Mixed domestic demand in August, suggesting challenges for the recovery

- **Gross fixed investment (August): 13.9% y/y (nsa); Banorte: 11.8%; consensus: 11.7% (range: 8.4% to 16.3%); previous: 15.7%**
- **Private consumption (August): 10.1% y/y (nsa); previous: 12.1%**
- **Investment rose 1.1% m/m, stringing two months higher. This was explained by construction (3.2%), especially the residential sector. On the other hand, machinery and equipment fell 1.0%, dragged by the imported component**
- **Consumption backtracked 0.6% m/m, with three consecutive months on the downside. In our view, this points to an impact from worsening virus conditions. All subsectors were lower, with weakness in the imported component**
- **Considering a quite adverse outlook in the very short-term, we expect that the recovery in consumption and investment will likely be reestablished in 4Q21**

GFI extended gains in August. Investment came in at 13.9% y/y (see Chart 1), above both our forecast and consensus. Annual figures keep decelerating as base effects fade away, albeit still strong in relative terms. In this sense, both construction (13.9%) and machinery and equipment (20.0%) maintained double-digit expansions (Chart 2).

Using seasonally adjusted figures, investment grew 1.1% m/m (Chart 3), in our view positive considering the 2.5% expansion of the previous month. These results are also favorable if we factor-in that the sector has lagged others in the recovery. Despite of this, we believe there are still some limits for higher dynamism in the short-term. With this, investment is 14.8% below its historical high on July 2018 and is only 0.6% lower than in February 2020 (Chart 4). By sectors, construction picked up 3.2%, even accelerating relative to the 2.7% seen in the previous month. Nevertheless, strength was concentrated in the residential sector this time around, up 4.8%. The non-residential sector was also favorable, growing 2.4% and broadly consistent with the industrial production report, as well as a moderation in the federal government's spending in physical investment (in annual terms). Machinery and equipment fell 1.0%, which is modest considering the 4.4% seen in July. Inside, and considering a more difficult base effect, weakness was mostly in the imported component, at -2.4% (Table 2). On the other hand, domestic was more modest, at -0.7%. An important highlight in both was the rebound in transportation, up 5.9% and 5.0%, respectively, which is encouraging given the risks faced by the sector. Meanwhile, 'others' fell in both categories, with imports down 3.4% and domestic lower by 7.8%

Weakness in consumption, consistent with a more difficult environment. This component came in at 10.1% y/y (Chart 5). As in GFI, annual figures continue losing steam, trend that will extend in coming months. Inside, the base effect remains more evident in imported goods at 25.9%, with domestic ones up 5.3% (Chart 6).

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In both, differences between durable and semi-durable categories (which had shown higher rates due to more favorable base effects) with non-durables are closing, as observed in Table 3. On the other hand, domestic services remain high at 11.5%.

With seasonally adjusted figures, consumption contracted 0.6% m/m (Chart 7), its third consecutive month to the downside (with July at -0.03%). We believe the general trend was driven by the deterioration in epidemiological conditions, with the ‘third wave’ of COVID-19 resulting in increased caution among consumers. In addition, we do not rule out that companies moderated their expenses given higher uncertainty. Lastly, we do not rule out an additional impact from price pressures, likely affecting real consumption meaningfully. Hence, all categories declined, albeit with weakness concentrated in imported goods (-6.8%), as shown in Table 4. Meanwhile, domestic categories were more stable, falling 0.3% in goods and at -0.4% in services. With these results, consumption stands 5.2% lower than its historical high (June 2019) and -3.5% relative to February 2020 (Chart 8).

