Investment takes a step back, but consumption keeps recovering in September

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- **Gross fixed investment (September): -16.0% y/y (nsa); Banorte: -15.4%; consensus: -14.6% (range: -17.5% to -12.0%); previous: -17.0%**
- **Private consumption (September): -9.9% y/y (nsa); previous: -14.4%**
- **The period had a favorable base effect, helping boost annual rates relative to results observed in the previous month. Year-to-date, investment and consumption have declined 20.1% and 12.1% y/y, in the same order**
- **In sequential terms, investment declined 2.9% m/m, with weakness centered in construction (-5.8%), with some payback after last month's sizeable increase. Machinery and equipment were better (+1.3%), with the domestic component leading gains**
- **Consumption accelerated at 2.2% m/m after the +1.7% seen in August. After having lagged, services were the strongest (+4.7%), consistent with the improvement in epidemiological conditions and mobility levels. Domestic goods were also positive (+0.5%), with imported showing a slight decline (-1.8%)**
- **We believe that risks are mounting for domestic demand, especially investment, considering a deterioration in epidemiological conditions and other relevant idiosyncratic factors**

GFI declines modestly in September. This came in at -16.0% y/y (see Chart 1), lower than consensus (-14.6%), but closer to our -15.4%. We should note that the improvement relative to the previous month (-17.0%) is largely driven by two factors: (1) A positive calendar effect, adding one working day in the annual comparison; and (2) a more favorable base effect. Despite of this, construction was lower, down to -18.5% (Chart 2), while machinery and equipment rose significantly to -12.8%. In the former, the residential sector fell strongly to -14.3%, although still outperforming the non-residential sector at -22.2%. Within the latter, both sectors were higher, with the imported (-9.9%) better than the domestic one (-12.8%) for a second month in a row. By type, we highlight that transportation equipment improved significantly relative to the previous month (Table 1), especially imported, which might be related to the General Motors strike in the US in the same period last year. In addition, 'others' were stronger at the domestic level.

With seasonally adjusted data, investment fell by 2.9% m/m, first decline since last May, during the last month of the lockdown (Chart 3). We highlight that construction fell -5.8% m/m. This seems to come as some payback after the 10.1% expansion from the previous month. Nevertheless, and considering that the sector remains very depressed, we could have seen an additional expansion, albeit more modest. In this sense, this does raise some red flags about performance going forward. Inside, the residential sector plunged 8.9%, with the non-residential sector stood at -3.2%.

Meanwhile, machinery and equipment was better at +1.3%. The main driver was the domestic component (+2.1%), with the imported also extending higher (0.9%; Table 2). By type, transportation equipment declined domestically, but with a strong rebound in the imported category. On the contrary, 'others' were positive locally, but with a slight decline in those from abroad. Considering this, in absolute terms, total investment now stands 15.4% below February, but 26.3% below its historical high in July 2018 (Chart 4).

Private consumption keeps ticking higher. The figure stood at -9.9% y/y, improving relative to the -14.4% of the previous month (Chart 5). In our view, the additional improvement in epidemiological conditions along some fatigue surrounding the pandemic supported performance. Employment continued to recover, also being an important driver for the extension in dynamism. Considering this, the recovery was mostly broad. At the domestic level, goods stood at -2.8% y/y (Chart 6) and services were still weak at -14.1%, albeit also improving. Within the former, all components were better (Table 3), with only semi-durable goods with a double-digit decline at -13.7%. Looking at imported goods (-19.0%), they continue to lag relative to domestic ones, which is probably related to the accumulated depreciation of the Mexican peso during the year. In this sense, durable goods are still the weakest (-37.2%), with non-durable much stronger (-0.2%).

With seasonally adjusted figures, consumption rose 2.2%, which is favorable considering the +1.7% observed in the previous month (Chart 7) and that it is the fourth consecutive increase. With this print, the absolute level of consumption stands 10.4% below February (Chart 8) and which we see as relatively positive taking into account accumulated job losses so far. We believe this recovery could be related to higher mobility levels, in turn especially relevant for the informal sector. In this sense, we highlight that services picked up 4.7% m/m, highest since the reopening began. On the other hand, domestic goods moderated to 0.5%, although we point out that they have been relatively resilient. Imported goods fell 1.8%, contracting for the first time since June (and contrary to data from imported consumption goods, particularly non-oil which rebounded strongly in the period).

