Domestic demand extends its recovery in November

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- **Gross fixed investment (November): -12.1% y/y (nsa); Banorte: -12.4%; consensus: -10.8% (range: -14.0% to -9.3%); previous: -14.6%**
- **Private consumption (November): -7.1% y/y (nsa); previous: -10.2%**
- **The period had a negative calendar effect, similar to the previous month. Year-to-date, investment and consumption have declined 18.8% and 11.5% y/y, in the same order**
- **In sequential terms, investment rose 2.3% m/m, positive given October's +3.0%. Inside, both construction (2.4%) and machinery and equipment (2.9%) were stronger, with the latter gaining some momentum after a deceleration last month**
- **Consumption grew 3.0% m/m, adding six months to the upside. Performance was led by imported goods (20.4%), boosted by *El Buen Fin* discounts. However, the rest of the categories were also positive, probably also benefited by this initiative**
- **We believe risks for domestic demand have increased in the short-term, especially for consumption. In particular, we consider that investment might remain weaker in the medium term**

GFI extends its recovery in November. This came in at -12.1% y/y (see Chart 1), lower than consensus (-10.8%), but practically in line with our -12.4%. We should mention that the month has a negative calendar effect (with one less working day in the annual comparison), skewing the figure lower (similar to what we observed in October). Construction kept improving to -9.9% (Chart 2), with a strong boost from the residential sector (-2.0%), stringing six months as the strongest. On the contrary, non-residential keeps dragging performance at -18.1%. Meanwhile, machinery and equipment improved to -14.8% despite a more negative base effect. Inside, transportation was mixed, with domestic lower (-27.9%) and imported higher at the margin (-26.9%), albeit with the print distorted by GM's strike last year, which impacted September and October figures. On the contrary, other M&Eq. was more positive, with a slight outperformance in imported goods (Table 1).

Using seasonally adjusted data, investment rose 2.3% m/m, high considering the +3.0% of the previous month (Chart 3). Construction extended up at 2.4% after October's +5.8%. In the detail, the residential sector grew 7.0%, and the non-residential at +0.4%. We remain cautious about performance ahead particularly in the latter, considering that the outlook is still uncertain and relevant risks from structural factors (*e.g.* home office), as well as others of a more idiosyncratic nature which are impacting confidence and investment decisions. Machinery and equipment was positive, at 2.9%. Most components were stronger, although with a slight downtick in domestic transportation equipment, consistent with the IP report (Table 2).

In absolute terms, GFI is 9.7% below February's level and 21.6% lower than its historical high in mid-2018, stressing the great challenges that remain in place for a full recovery (Chart 4).

Private consumption keeps recovering, boosted by *El Buen Fin*. The figure stood at -7.1% y/y, better than the -10.2% of the previous month (Chart 5). We note that the adverse calendar effect also impacted this sector's data. Despite an additional deterioration in epidemiological conditions, we believe the main driver behind dynamism was the extended discounts period of *El Buen Fin* (Mexico's Black Friday). We should remember that it was lengthened to avoid massive gatherings, albeit seemingly also having an additional effect in performance. In this context, some of the most benefited categories were in imported goods, especially durable (to -3.6% from -39.2%), although with mixed signals in the domestic front, with a sharp fall in durables (to -20.3% from -9.8%), albeit also with a considerably negative base effect. (Table 3). Services were also marginally better at -13.6% (Chart 6), possibly related to more traffic in malls as reports suggested that sales in physical stores remained high.

With seasonally adjusted figures, consumption advanced 3.0% m/m, higher for a sixth consecutive month (Chart 7). With this, the absolute level of consumption stands 6.0% below February (Chart 8). While this is positive, we remain somewhat cautious considering the lag of other domestic sectors, with timelier signals suggesting that these month's figures were distorted by shifting the timing of consumption to take advantage of discounts. All categories were higher, with imported goods up a massive 20.4% and domestic goods at 0.8%. On the other hand, services were slightly better, at 1.0%.