Uncertainty about performance in the very short term, although expecting an additional recovery in 4Q21. We believe that today’s data suggest that there indeed was an impact from the ‘third wave’ of COVID-19, especially in consumption. Nevertheless, it was more limited at the margin relative to other instances. In the short term, advanced data are somewhat mixed despite the improvement in virus conditions in September. Therefore, domestic demand could remain depressed. This was already suggested by the implied performance within 3Q21 GDP and the month’s employment report, which exhibited additional losses. The period’s trade balance had modest sequential gains, with capital goods imports up 1.1% and non-oil consumption goods at +0.4%. Nevertheless, given that these are expressed in nominal terms –and cost pressures remain high–, we take them with a grain of salt.

Signals for the last quarter of the year are more favorable, suggesting higher dynamism in investment, but especially in consumption. In this backdrop, we think that the recovery could accelerate, supported also by a steep decline in daily COVID-19 cases. Moreover, we factor-in: (1) Higher mobility levels, with indices already surpassing pre-pandemic levels slightly; (2) better data at the margin, including IMEF’s PMI indicators (particularly non-manufacturing); and (3) signals of better confidence levels, both among consumers and businesses. Hence, consumption could be poised for a rebound during the rest of the year, especially given the seasonal acceleration in year-end purchases and the holiday period.

At the margin, performance will likely be benefited by the strength in remittances, which we expect could extend into coming months. On the other hand, employment could also recover after recent losses, in line with the overall performance of the economy. On the contrary, the main risk still comes from price pressures, especially in sensitive categories such as food and energy. This is very important as it seems that these will extend at least through the beginning of 2022.

In investment, the outlook remains more difficult. Specifically, we believe that the main limitation is in manufacturing, with the lack of inputs limiting production and, as a result, investment in some categories –mainly those associated with machinery and equipment. This adds up to other factors that could delay some investment decisions, including uncertainty about USMCA disputes. On a more positive note, data on government spending so far looks stronger. This, coupled with a view of more investment in 2022, could represent a tailwind. In either case, we will follow closely private sector sentiment, as in our view higher dynamism in the latter is needed for a sustained recovery.

This outlook is consistent with our recent update for GDP this year at 5.7%, which includes the deceleration of activity in 3Q21. In particular, it implies a relevant recovery in the last months of the year, pushed higher by both external demand along domestic components

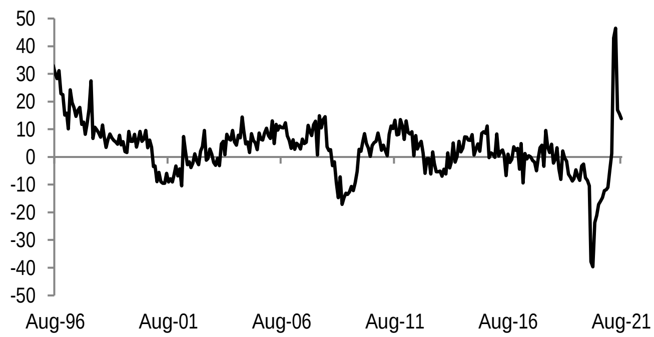
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Aug-21	Aug-20	Jan-Aug'**21**	Jan-Aug'**20**	Aug-21	Aug-20
Total	13.9	-17.1	12.0	-20.5	12.8	-16.3
Construction	9.6	-14.4	7.5	-19.1	8.8	-15.3
Residential	5.4	-8.7	11.8	-19.8	4.9	-9.4
Non-residential	14.1	-19.8	3.1	-18.4	12.7	-21.5
Machinery and equipment	20.0	-20.5	18.4	-22.5	17.6	-17.7
Domestic	8.6	-22.7	17.9	-27.0	9.2	-19.5
Transportation Equipment	10.2	-25.1	14.9	-31.5	9.8	-21.6
Other machinery and equipment	6.5	-19.3	22.1	-19.6	7.3	-16.7
Imported	27.1	-19.1	18.7	-19.5	22.4	-16.5
Transportation Equipment	33.5	-45.7	16.8	-38.3	34.0	-45.5
Other machinery and equipment	26.3	-14.4	19.0	-16.2	21.6	-11.1

