Signals of domestic demand resilience in October

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- **Gross fixed investment (October): 6.5% y/y (nsa); Banorte: 4.8%; consensus: 6.8% (range: 4.8% to 11.4%); previous: 9.9%**
- **Private consumption (October): 5.7 y/y (nsa); previous: 8.0%**
- **Investment was unchanged (0.0%), in the monthly comparison. This was driven by a further decline in construction (-0.6%) –especially non-residential–, compensated by a 2.8% pickup in machinery and equipment. Within the latter, there was a strong rebound in the domestic component**
- **Consumption had its fourth consecutive month higher at 0.2%, in our view supported by better virus conditions. Most categories showed modest changes, except for imported goods (+1.4%)**
- **After weakness in 3Q21 –especially in consumption–, we expect domestic demand to have regained some dynamism in the last quarter of the year, contributing to a recovery in activity. Nevertheless, and after this, risks associated to the virus remain elevated**

GFI unchanged in October. Investment came in at 6.5% y/y (see Chart 1), below our 4.8% estimate but closer to consensus (6.8%). Annual figures remain high relative to other categories, although mainly because of lingering weakness in 2020. Within, this is clearly seen in machinery and equipment (+10.3%), with construction lower (+3.5%), as seen in (Chart 2).

Sequentially (using seasonally adjusted figures), investment was flat at 0.0% m/m (Chart 3). This was stronger than our call, which factored-in ample signals of weakness. Therefore, it suggests some resiliency, albeit still with a long path ahead. In this respect, investment is 16.6% below its historical high in September 2015 and 3.7% lower than in February 2020 (Chart 4). By sectors, construction backtracked 0.6%. Inside, weakness was centered in the non-residential sector, down 1.0%. On the other hand, the residential sector was more stable, at 0.0%. This contrasts with the performance of 'edification' and 'civil engineering' in the industrial production report, which pointed to results in the opposite direction. Nevertheless, it was similar to the trend observed in spending by the Federal Government on infrastructure, which decelerated in annual terms. On the other hand, machinery and equipment rebounded strongly, at 2.8%. Positively, both sectors were higher, with domestic leading gains at +4.4% and imports more modest, at 0.5% (Table 2). An important highlight is the desynchronization in transportation, with the former rebounding (+4.5%) but the latter contracting significantly (-10.8%). This is relevant as supply chain issues keep impacting global dynamics. Nevertheless, we do not rule out an additional effect from higher exchange rate volatility. On the other hand, 'others' were more consistent as they exhibited 2.8% growth in both components.

Consumption decelerates but maintains a positive trend. The figure came in at 5.7% y/y (Chart 5). All categories remain affected by the distortions seen in 2020, still very high in imported goods (+19.4%) and to a lesser extent in local services (+8.8%), while domestic goods were more modest (-0.3%), as seen in (Chart 6). Differences between durable and non-durable goods seemed to have narrowed down –both in domestic and imported goods– (Table 3), although it may still be too early to tell given high volatility in this data.

With seasonally adjusted figures, consumption advanced 0.2% m/m (Chart 7), adding four months of modest increases. after stagnating in August. We note that historical data was revised again, with an upward bias. At the margin, it is our take that performance was benefitted by better virus conditions with both cases and the 'traffic light' indicator supporting additional mobility gains. Moreover, fundamentals improved, highlighting a better performance both in employment (with close to 1.3 million new jobs) and remittances (reaching a new historical high). Nevertheless, inflationary pressures extended throughout the period, which coupled with generalized weakness in activity, could have affected dynamism. Inside, domestic components were quite stable (+0.1%), with goods up 0.1% and services unchanged. On the contrary, imported goods rebounded sizably, at +1.4% (Table 4). With these results, consumption is 3.4% below its historical high (July 2019) and 3.0% lower than in February 2020 (Chart 8).