Con cifras ajustadas por estacionalidad, el consumo avanzó 2.2% m/m, lo que es favorable tomando en cuenta que en agosto el avance fue de 1.7% (Gráfica 7) y el cuarto mes al hilo con ganancias. Con este dato, el nivel absoluto de consumo se ubica 10.4% debajo de febrero (Gráfica 8), lo que nos parece favorable considerando las pérdidas acumuladas de empleo hasta ahora. Creemos que esta recuperación podría haber estado impulsada por mayores niveles de movilidad, lo que a su vez pensamos que es especialmente relevante para el sector informal. En este sentido, resaltamos que los servicios repuntaron 4.7% m/m, su mayor alza desde que inició la reapertura. Por su parte, los bienes domésticos se moderaron a 0.5%, aunque cabe resaltar que han sido relativamente más resistentes, mientras que los bienes importados cayeron 1.8%, en contracción por primera vez desde junio (contrario a los datos de importaciones de bienes de consumo, sobre todo los no petroleros que rebotaron con fuerza en el periodo).

Domestic demand to remain modest. In our view, today's report shows that domestic demand is still relatively far to recover fully, in contrast with the advance seen in more external-oriented sectors which have rebounded more strongly. The latter have been supported by stimulus measures abroad, while domestically these have been relatively limited. Moreover, we should point out that epidemiological conditions have worsened since late October, which could prove an additional headwind as they could lead to higher restrictions domestically. Nevertheless, we maintain our view that these are likely to be less harsh than in April-May.

We remain concerned about investment, which declined despite other positive signals, including the recovery of business confidence. The latter could be boosted further by the development of a vaccine, mainly so if it is coupled with revisions higher for GDP growth. We also see as positive some recent efforts to boost the sector, including the first and second investment plans, with more announcements expected in the near future. Despite of this, we continue seeing a difficult path ahead. This is mainly because of the drag from other structural factors. Among them, we note: (1) Insufficient economic growth; (2) low productivity growth and very high informality levels; (3) concerns about the rule of law and uncertainty about government policies more broadly, as flagged by recent central bank surveys; and (4) damaged companies' balance sheets due to the impact of COVID-19. In this sense, capital goods imports within the trade balance for October fell sequentially. Meanwhile, we expect construction in this week's industrial production report to advance modestly in said month (+0.2%) as the aggregate trend indicator for the sector pushed higher. Nevertheless, public sector spending in physical investments is still very muted. These results are weaker than our expectations through September and October, given the reopening of activities.

Regarding consumption, we continue thinking that it may be affected if people are more cautious due to the more complicated environment regarding the virus. Nevertheless, its performance has been more favorable lately, with remittances very favorable lately, in our view key to support consumption, especially among low-income households. Employment has continued to recover, with 1.9 million positions created in October. However, there are some concerns as positions are being filled with relatively low wages, which could impact total payrolls and aggregate consumption. On the flip-side, consumer loans within banking credit keep decelerating, in our view impacting purchases of durable goods. In the short-term, the key driver will be *El Buen Fin*. Specifically, we do not rule out a slight deceleration in October and a subsequent rebound in November, in line with the beginning of discounts and other promotions. In this context, preliminary data suggests retail sales up as much as 20% y/y in nominal terms according to the *Consumer Protection Agency* (Profeco, in Spanish), with more moderate estimates from other business chambers. Nevertheless, we need to be cautious reading these figures, as they may be distorted from the extended discount period.

In addition, consumer confidence also dampens some dynamism, with a slight decrease in November. Given recent spikes in new cases, some harsher distancing measures have been put in place in some states, while president López-Obrador has called for people to limit their trips to malls and restaurants. Considering this, we could see a more relevant slowdown in December.

All in all, we maintain our view that domestic demand will continue lagging the external sector, with relevant challenges both from the pandemic and other idiosyncratic factors. In this context, we maintain our estimates of a 9.0% y/y GDP contraction in 2020, followed by a 4.1% expansion in 2021.