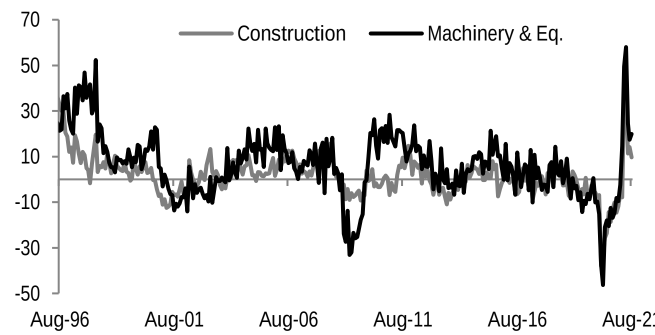
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



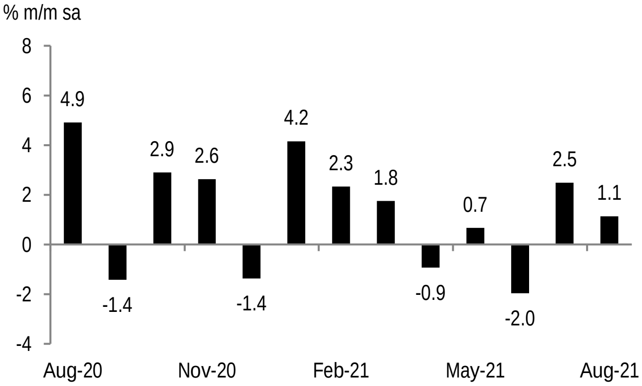
Source: INEGI

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

	% m/m			% 3m/3m	
	Aug-21	Jul-21	Jun-21	Jun-Aug'**21**	May-Jul'**21**
Total	1.1	2.5	-2.0	0.2	0.1
Construction	3.2	2.7	-2.6	0.9	-0.3
Residential	4.8	1.9	-4.7	-0.8	-1.8
Non-residential	2.4	3.3	-4.0	-0.6	-0.2
Machinery and equipment	-1.0	4.4	-0.8	1.0	1.0
Domestic	-0.7	0.9	-1.4	-1.5	0.2
Transportation Equipment	5.0	-2.3	-3.0	-2.0	-0.4
Other machinery and equipment	-7.8	2.5	-0.4	-4.2	-0.3
Imported	-2.4	7.7	-0.1	4.0	3.4
Transportation Equipment	5.9	-7.9	3.4	-3.4	-2.6
Other machinery and equipment	-3.4	13.5	-3.3	3.8	2.5

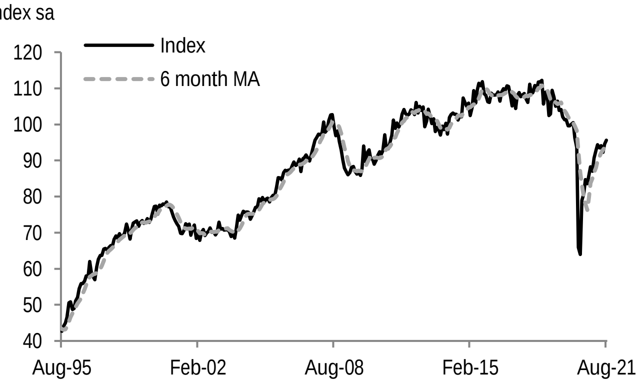
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

