Domestic demand slows down in April, but we remain optimistic about the recovery

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- **Gross fixed investment (April): 43.1% y/y (nsa); Banorte: 42.4%; consensus: 42.0% (range: 32.0% to 48.9%); previous: 1.4%**
- **Private consumption (April): 25.5% y/y (nsa); previous: 0.4%**
- **As seen in other figures, annual rates are highly distorted by the lockdown in 2020, resulting in abnormally large prints**
- **In sequential terms, investment backtracked 0.9%, with some payback after recent considerable gains. The move was driven by construction (-1.3%), which added a second month of declines after a strong start of the year. Machinery and equipment (-0.8%) was dragged by the domestic component (-2.3%)**
- **Consumption stayed positive at 1.2% m/m, adding two months on the upside and consistent with the broad improvement in virus conditions. In this sense, we highlight the 2.0% rebound in services after the +2.7% observed in March**
- **We continue expecting domestic demand to recover at a gradual pace, aided by better COVID-19 conditions, high confidence and better fundamentals. However, risks remain, with the pandemic still being a key factor in play**

GFI with a slight sequential decline in April. Investment stood at 43.1% y/y (see Chart 1), above our forecast (42.4%). By sectors, construction shot up 38.4%, with machinery and equipment slightly stronger at 49.6% (Chart 2). As in other sectors, annual rates are highly distorted by last year's lockdown, recalling that April and May were the lowest points of activity. As a result, the analysis of sequential data becomes much more informative to gauge more precisely the state of recovery. In this context, using sa figures, investment fell 0.9% m/m (previous: 1.8%). While this is negative at first glance, it comes only after three consecutive months on the upside (Chart 3). In our view, this suggests more of a pause in the recovery than a definite change in trend. By components, construction fell 1.3%, adding two months lower after a couple of strong prints earlier in the year. In our view, this has begun to be more concerning, potentially signaling a weaker performance ahead. Against our expectations, the residential sector was weaker (-2.3%), albeit with non-residential also contracting (-0.3%). In this respect, we do not rule out that the start of political campaigns may have affected short-term dynamics for the whole sector. On the other hand, machinery and equipment declined 0.8% m/m, driven by the domestic component at -2.3% (Table 2). This is consistent with some of the results seen in the IP report, in which manufacturing also posted a deceleration in related components such as transportation and machinery and equipment. The imported component managed to stay positive, at 0.8%, in contrast to capital goods imports. This was in line with our view that the correlation has been weakening in recent prints, with trade data more advanced. Overall, activity stands 16.4% below July 2018's all-time high and -2.8% vs. February 2020 (Chart 4).

Private consumption ticks-up on virus improvement and higher mobility. This component stood at 25.5% y/y (Chart 5). As in GFI, the pandemic is distorting annual rates, resulting in large annual expansions. Consumption of domestic goods was up 29.6%, with imports surging 45.6% (Table 3) as it was benefited even more by the base effect. Similarly, services rocketed 17.9% (Chart 6). We should recall that lockdowns drove essential goods higher on preemptive purchases, while durable and semi-durable goods tumbled down amid increased uncertainty.

With seasonally adjusted figures, consumption went up 1.2% m/m (Chart 7), a strong outcome considering the +2.9% seen in March. In contrast to annual rates, domestic goods were up 1.8% while services advanced 2.0%. In our view, the latter responded to the improvement in COVID-19 conditions, with people increasingly going out as seen in the additional uptick in mobility levels. Nevertheless, these remain below pre-pandemic standards. Moreover, this was even stronger –but in the same direction– than IGAE figures from the supply side. Imported goods fell 2.9%, albeit only after a strong +5.3% observed in March. With these, consumption is 2.7% lower than before the pandemic (Chart 8).