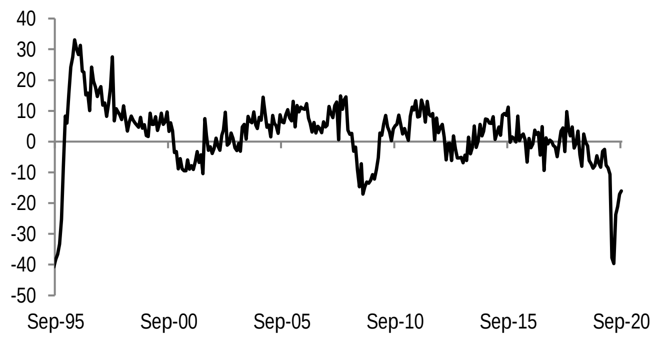
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Sep-20	Sep-19	Jan-Sep **'20**	Jan-Sep **'19**	Sep-20	Sep-19
Total	-17.0	-4.5	-20.6	-4.2	-18.0	-7.1
Construction	-14.4	0.8	-19.1	-2.1	-18.3	-7.2
Residential	-7.0	5.6	-18.5	-0.4	-14.3	-1.9
Non-residential	-21.3	-3.3	-19.6	-3.7	-22.6	-12.2
Machinery and equipment	-20.6	-10.7	-22.6	-7.1	-16.5	-7.9
Domestic	-22.7	-9.2	-27.3	-5.1	-20.8	-2.6
Transportation Equipment	-25.1	-14.5	-32.0	-4.4	-26.4	-7.5
Other machinery and equipment	-19.4	-0.4	-19.6	-6.1	-12.2	6.6
Imported	-19.1	-11.8	-19.5	-8.3	-13.3	-12.6
Transportation Equipment	-45.7	2.1	-38.3	-1.8	-29.3	-6.2
Other machinery and equipment	-14.4	-13.9	-16.2	-9.4	-10.7	-13.5

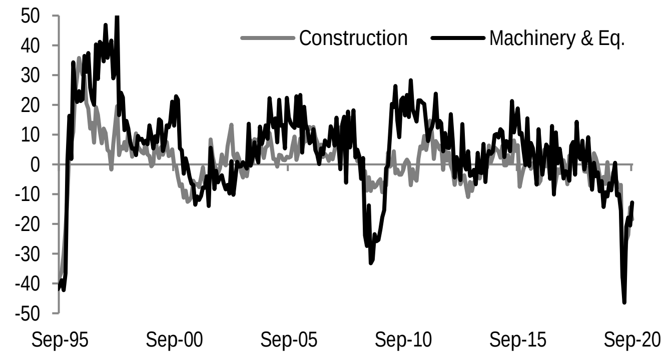
Source: INEGI-

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



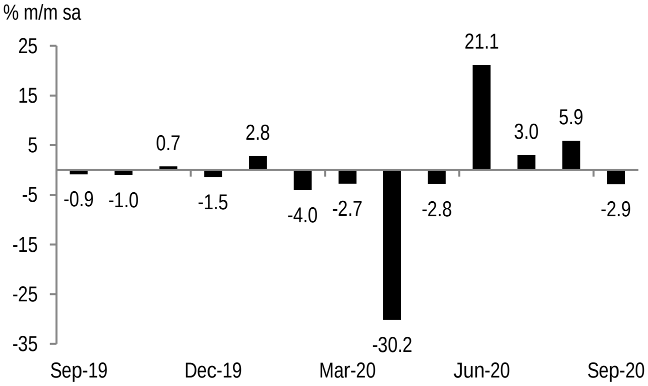
Source: INEGI

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

	% m/m			% 3m/3m	
	Sep-20	Aug-20	Jul-20	Jul-**Sep'20**	Jun-**Aug'20**
Total	-2.9	5.9	3.0	18.8	7.9
Construction	-5.8	10.1	1.0	16.6	4.6
Residential	-8.9	18.5	1.3	28.8	12.2
Non-residential	-3.2	4.9	1.2	4.6	-4.8
Machinery and equipment	1.3	0.3	10.0	24.9	13.5
Domestic	2.1	-0.2	20.9	47.5	21.4
Transportation Equipment	-2.7	-0.9	20.7	54.4	28.5
Other machinery and equipment	11.0	3.5	19.5	40.2	12.4
Imported	0.9	0.7	3.8	13.5	9.5
Transportation Equipment	16.4	-11.5	31.2	46.2	2.8
Other machinery and equipment	-0.7	2.7	1.7	10.4	9.1

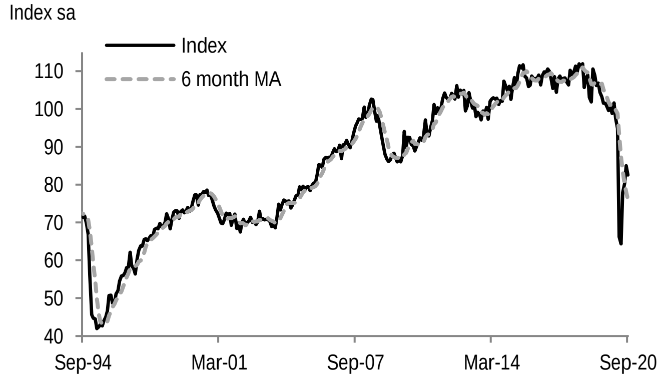
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

