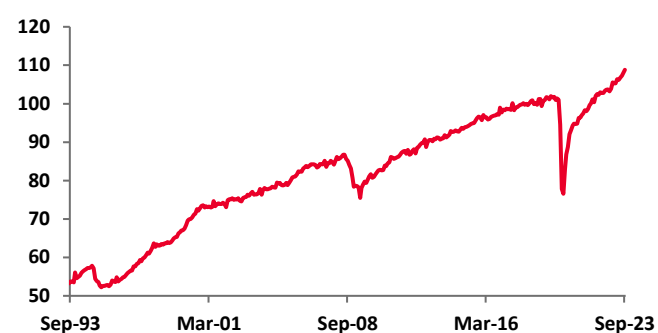
% m/m sa



Source: INEGI

Chart 8: Private consumption

Index sa



Source: INEGI

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Raquel Vázquez Godínez
Assistant
raquel.vazquez@banorte.com
(55) 1670 - 2967



María Fernanda Vargas Santoyo
Analyst
maria.vargas.santoyo@banorte.com
(55) 1103 - 4000 x 2586

Economic Research



Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com
(55) 1103 - 4046



Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com
(55) 5268 - 1694

Market Strategy



Manuel Jiménez Zaldívar
Director of Market Strategy
manuel.jimenez@banorte.com
(55) 5268 - 1671



José Itzamna Espitia Hernández
Senior Strategist, Equity
jose.espitia@banorte.com
(55) 1670 - 2249



Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com
(55) 5268 - 1698



Juan Carlos Mercado Garduño
Strategist, Equity
juan.mercado.garduno@banorte.com
(55) 1103 - 4000 x 1746

Quantitative Analysis



Alejandro Cervantes Llamas
Executive Director of Quantitative Analysis
alejandro.cervantes@banorte.com
(55) 1670 - 2972



José De Jesús Ramírez Martínez
Senior Analyst, Quantitative Analysis
jose.ramirez.martinez@banorte.com
(55) 1103 - 4000



Andrea Muñoz Sánchez
Analyst, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1103 - 4000



Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com
(55) 1103 - 4043



Itzel Martínez Rojas
Analyst
itzel.martinez.rojas@banorte.com
(55) 1670 - 2251



Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com
(55) 1670 - 2957



Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com
(55) 1103 - 4000



Marissa Garza Ostos
Director of Equity Strategy
marissa.garza@banorte.com
(55) 1670 - 1719



Carlos Hernández García
Senior Strategist, Equity
carlos.hernandez.garcia@banorte.com (55) 1670 - 2250



Isaías Rodríguez Sobrino
Analyst, Fixed Income, FX and Commodities
isaias.rodriguez.sobrino@banorte.com
(55) 1670 - 2144



Paula Lozoya Valadez
Analyst, Equity
paula.lozoya.valadez@banorte.com
(55) 1103 - 4000



José Luis García Casales
Director of Quantitative Analysis
jose.garcia.casales@banorte.com
(55) 8510 - 4608



Daniel Sebastián Sosa Aguilar
Senior Analyst, Quantitative Analysis
daniel.sosa@banorte.com
(55) 1103 - 4000 x 2124



Lourdes Calvo Fernández
Analyst (Edition)
lourdes.calvo@banorte.com
(55) 1103 - 4000 x 2611



Katia Celina Goya Ostos
Director of Economic Research, Global
katia.goya@banorte.com
(55) 1670 - 1821



Luis Leopoldo López Salinas
Economist, Global Internacional
luis.lopez.salinas@banorte.com
(55) 1103 - 4000 x 2707



Víctor Hugo Cortes Castro
Senior Strategist, Technical
victorh.cortes@banorte.com
(55) 1670 - 1800



Hugo Armando Gómez Solís
Senior Analyst, Corporate Debt
hugoa.gomez@banorte.com
(55) 1670 - 2247



Gerardo Daniel Valle Trujillo
Analyst, Corporate Debt
gerardo.valle.trujillo@banorte.com
(55) 1670 - 2248



Miguel Alejandro Calvo Domínguez
Senior Analyst, Quantitative Analysis
miguel.calvo@banorte.com
(55) 1670 - 2220



Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1103 - 4000