We expect domestic demand to resume an upward trend shortly, supported by a better backdrop. As suggested previously, deceleration in some of April's results (particularly for GFI) should be analyzed carefully, as it looks more as sort of payback after March's considerable uptick. Overall, we believe upcoming data will show that activity –including domestic demand– remains firmly on the path to recovery, with mostly favorable signs at least for the rest of the quarter. For the second half of the year some risks have started to gather strength, including renewed concerns about the virus. In this sense, the 'traffic light' indicator has recently shown a somewhat divergent path on a state-by-state basis. Those in 'yellow' have decreased, albeit with the balance split as some of them have turned 'green', but others backtracked to 'orange'. Moreover, Mexico City returned to 'yellow' on June 21st after two weeks in 'green'. This is consistent with the upward trend in daily cases observed since late May. It is also especially relevant as the 'Delta' variant continues spreading across the globe, representing a notable risk that could trigger a renewal of distancing measures and additional lockdowns. While we believe the continuation of vaccination efforts and other preemptive actions dampen the likelihood of a disruptive shock because of this, we remain on the look about dynamics in coming weeks.

While the latter influences both consumption and investment, the former might be more exposed to new restrictions. Particularly, this would apply to socially oriented activities such as services, with the rest of activities already more adapted to the new paradigm. An additional counterweight might be accumulated efforts in vaccinations, with the 7-day average of daily inoculations hovering around 500 thousand. In any case, most timely figures suggest the recovery is still underway, including ANTAD and auto sales, and even non-oil consumption goods imports. Fundamentals are also supportive, including employment and remittances –with the latter reaching a new historical high in May. However, and as flagged by the latest print from IMEF's non-manufacturing PMI, the pace of the rebound might lose steam if only because it is already at a more mature stage.

On investment, our view is still that the sector remains dragged by several idiosyncratic factors. Both stem from long-term concerns, such as those related to public security and the rule of law, along others arising more recently, such as recent anti-market legislation, among others. Overall, we continue seeing a difficult path ahead for this sector, especially considering that the decline had already started even before the pandemic hit.

In the very short term though, the boost from USMCA and near-shoring seem to be helping. Following up on last month's report, we continue seeing high interest on Mexico's industrial parks –despite other news stating that some of these projects have been delayed because of issues in connecting to the electricity grid– while several other businesses have announced investment plans. Among them, Grupo Modelo announced an expansion of $3 billion pesos in their factory located in Tierra Blanca, Veracruz, to produce 2 million glass bottles more per day. Unilever unveiled a $5.5 billion plan for the next three years to expand their facilities in Mexico City, Morelos and the State of Mexico. Supply chain issues worldwide may also be helping logistics, particularly in "last mile" storage facilities. This suggests that corporates are now planning more decisively about CAPEX spending in key areas to take better advantage of the recovery while diminishing operational risks. In this context, the most immediate data is also positive, with capital goods imports bouncing back in May.

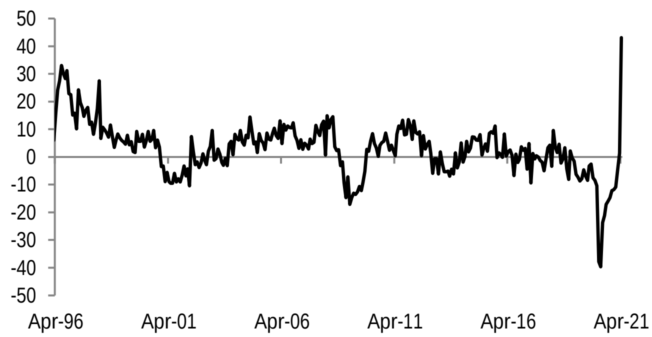
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Apr-21	Apr-20	Jan-Apr'**21**	Jan-Apr'**20**	Apr-21	Apr-20
Total	43.1	-37.8	3.5	-15.6	42.1	0.9
Construction	38.4	-38.1	-0.7	-14.1	36.2	-6.3
Residential	64.9	-46.3	4.0	-15.7	60.8	-6.7
Non-residential	17.3	-29.4	-5.3	-12.5	16.5	-6.2
Machinery and equipment	49.6	-37.3	9.8	-17.9	47.4	12.2
Domestic	90.3	-51.5	7.5	-18.3	85.9	4.8
Transportation Equipment	113.9	-63.8	2.9	-23.6	104.9	1.1
Other machinery and equipment	70.5	-32.3	13.7	-9.9	70.6	10.2
Imported	32.9	-28.8	11.1	-17.6	32.7	16.8
Transportation Equipment	56.3	-54.1	-5.8	-24.9	58.3	-0.8
Other machinery and equipment	30.6	-24.7	13.7	-16.3	30.6	19.7