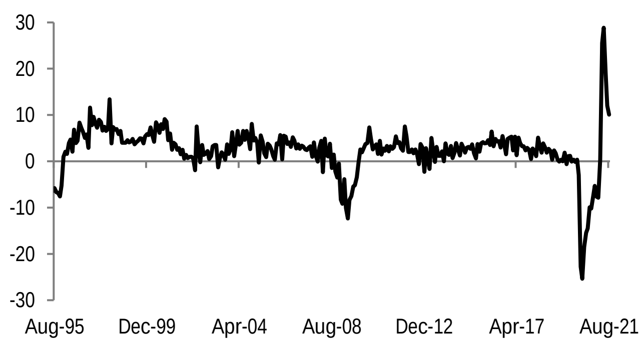
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Aug-21	Aug-20	Jan-**Aug'21**	Jan-**Aug'20**	Aug-21	Aug-20
Total	10.1	-14.5	8.7	-12.4	9.6	12.8
Domestic	8.3	-13.7	6.6	-11.9	8.2	10.6
Goods	5.3	-8.0	8.7	-9.3	4.7	6.3
Durables	8.9	-13.4	21.5	-18.3	--	--
Semi-durables	8.0	-23.6	30.5	-34.6	--	--
Non-durables	4.4	-4.1	4.4	-3.2	--	--
Services	11.5	-18.9	4.6	-14.3	11.7	14.8
Imported goods	25.9	-21.4	27.9	-17.6	20.9	35.9
Durables	26.9	-36.0	42.2	-31.0	--	--
Semi-durables	24.0	-23.8	18.4	-18.4	--	--
Non-durables	26.2	-7.9	23.4	-5.7	--	--

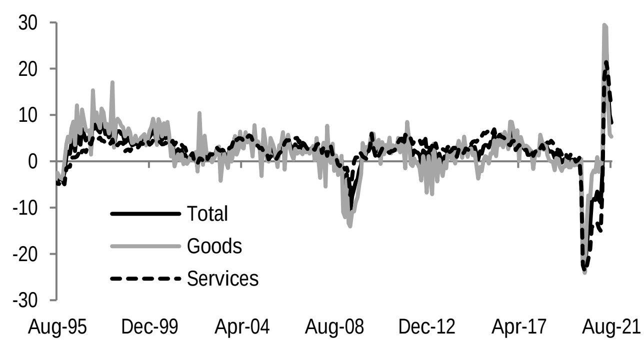
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



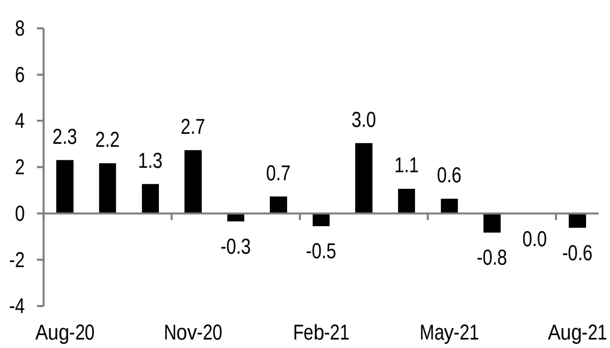
Source: INEGI

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

	% m/m			% 3m/3m	
	Aug-21	Jul-21	Jun-21	Jun-Aug**'21**	May-Jul**'21**
Total	-0.6	0.0	-0.8	-0.3	1.8
Domestic	-0.1	0.2	-0.6	0.1	1.7
Goods	-0.3	1.7	-2.0	-1.3	-0.8
Services	-0.4	-0.6	0.3	1.0	3.2
Imported goods	-6.8	-2.2	-1.3	-2.1	4.5

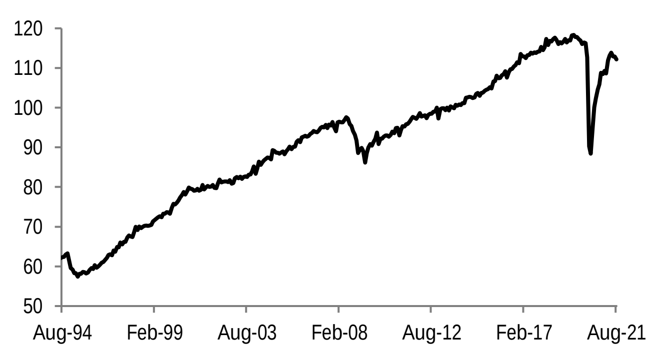
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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