The domestic recovery extended in August

- **Gross fixed investment (August): -17.4% y/y (nsa); Banorte: -16.2%; consensus: -16.0% (range: -18.0% to -13.4%); previous: -21.3%**
- **Private consumption (August): -14.2% y/y (nsa); previous: -15.1%**
- **Investment and consumption were better for a third consecutive month, albeit improving at a more modest pace. Year-to-date, their downfall stands at 20.9% and 12.1%, respectively**
- **In sequential terms, investment accelerated to 5.7% m/m, with a strong rebound in construction (10.3%). Machinery and equipment stood at 0.2%, with modest advances in both the domestic (0.6%) and imported components (0.2%)**
- **Consumption picked up 1.8% m/m after the +5.4% seen in July. We highlight that imported goods led the way at 2.5%, with the domestic component more modest at 1.2%. Services stood at 1.3%, likely boosted by higher mobility levels and improved epidemiological conditions**
- **The recovery of domestic demand since the start of the reopening has been stronger than expected. Nevertheless, we believe the pace of the advance will slow down, apart from still being far away from the levels observed before the pandemic**

GFI strengthened further in August. This came in at -17.4% y/y (see Chart 1), lower than consensus (-16.0%), which was very close to our -16.2%. We believe that a big chunk of the improvement relative to the previous month (which stood at -21.3%) was driven by the private sector, with public works not affected as much by COVID-19, at least in relative terms, as the latter were considered essential. The period had one less working day and a more difficult base effect in the annual comparison, making this print more favorable despite still falling at a double-digit pace. Construction stood at -15.0% (Chart 2), surpassing machinery and equipment (-20.6%). In the former, the residential sector keeps exhibiting a larger rebound (-7.5%), with the non-residential at -21.9%. In the latter, the imported component was weaker at the margin, at -19.2% from -14.6% in July, while the domestic one was better by 0.4%-pts, to -22.7%. By type, we highlight that transportation equipment weakened relative to the previous month (Table 1), both domestic and foreign. Meanwhile, 'others' were better at the local level.

With seasonally adjusted data, investment increased 5.7% m/m accelerating relative to the +3.5% in July (Chart 3). In absolute terms, investment was 12.6% below February (Chart 4). Trends described in annual terms are more visible in the sequential comparison. Specifically, construction surged 10.3%, which was also the main upside surprise in the industrial production report. Specifically, residential activities popped 17.6%, extending its move higher since May.

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Meanwhile, machinery and equipment were more modest, at +0.2%. The main drag was the domestic component, with the imported marginally higher due to a relatively stable exchange rate (Table 2). By type, transportation equipment declined, with an especially relevant fall in the imported category. Nonetheless, 'others' were positive, consistent with other data showing relatively good performance in several industries.

Private consumption also stronger, albeit more modestly. The figure stood at -14.2% y/y, also improving relative to the -15.1% of the previous month (Chart 5). In our view, better epidemiological conditions locally –which extended at least through September– and the continuity of the populations' behavioral changes to adapt to the 'new normality' –reflected in higher mobility levels– provided support to the period's performance. In this sense, we highlight that services exhibited a more sizable pickup under this metric, at -18.5% from -20.3% in the previous month. Nevertheless, the contraction is still very significant. Goods were also stronger, both domestic (-7.8%) and imported (-21.6%). As in July and broadly speaking, the categories with the most important changes to the upside were once again durables and semi-durables (Table 3), in line with other data such as the departmental stores category within ANTAD's report.

With seasonally adjusted figures, consumption advanced 1.8% m/m after two consecutive months increasing at rates slightly above 5% (Chart 7). With this print, the absolute level of consumption stands 12.4% below February (Chart 8). By category, services remain relatively more impacted, with a gap relative to said month of -19.2%. Nevertheless, something similar happens with imported goods at -18.7%, consistent with trade balance figures, which show that non-oil consumption goods imports have lagged the recovery in exports, as the latter has been boosted by a more vigorous recovery of external demand. In contrast, domestic goods maintain a better performance under this metric at -5.7%, aided by purchases of basic goods.

