The reopening kept benefitting domestic demand in March

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- **Gross fixed investment (March): 1.4% y/y (nsa); Banorte: 2.2%; consensus: 2.3% (range: -3.0% to 4.4%); previous: -4.6%**
- **Private consumption (March): 0.4% y/y (nsa); previous: -7.8%**
- **As in other sectors, annual rates start to reflect distortions because of the pandemic last year, albeit more evident in coming months. They are also affected by the timing of the Easter holiday, among other factors**
- **In sequential terms, investment rose 2.3% m/m, still providing signs of more dynamism lately. The move was led by machinery and equipment (3.0%), particularly domestic (7.8%). Construction declined 0.3% after an important rebound since the start of the year**
- **Consumption grew 2.8% m/m, with all categories stronger, in our view helped by better COVID-19 dynamics and higher mobility. Services went up 2.3%, with a good upside surprise in imported goods (6.2%)**
- **We continue seeing a gradual recovery of domestic demand, aided by higher vaccinations and mobility levels, with consumption likely at a faster pace than investment**

GFI grows again in March. Investment stood at 1.4% y/y (see Chart 1), lower than our 2.2% estimate. By sectors, construction fell 7.8%, with machinery and equipment stronger at 14.8% (Chart 2). As in other sectors, annual rates start to reflect the distortions because of the pandemic last year. Nevertheless, it will be clearest in April and May, when the strictest restrictions were in place. Also, the timing of the Easter holiday –with the last three working days of the month during the week in which it occurred– affected. Correcting for the latter with seasonally adjusted figures, investment grew 2.3% m/m (previous: 2.4%), which in our view is favorable given that it is the third consecutive month in expansion (Chart 3). In our view, this remains consistent with other signs of more dynamism recently. By components, machinery and equipment led gains (3.0% m/m), driven by the domestic component (Table 2). The imported one also picked up (2.2%), albeit less than flagged by the acceleration in capital goods imports. In the latter, we highlight transportation (12.5%), which was very strong considering supply chain issues and after disruptions due to the weather and undersupply of natural gas. Construction ticked lower at 0.3%, although this was observed after a very strong start of the year. The main culprit was the residential sector (-2.1%), with non-residential positive (1.9%) for a third month in a row. As a result, activity stands 14.9% below July 2018's historical high and -1.2% to February 2020 (Chart 4).

Private consumption accelerated on better COVID-19 dynamics. This component of aggregate demand stood at 0.4% y/y, above the -7.8% of the previous month (Chart 5). As in GFI, the pandemic is distorting annual rates. Consumption of domestic goods was at -2.5%, but imported ones surged, at 28.6% (Table 3). Meanwhile, services remained low at -6.0% (Chart 6).

We recall that, in the same period last year, the latter started to feel the impact of the first lockdown measures, while non-durable goods saw a big boost because of precautionary purchases. With seasonally adjusted figures, consumption went up 2.8% m/m (Chart 7), with renewed dynamism after falling 0.4% in February. This is consistent with the acceleration in services from the supply side, according to IGAE. We think less cases and deaths from COVID-19, vaccinations and better mobility (also helped by the holiday period) were relevant supports. In this sense, in the domestic component, services grew 2.3% m/m, while goods were more modest (0.5%). Imported goods surprised higher at 6.2%. With this, consumption is about 4.0% lower than before the pandemic (Chart 8).

We still expect a recovery of domestic demand, with consumption probably outpacing investment. Results support the view that conditions for the domestic market are improving, positive for the narrative of a stronger recovery during the year. We think several factors are driving performance, with different degrees of support depending on the sector. Similarly, risks are also differentiated, with investment possibly more exposed to them.

On the latter, the main driver is likely the view of a recovery in the US. This is especially relevant in a context in which global businesses are still looking to implement nearshoring schemes, along other diversification options and sources of raw materials. This is translating into greater interest in Mexico's industrial parks. In this sense, the real estate fund *Meor* announced an investment of $3 billion in the next 12-18 months, with one park already underway in Tijuana. Moreover, President López-Obrador announced the development of 10 of these centers in the Tehuantepec Isthmus region. Despite of this, risks prevail, among them those associated to supply chain shocks. Although we believe construction is relatively more isolated, manufacturing –related to machinery and equipment– is not, leading us to be very cautious, especially in 'transportation equipment'. Other idiosyncratic risks prevail, which we believe will drive the lag in this sector relative to others in the economy. In the short-term, we will be looking closely to construction in the next industrial production report, to be published this Friday. In this respect, signals from aggregate trend indicators and business confidence are positive. For machinery and equipment, the last trade balance report showed a relevant deceleration in capital goods imports, albeit possibly as payback after accelerating in previous months, so a more definitive signal is lacking.