Favorable signals for domestic demand the rest of the year, but with prevailing risks. Today's results were relatively strong taking into account a more adverse outlook at the margin for activity. Considering the environment that prevailed during the last months of the previous year, we believe domestic demand could present a good performance in 4Q21. Specifically, epidemiological conditions kept improving during November and stabilized in December. This led to additional increases in mobility, although less so than in previous months. Broadly speaking, we saw INEGI's *Timely Indicator of Economic Activity* suggests a recovery in November after declining in October, which is positive at the margin. This is consistent with higher employment, while remittances maintained good dynamism. More precisely, the trade balance showed an important rebound in capital goods imports (+4.1% m/m), with consumption moderating (+1.9%). Nevertheless, we reiterate the need to be cautious because of strong inflationary pressures worldwide. For December, available data signal some strength, mainly in IMEF indicators.

Despite of this, lingering risks abound, especially those related to the pandemic. Specifically, the number of daily cases has exploded globally, a situation already seen in our country as new daily cases reached a new historical high on Saturday (30.7 thousand infections). Although it seems that the impact in hospitalization and deaths will be more modest, we believe activity could be affected again. Specifically, people will have to quarantine themselves again, which could limit productivity levels. One example comes from airlines, with some of them canceling flights because of scarce labor. If this trend is seen more broadly, the economy may well contract in the first months of the year.

On a more structural front, opportunities and challenges for investment and consumption are different in nature. In the former, signals from the public sector seem better after years lagging. This would be mainly driven by higher infrastructure spending in the Spending Budget, concentrated in the administration's priority projects. Also positive, President López Obrador announced that a new investment package with the private sector will be unveiled –which would be the third in this administration–, although we do not have much information yet about the amount or number of projects. It will also be important to see if an update is provided on previous works. Nevertheless, an important challenge for both sectors is still the outlook for prices. Specifically, the *Mexican Construction Industry Chamber* has reported additional cost increases in the first weeks of the year which come on top of substantial pressures in 2021. Lastly, we recognize that the sector is also facing some idiosyncratic obstacles.

Going to consumption, its main driver will be the recovery in employment, which continues hand-in-hand with activity gains. On remittances, we think the outlook remains positive. Nevertheless, we are still waiting for the approval of Biden's spending package, which could provide further support due to higher social benefits and potential effect on employment levels. We will also keep an eye on consumer credit trends, which could be key for a reactivation of this component of aggregate demand in case of an acceleration.

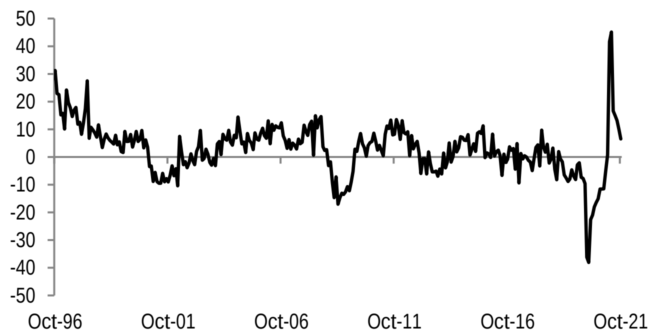
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Oct-21	Oct-20	Jan-Oct'**21**	Jan-Oct'**20**	Oct-21	Oct-20
Total	6.5	-15.1	10.7	-19.1	7.6	-13.9
Construction	3.5	-12.0	6.3	-18.0	3.7	-11.6
Residential	-0.6	-6.9	9.1	-17.6	-0.3	-6.2
Non-residential	7.9	-17.0	3.4	-18.4	8.0	-16.9
Machinery and equipment	10.3	-18.7	16.9	-20.5	14.3	-16.4
Domestic	3.1	-14.8	15.0	-21.6	6.8	-13.4
Transportation Equipment	-1.4	-18.3	11.9	-26.6	3.5	-16.2
Other machinery and equipment	8.7	-10.1	19.2	-13.5	10.6	-10.6
Imported	15.5	-21.3	18.2	-19.8	18.9	-18.1
Transportation Equipment	-6.1	-27.3	13.9	-35.8	-5.5	-26.6
Other machinery and equipment	18.7	-20.3	18.8	-17.0	22.7	-17.0