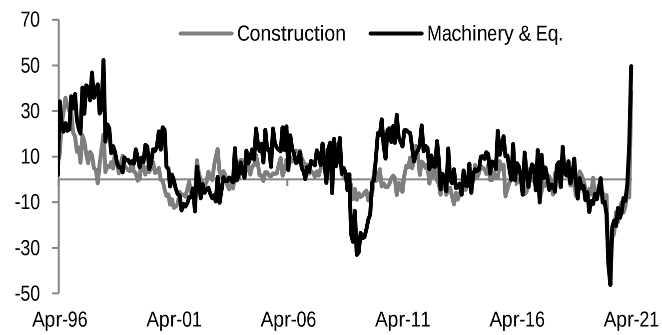
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



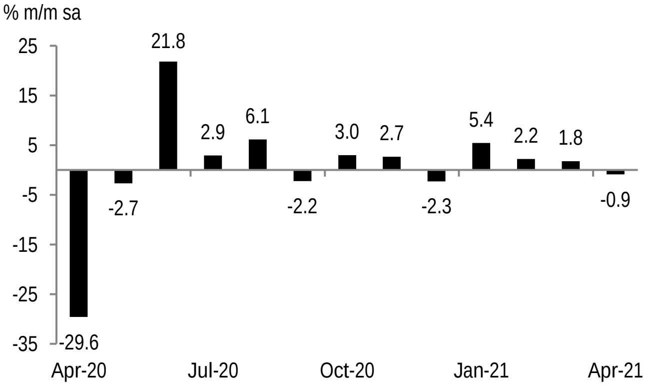
Source: INEGI

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

	% m/m			% 3m/3m	
	Apr-21	Mar-21	Feb-21	Feb-Apr'**21**	Jan-**Mar'21**
Total	-0.9	1.8	2.2	5.9	6.9
Construction	-1.3	-0.5	2.6	3.5	4.6
Residential	-2.4	-2.3	2.0	-1.7	-0.2
Non-residential	-0.3	1.9	2.0	7.2	7.7
Machinery and equipment	-0.8	3.4	1.8	6.7	7.6
Domestic	-2.3	6.9	-1.4	4.7	5.5
Transportation Equipment	-9.6	8.0	-1.4	5.9	10.3
Other machinery and equipment	5.7	9.0	-2.7	6.0	3.3
Imported	0.8	2.4	1.8	7.1	8.0
Transportation Equipment	-8.3	12.3	6.0	13.0	11.3
Other machinery and equipment	1.7	1.5	1.6	7.1	8.2

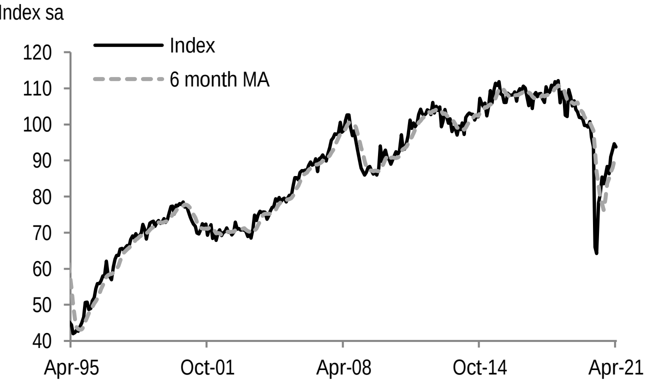
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