On consumption, we think the scenario is more positive, highly linked to the evolution of virus conditions. These have shown a consistent improvement since mid-February, with the last 'traffic-light indicator' showing its best levels since introduced, matching the trend in daily cases and deaths. In addition, vaccinations have accelerated substantially in the last few weeks, reaching a new high of 1.1 million daily doses on June 3. Meanwhile, fundamentals are still gaining strength, with additional employment gains. Another relevant factor has been historically high remittances' inflows recently, boosting resources for low-income families. In this backdrop, risks seem more modest than for investment, with the possibility of another wave relatively low. Nevertheless, we will look for the possibility of a moderation in the pace of employment gains. On more immediate data, timely indicators such as the non-manufacturing indicator from IMEF and consumer confidence suggest performance will keep gaining ground in coming months.

In this context, we think both sectors will keep recovering, possibly accelerating in 2Q21 in line with the rest of the economy. However, we still consider that the rebound will be more modest relative to external-facing sectors, with the latter highly benefited by stimulus programs in the US.

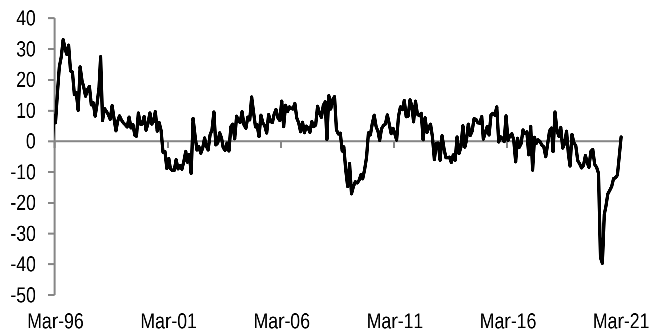
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Mar-21	Mar-20	Jan-Mar'**21**	Jan-Mar'**20**	Mar-21	Mar-20
Total	1.4	-10.5	-4.9	-8.8	1.7	-10.8
Construction	-7.8	-6.9	-8.6	-6.8	-6.2	-6.6
Residential	-8.9	-3.4	-6.8	-6.1	-6.4	-3.0
Non-residential	-6.6	-10.4	-10.5	-7.4	-6.1	-10.4
Machinery and equipment	14.8	-15.2	0.8	-11.7	12.1	-17.6
Domestic	5.0	-12.8	-6.0	-7.9	4.9	-14.1
Transportation Equipment	-0.5	-18.1	-11.1	-11.1	1.3	-19.8
Other machinery and equipment	13.2	-3.5	1.4	-2.9	10.2	-4.6
Imported	21.6	-16.7	5.3	-14.0	16.7	-19.6
Transportation Equipment	-0.9	-21.3	-15.8	-16.3	-0.8	-22.0
Other machinery and equipment	25.7	-15.8	9.0	-13.6	19.5	-18.8

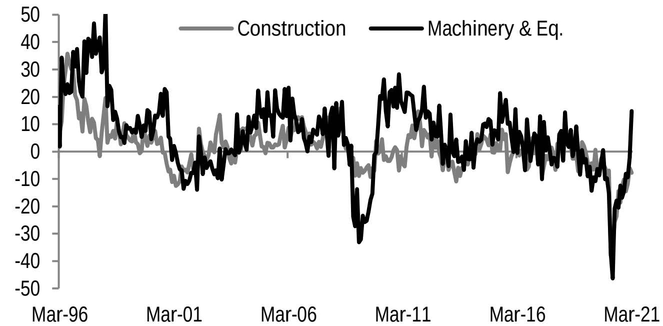
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



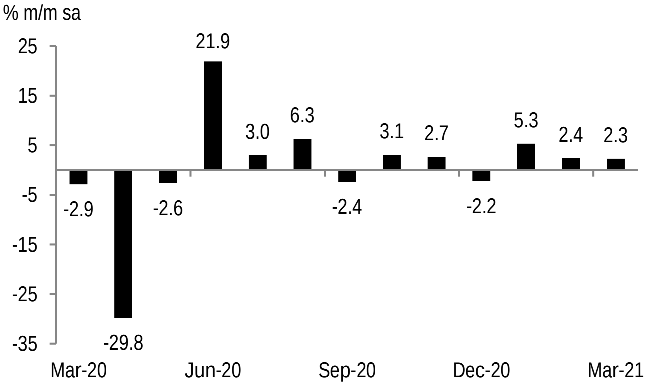
Source: INEGI

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

	% m/m			% 3m/3m	
	Mar-21	Feb-21	Jan-21	Jan-Mar'**21**	**Dec'20-Feb'21**
Total	2.3	2.4	5.3	31.8	21.2
Construction	-0.3	2.8	3.6	20.4	18.4
Residential	-2.1	2.1	1.1	0.6	10.3
Non-residential	1.9	2.1	7.9	36.1	15.5
Machinery and equipment	3.0	1.8	4.6	33.2	21.9
Domestic	7.8	-1.5	3.9	24.2	11.0
Transportation Equipment	5.8	-0.6	8.3	50.4	28.1
Other machinery and equipment	8.5	-1.9	1.0	13.3	-0.2
Imported	2.2	1.8	4.8	34.8	26.0
Transportation Equipment	12.5	6.1	4.0	54.3	16.3
Other machinery and equipment	1.2	1.4	5.2	35.6	29.8