Risks for domestic demand increasing. Despite quite favorable results in today's report, we consider that conditions for domestic demand have deteriorated in the last couple of months, especially for services within consumption. This contrasts with industry and exports, which are showing more resiliency.

Nonetheless, timelier signals for activity in the short-term are somewhat positive for investment, with capital goods imports within the trade balance growing 1.0% m/m (-4.9% y/y) in December. Meanwhile, implied dynamics within the 4Q20 GDP report suggest a favorable performance in the last month of the year, which on top of manufacturing and construction indicators, could result in an additional boost, even with the epidemiological indicator in 'red' for Mexico City and the State of Mexico. Despite more states in 'red' (with a total of 13 by early February), we believe the impact on some key sectors such as transportation –within machinery and equipment– and construction could be softened by being considered as essential. However, in the medium-term signals are more mixed. Starting from the most favorable, it is likely that tensions between the US and China will continue, placing our country in a better relative position. A further boost would come from changes in production strategies, with some businesses looking for *nearshoring* schemes outside of the Asian nation. In contrast, growth prospects will be limited by firms' financial positions, which remain mostly fragile in a context in which activity is still weak, especially for domestic companies.

Moreover, we think obstacles of a more idiosyncratic nature will keep weighing on the sector, including concerns about the pandemic's impact on potential growth and its subsequent effects in productivity levels.

Going to consumption, signals of a short-term deterioration are evident. Specifically, ANTAD sales plunged 9.1% y/y in real terms in December, its worst decline since July. We believe there was a strong impact from a substitution in the timing of consumption –bringing forward holiday spending to November to take advantage of the discounts–. On the other hand, there was likely an additional shock from non-essential businesses closing in December. We should remember that during the latter month only between three and four states were in 'red', going to ten by late January. In this sense we believe the effects might have exacerbated at the start of the year. This would be consistent with the additional decline observed in IMEF's non-manufacturing PMI in January, falling 0.4pts to 47.6. Nevertheless, this contrasts with the 3.5% m/m expansion in consumption goods imports in December, which may be related with changes to the administration of customs. Hence, we downplay somewhat this latter signal. Contrary to what we see in investment, we believe think the mid-term outlook could be more favorable, supported by a positive spillover from the external sector and some solid fundamentals, highlighting remittances. However, we will also look to the evolution of employment, especially after this new wave of cases, as well as banking credit, which continues to weaken. In this context, we still expect a GDP recovery in 2021 of 4.1% y/y. Inside, we expect a 6.2% expansion in private consumption, with investment lagging at 4.0%.

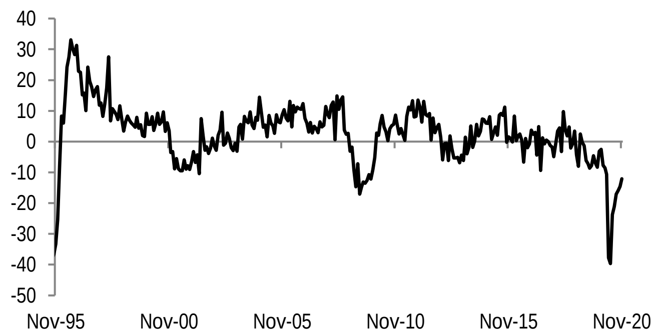
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Nov-20	Nov-19	Jan-Nov **'20**	Jan-Nov **'19**	Nov-20	Nov-19
Total	-12.1	-3.2	-18.8	-4.8	-11.3	-2.9
Construction	-9.9	-2.6	-17.7	-3.2	-9.9	-2.4
Residential	-2.0	6.7	-15.6	-0.6	-2.5	6.3
Non-residential	-18.1	-10.8	-19.8	-5.7	-17.7	-9.6
Machinery and equipment	-14.8	-3.9	-20.4	-6.9	-13.8	-2.5
Domestic	-19.6	4.3	-24.8	-3.8	-18.8	5.7
Transportation Equipment	-27.9	5.7	-29.8	-4.7	-25.8	9.9
Other machinery and equipment	-10.5	2.7	-17.1	-2.5	-11.0	1.5
Imported	-11.4	-8.9	-17.5	-8.8	-11.1	-7.1
Transportation Equipment	-26.9	-6.1	-35.5	-5.1	-27.7	-7.4
Other machinery and equipment	-8.6	-9.3	-14.3	-9.4	-8.0	-7.4