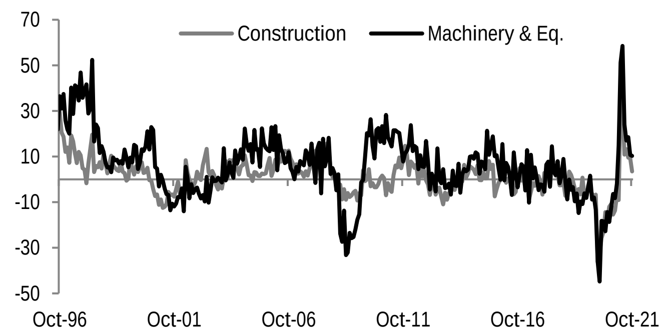
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



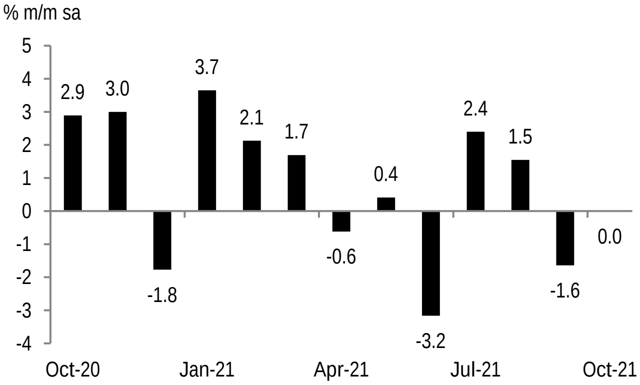
Source: INEGI

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

	% m/m			% 3m/3m	
	Oct-21	Sep-21	Aug-21	Aug-Oct'**21**	Jul-Sep'**21**
Total	0.0	-1.6	1.5	0.9	0.8
Construction	-0.6	-1.8	4.0	3.1	2.5
Residential	0.0	-4.5	5.8	2.8	2.6
Non-residential	-1.0	0.4	2.4	3.0	2.2
Machinery and equipment	2.8	-1.8	-2.6	-1.9	-1.0
Domestic	4.4	-3.2	-1.2	-2.4	-3.1
Transportation Equipment	4.5	-7.9	4.6	-2.4	-2.5
Other machinery and equipment	2.7	7.4	-9.1	-3.2	-5.4
Imported	0.5	-0.1	-2.9	-0.4	1.7
Transportation Equipment	-10.8	-3.7	5.5	-5.5	-4.2
Other machinery and equipment	2.7	0.3	-5.2	0.6	3.3

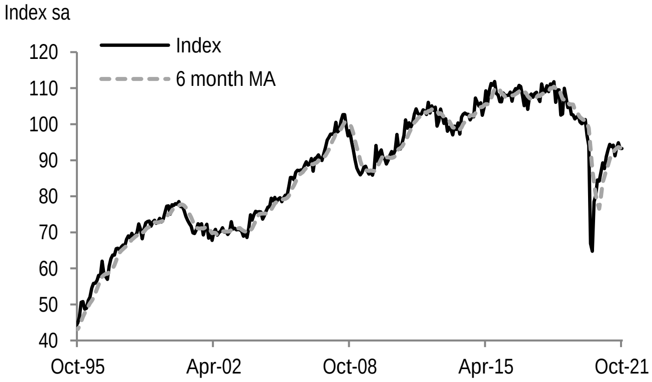
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