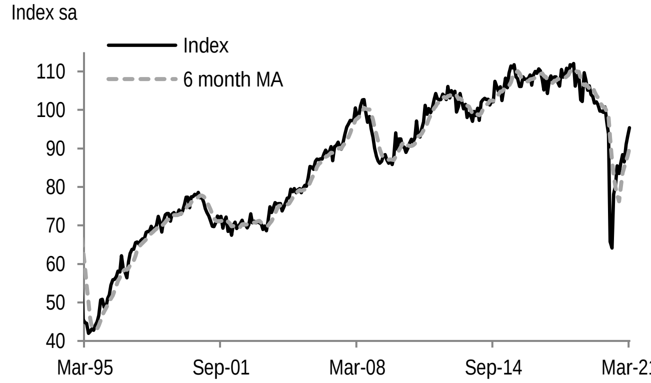
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

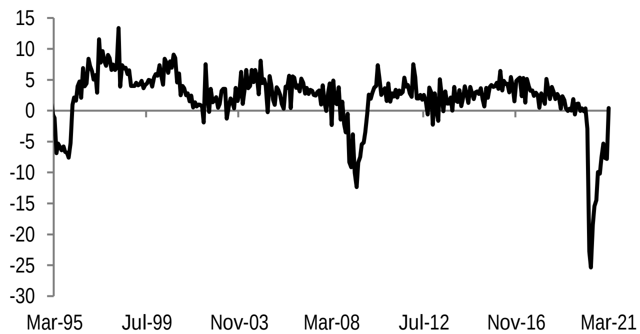
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Mar-21	Mar-20	Jan-Mar'**21**	Jan-Mar'**20**	Mar-21	Mar-20
Total	0.4	-3.0	-5.1	-0.9	-0.7	-3.3
Domestic	-2.5	-2.6	-6.6	-0.8	-3.4	-2.8
Goods	1.2	0.5	-1.1	-0.1	-0.4	0.0
Durables	1.7	-0.4	-4.6	3.2	--	--
Semi-durables	7.7	-16.6	-5.5	-7.4	--	--
Non-durables	0.0	4.2	0.1	0.9	--	--
Services	-6.0	-5.4	-11.9	-1.5	-6.3	-5.6
Imported goods	28.6	-6.0	8.9	-1.5	23.6	-9.0
Durables	34.6	-11.1	14.1	-8.4	--	--
Semi-durables	40.7	-20.0	1.1	-6.7	--	--
Non-durables	19.8	5.4	9.0	7.4	--	--

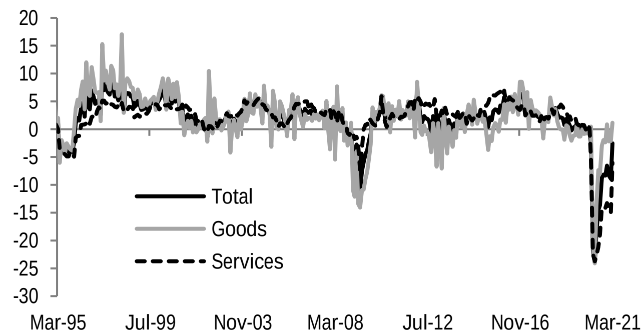
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



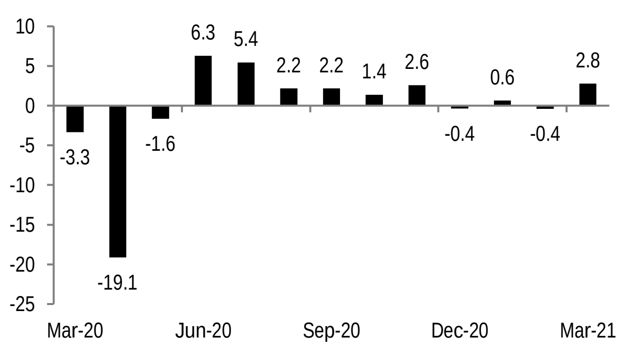
Source: INEGI

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

	% m/m			% 3m/3m	
	Mar-21	Feb-21	Jan-21	Jan-Mar'**21**	**Dec'20-Feb'21**
Total	2.8	-0.4	0.6	1.9	2.1
Domestic	1.6	-0.2	0.4	0.9	0.8
Goods	0.5	-0.2	0.7	1.0	1.6
Services	2.3	0.3	-0.1	1.4	0.9
Imported goods	6.2	-1.4	3.8	11.3	16.3

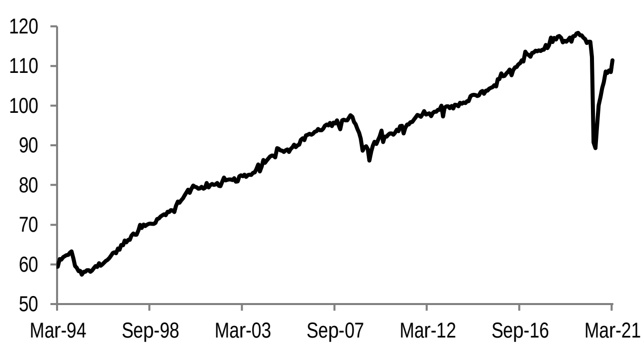
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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