The recovery will continue, but we expect the pace to slow down in coming months. Broadly speaking, the report is positive as it shows that the sequential recovery of domestic demand continued, highlighting the rebound in construction. Nevertheless, performance was below our expectations, confirming that these components of aggregate demand are lagging those that are more sensitive to the external sector. This is clearer when looking at specific components, such as exports. Specifically, and using seasonally adjusted figures, total exports in August had already stand only 2.9% below the level observed in February, with manufacturing at -3.8% (but already at -2.4% in September). Although we should be careful to make direct comparisons as trade figures are in USD and in nominal terms, consumption and investment stand 12.4% and 12.6% below February levels, in the same order. Considering today's details, we expect the recovery to have continued, at least through September and most likely also in October, as more activities reopened.

Despite of the latter, we are more concerned about the outlook for 4Q20. In this sense, we believe the most important risk is that the domestic and global evolution of the pandemic has worsened since late October, with Deputy Minister of Health, Dr. López-Gatell, warning of an increase in new cases.

Regarding investment, we note that Chihuahua returned to 'red' in the traffic-light indicator on October 26th, meaning that only essential activities are supposedly allowed. Although the latter is likely to be less restrictive for the economy than at the start of the pandemic, several reports suggest that disruptions have already been seen in some key industries in the state, such as auto parts, which has been among the strongest in the rebound.

Although the direct effect is key, we should also mention that spillover effects to the domestic economy are likely to also be relevant, particularly in services such as transportation. Moreover, uncertainty in the US has increased as new fiscal stimulus has not been agreed and a potential post-electoral conflict is in the cards, with some manufacturers saying that these factors have impacted the pace of the recovery.

On the other hand, consumption may also be affected if people increase their cautiousness due to this environment, with a possible strong hit especially to the informal sector. In this sense, we will look closely to dynamics in high-frequency mobility data, with the increase since the reopening started in June stagnating in the latest few weeks. It is our take that an additional factor to consider is the severity of the winter season, as it could result in a higher contagion rate and more people staying indoors. On a more positive note, president Andres Manuel López-Obrador stated recently that job gains among people affiliated to IMSS in October stood at 211,703 positions, stronger so far and in positive territory since August.

We also stress that the president, along the Minister of Finance, have said recently that Mexico won't impose strict lockdowns again. Moreover, we believe that the population will keep adjusting to the 'new normality' and will remain less willing to voluntary confinements, as fatigue about the pandemic remains high. Overall, and taking all these factors into account, we expect the recovery in domestic demand to continue, albeit with the pace of advance slowing down, not only because of a more challenging base effect but also given these heightened risks on the pandemic front.

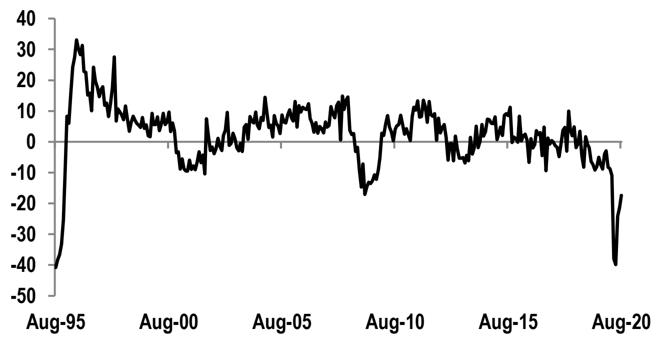
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Aug-20	**Aug-19**	**Jan-Aug '20**	**Jan-Aug '19**	**Aug-20**	**Aug-19**
Total	**-17.4**	**-5.0**	**-20.9**	**-4.7**	**-16.6**	**-4.4**
Construction	**-15.0**	**-0.3**	**-19.5**	**-2.7**	**-15.6**	**-1.4**
Residential	-7.5	3.5	-18.9	-1.8	-8.0	2.9
Non-residential	-21.9	-3.7	-20.0	-3.7	-22.9	-5.5
Machinery and equipment	**-20.6**	**-10.4**	**-22.9**	**-7.2**	**-17.6**	**-8.8**
Domestic	-22.7	-8.1	-27.8	-5.3	-20.1	-6.6
Transportation Equipment	-26.8	-9.1	-32.2	0.5	-22.9	-7.9
Other machinery and equipment	-16.2	-6.3	-19.7	-14.2	-14.9	-5.5
Imported	-19.2	-11.9	-19.6	-8.5	-16.6	-9.1
Transportation Equipment	-45.9	4.9	-38.1	0.4	-46.0	4.2
Other machinery and equipment	-14.3	-14.4	-16.2	-10.0	-11.0	-11.2