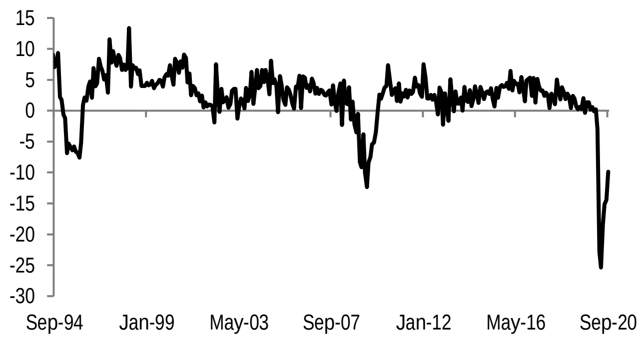
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Sep-20	Sep-19	Jan-Sep **'20**	Jan-Sep **'19**	Sep-20	Sep-19
Total	-9.9	1.4	-12.1	1.0	-11.4	0.7
Domestic	-8.7	0.4	-11.5	0.9	-9.9	0.0
Goods	-2.8	-0.7	-8.6	-0.1	-5.0	-1.2
Durables	-4.6	-4.8	-17.2	-6.5	--	--
Semi-durables	-13.7	0.9	-32.3	2.4	--	--
Non-durables	-0.2	-0.4	-2.8	0.3	--	--
Services	-14.1	1.4	-14.1	1.7	-14.6	0.9
Imported goods	-19.0	9.2	-17.8	2.4	-23.6	5.3
Durables	-37.2	18.6	-31.8	0.0	--	--
Semi-durables	-17.9	7.9	-18.3	6.7	--	--
Non-durables	-0.2	1.4	-5.1	2.4	--	--

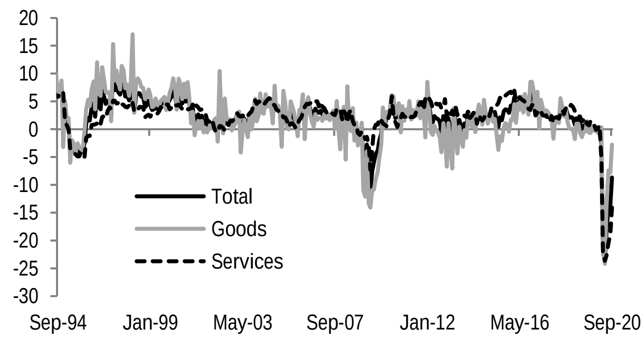
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



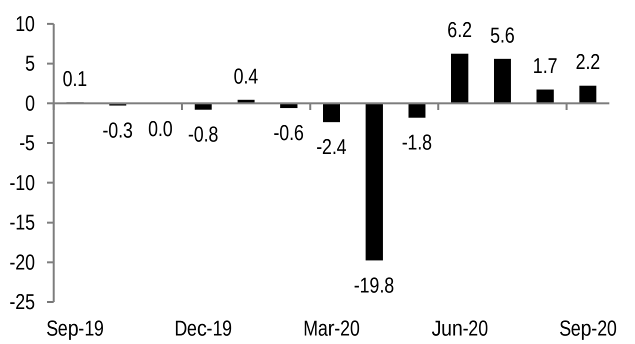
Source: INEGI

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

	% m/m			% 3m/3m	
	Sep-20	Aug-20	Jul-20	Jul-**Sep'20**	Jun-**Aug'20**
Total	2.2	1.7	5.6	11.3	1.2
Domestic	2.7	1.6	5.8	11.2	0.9
Goods	0.5	0.7	9.2	16.2	6.3
Services	4.7	1.7	2.8	5.9	-4.2
Imported goods	-1.8	3.0	5.6	12.2	2.2

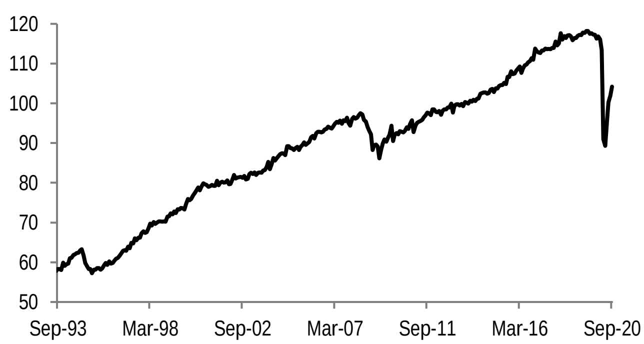
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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