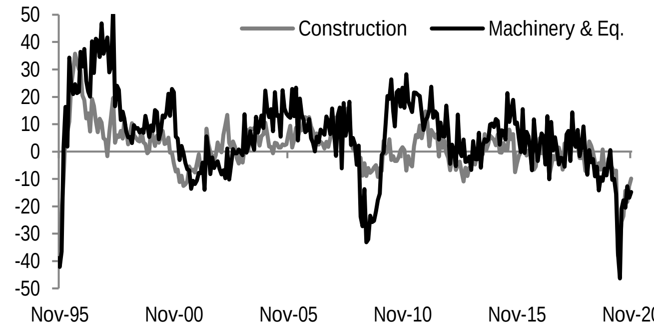
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



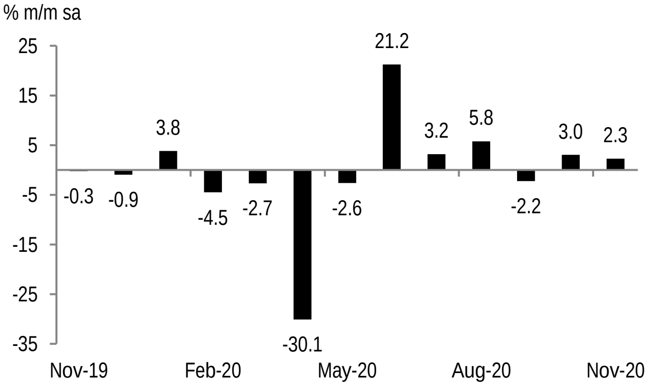
Source: INEGI

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

	% m/m			% 3m/3m	
	Nov-20	Oct-20	Sep-20	Sep-Nov **'20**	Aug-Oct **'20**
Total	2.3	3.0	-2.2	5.4	14.1
Construction	2.4	5.8	-7.0	4.6	13.7
Residential	7.0	6.2	-7.8	10.6	24.0
Non-residential	0.4	1.3	-2.6	1.8	4.8
Machinery and equipment	2.9	0.2	1.6	6.2	16.0
Domestic	1.6	0.4	2.3	9.5	25.6
Transportation Equipment	-1.4	0.0	-2.8	2.0	20.4
Other machinery and equipment	2.0	-3.8	10.7	17.4	32.2
Imported	1.9	0.9	1.1	4.3	10.3
Transportation Equipment	2.7	0.7	16.5	18.2	30.4
Other machinery and equipment	1.4	1.7	-0.5	3.6	8.9

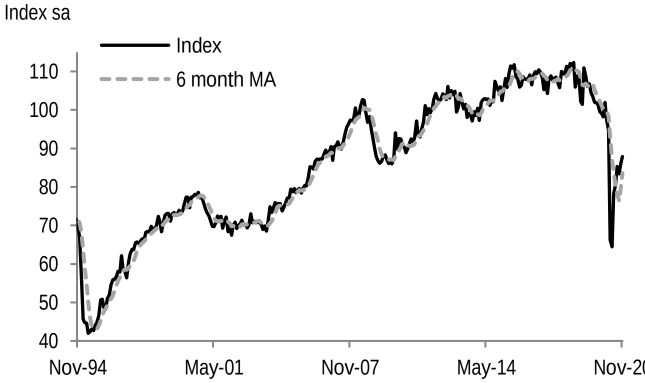
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