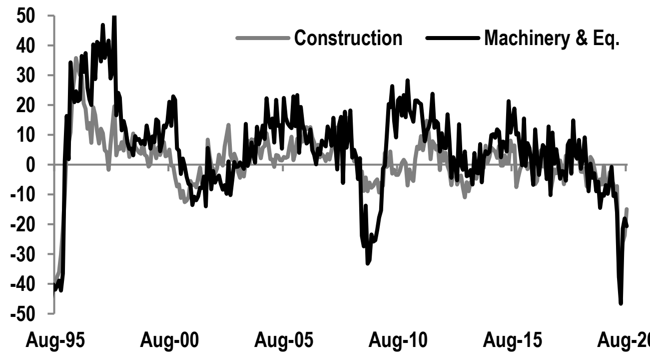
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



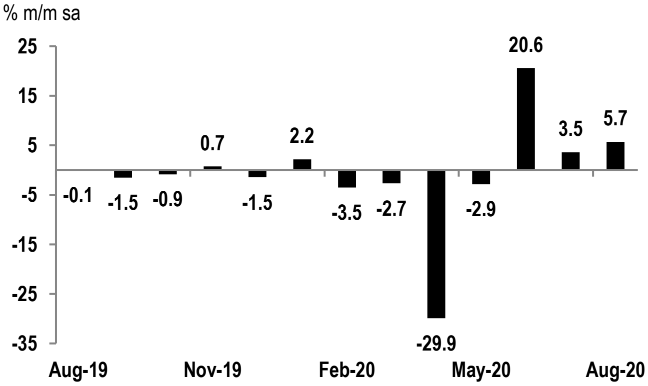
Source: INEGI

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

	% m/m			% 3m/3m	
	Aug-20	**Jul-20**	**Jun-20**	**Jun-Aug'20**	**May-Jul'20**
Total	**5.7**	**3.5**	**20.6**	**5.7**	**3.5**
Construction	**10.3**	**1.0**	**13.9**	**10.3**	**1.0**
Residential	17.6	1.5	21.2	17.6	1.5
Non-residential	3.2	1.7	2.0	3.2	1.7
Machinery and equipment	**0.2**	**10.7**	**26.0**	**0.2**	**10.7**
Domestic	0.2	21.6	35.6	0.2	21.6
Transportation Equipment	-1.3	21.7	38.3	-1.3	21.7
Other machinery and equipment	5.6	19.6	27.7	5.6	19.6
Imported	0.6	3.7	19.4	0.6	3.7
Transportation Equipment	-13.5	31.7	54.6	-13.5	31.7
Other machinery and equipment	2.6	1.7	15.1	2.6	1.7

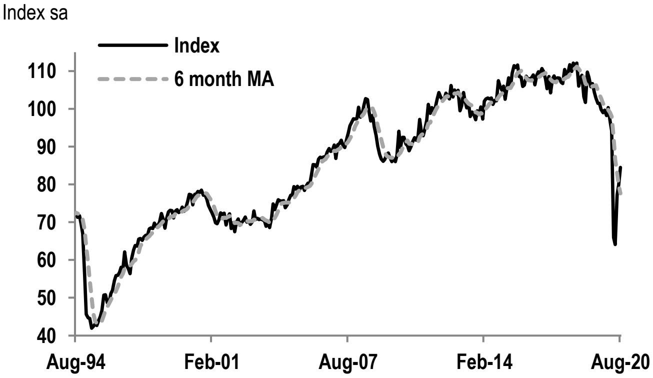
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