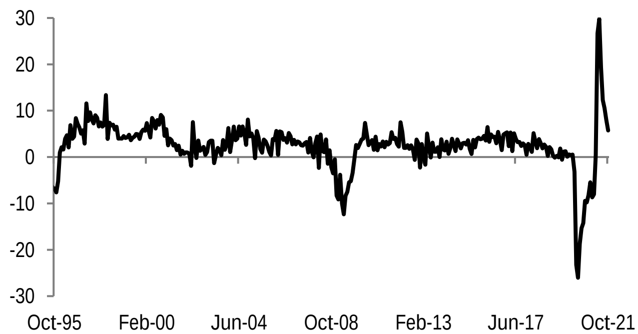
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Oct-21	Oct-20	Jan-Oct'**21**	Jan-Oct20	Oct-21	Oct-20
Total	5.7	-9.8	8.4	-11.9	6.8	-9.2
Domestic	4.0	-8.3	6.5	-11.5	4.9	-8.0
Goods	-0.3	-2.5	7.4	-8.8	1.3	-1.8
Durables	1.9	-8.6	17.5	-15.4	--	--
Semi-durables	-7.9	-1.8	24.7	-26.9	--	--
Non-durables	0.9	-1.8	3.7	-4.4	--	--
Services	8.8	-14.0	5.6	-13.9	8.7	-14.2
Imported goods	19.4	-19.5	25.1	-16.0	23.3	-16.3
Durables	19.4	-30.4	36.7	-29.3	--	--
Semi-durables	25.6	-12.2	17.4	-11.0	--	--
Non-durables	15.9	-12.0	21.4	-6.7	--	--

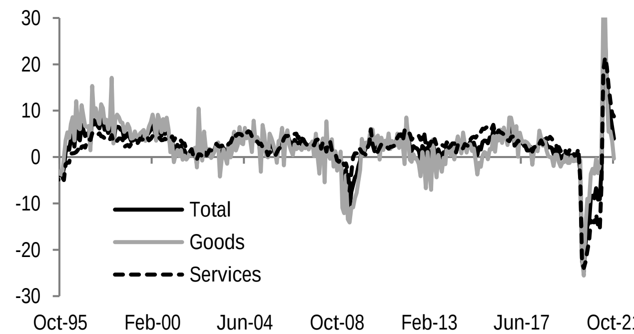
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



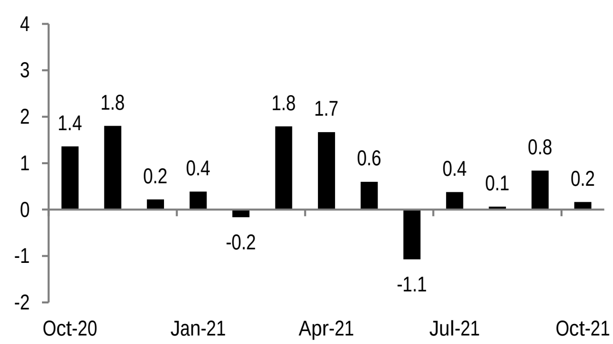
Source: INEGI

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

	% m/m			% 3m/3m	
	Oct-21	Sep-21	Aug-21	Aug-Oct'**21**	Jul-Sep'**21**
Total	0.2	0.8	0.1	0.6	0.2
Domestic	0.1	0.9	0.2	0.8	0.2
Goods	0.1	0.4	0.0	0.3	-0.8
Services	0.0	0.8	0.0	0.7	0.8
Imported goods	1.4	-0.1	-3.5	-2.9	0.5

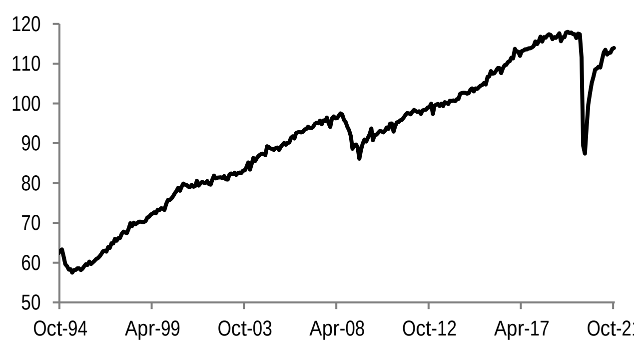
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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