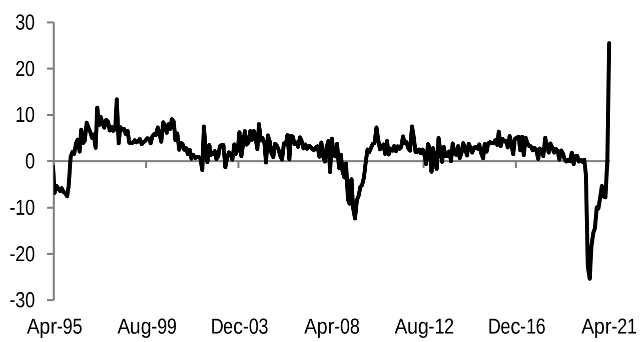
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Apr-21	Apr-20	Jan-Apr'**21**	Jan-Apr'**20**	Apr-21	Apr-20
Total	25.5	-22.8	1.1	-6.3	25.3	-22.9
Domestic	23.5	-21.7	-0.5	-6.0	23.2	-21.9
Goods	29.6	-21.0	5.1	-5.1	29.2	-21.1
Durables	93.2	-44.7	10.9	-9.3	--	--
Semi-durables	364.1	-80.9	18.5	-26.0	--	--
Non-durables	10.7	-5.5	2.5	-0.6	--	--
Services	17.9	-22.4	-5.7	-6.7	17.8	-22.4
Imported goods	45.6	-31.7	16.0	-9.2	45.6	-30.2
Durables	60.6	-46.4	22.6	-18.9	--	--
Semi-durables	45.4	-32.9	9.0	-12.8	--	--
Non-durables	36.4	-16.8	14.7	1.3	--	--

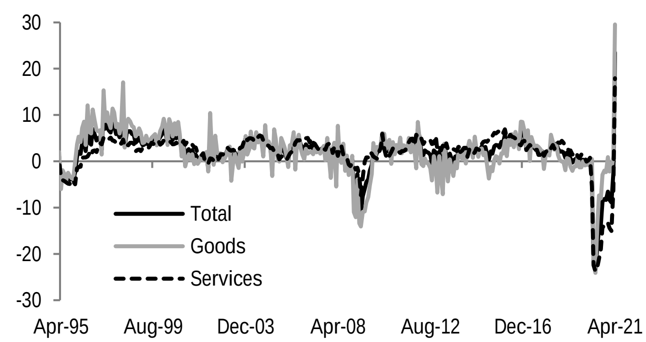
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



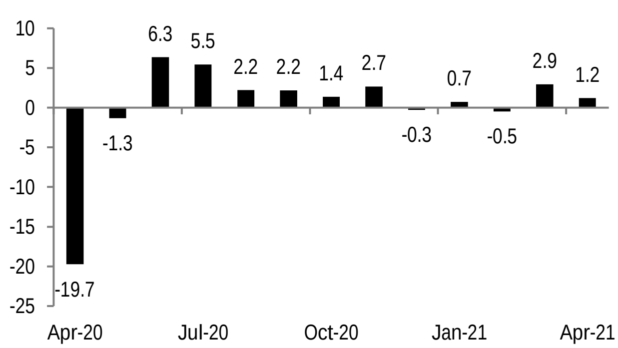
Source: INEGI

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

	% m/m			% 3m/3m	
	Apr-21	Mar-21	Feb-21	Feb-Apr'**21**	Jan-**Mar'21**
Total	1.2	2.9	-0.5	2.3	2.1
Domestic	2.3	2.4	-0.6	2.1	1.1
Goods	1.8	0.6	0.0	1.6	1.4
Services	2.0	2.7	0.4	3.3	2.1
Imported goods	-2.9	5.3	-1.2	3.7	10.8

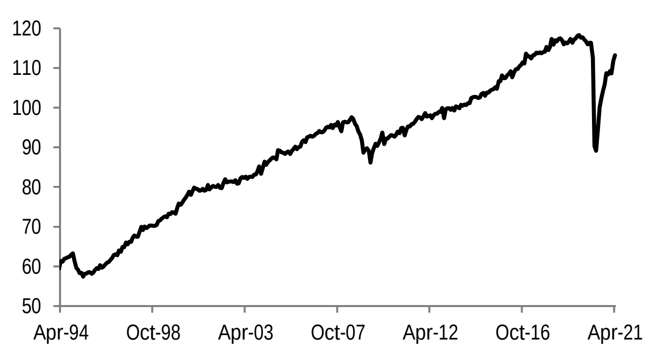
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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