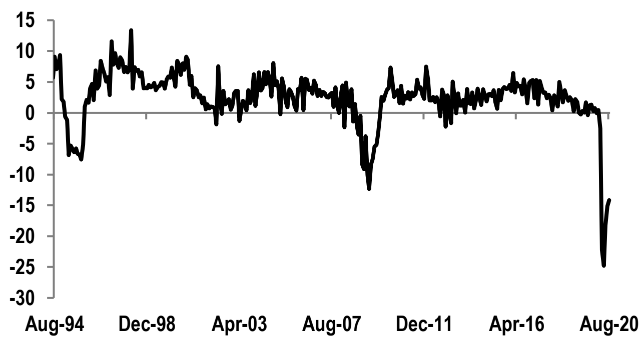
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Aug-20	**Aug-19**	**Jan-Aug '20**	**Jan-Aug '19**	**Aug-20**	**Aug-19**
Total	**-14.2**	**-0.4**	**-12.1**	**0.7**	**-13.1**	**0.1**
Domestic	-13.3	0.0	-11.5	0.6	-12.5	0.2
Goods	-7.8	0.8	-8.7	0.3	-6.2	1.1
Durables	-14.1	-6.3	-20.3	-10.7	--	--
Semi-durables	-24.0	-3.8	-34.2	1.6	--	--
Non-durables	-3.9	2.7	-2.3	1.6	--	--
Services	-18.5	-0.8	-14.2	0.8	-18.6	-0.9
Imported goods	-21.6	-3.5	-17.6	1.4	-18.4	-0.5
Durables	-35.8	-7.5	-31.0	-3.3	--	--
Semi-durables	-24.0	-1.0	-18.7	5.5	--	--
Non-durables	-8.8	-1.5	-5.7	3.5	--	--

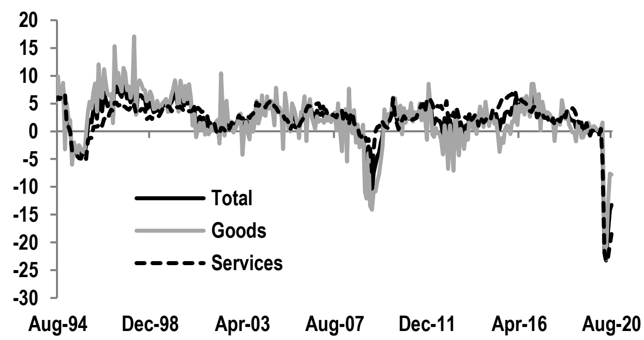
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



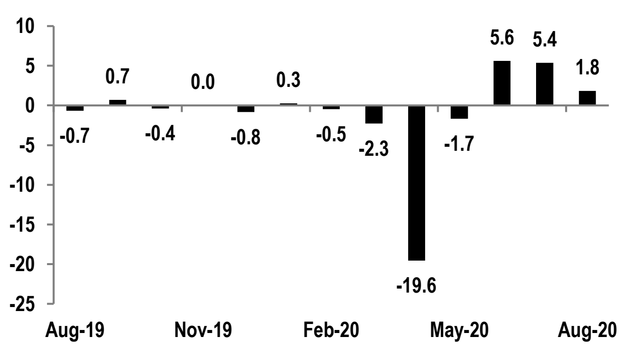
Source: INEGI

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

	% m/m			% 3m/3m	
	Aug-20	**Jul-20**	**Jun-20**	**Jun-Aug'20**	**May-Jul'20**
Total	**1.8**	**5.4**	**5.6**	**0.6**	**-11.4**
Domestic	1.5	5.8	4.7	0.4	-10.9
Goods	1.2	8.7	8.6	5.3	-8.0
Services	1.3	2.8	1.0	-4.6	-14.1
Imported goods	2.5	5.7	11.2	2.1	-15.8

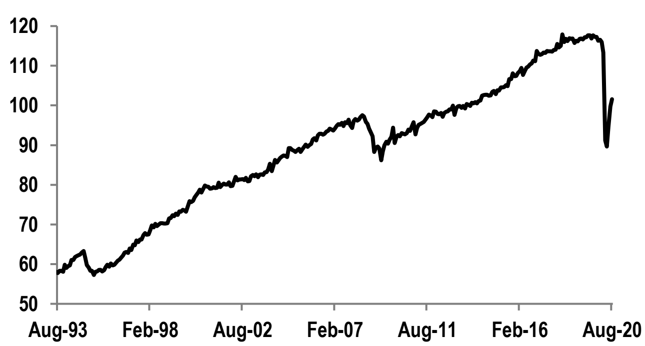
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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