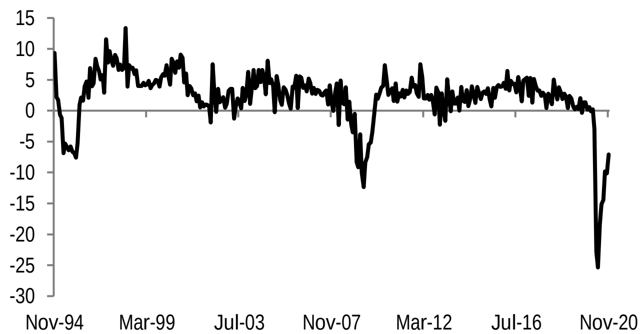
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Nov-20	Nov-19	Jan-Nov **'20**	Jan-Nov **'19**	Nov-20	Nov-19
Total	-7.1	0.2	-11.5	1.0	-6.6	0.5
Domestic	-7.9	0.2	-10.8	0.8	-7.3	0.2
Goods	-2.0	-0.3	-7.4	0.0	-0.9	-0.1
Durables	-20.3	11.6	-16.7	-3.8	--	--
Semi-durables	-9.5	-6.2	-27.8	0.8	--	--
Non-durables	2.2	-0.6	-2.0	0.3	--	--
Services	-13.6	0.7	-14.1	1.5	-13.9	0.3
Imported goods	-0.8	0.0	-16.9	2.7	-0.3	2.4
Durables	-3.6	-3.3	-29.9	1.6	--	--
Semi-durables	-4.3	-6.7	-17.2	4.5	--	--
Non-durables	3.7	7.4	-4.8	2.8	--	--

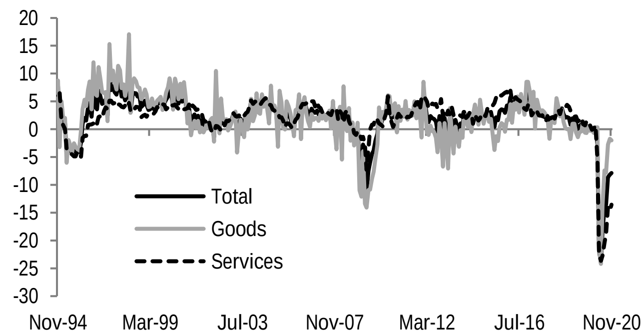
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



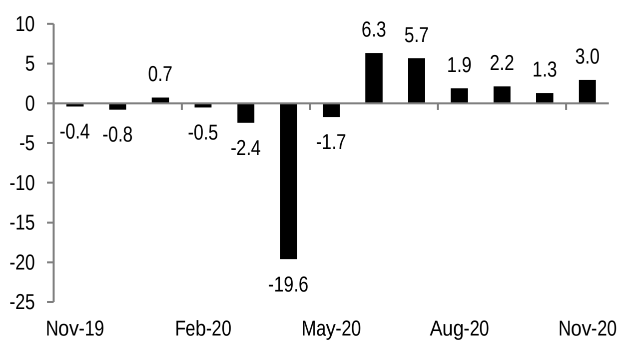
Source: INEGI

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

	% m/m			% 3m/3m	
	Nov-20	Oct-20	Sep-20	Sep-Nov **'20**	Aug-Oct **'20**
Total	3.0	1.3	2.2	7.3	9.8
Domestic	0.9	1.4	2.4	6.7	9.6
Goods	0.8	2.2	0.8	6.3	11.7
Services	1.0	-0.5	4.8	6.9	7.1
Imported goods	20.4	3.3	-2.3	11.3	10.8

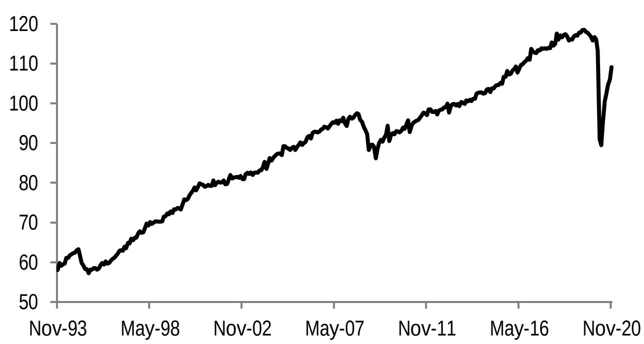
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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