Domestic demand – Mixed results in November, with consumption outperforming

- **Gross fixed investment (November): 5.9% y/y (nsa); Banorte: 7.8%; consensus: 5.7% (range: 3.0% to 7.8%); previous: 6.5%**
- **Private consumption (November): 7.5 y/y (nsa); previous: 5.8%**
- **Investment fell 0.1% m/m, stringing three months lower. Construction remained weak (-0.7%), dragged by the residential sector. Nevertheless, machinery and equipment were better (0.2%) driven by imports (2.6%)**
- **Consumption improved for a fifth month in a row (0.7%), supported by better virus conditions and the strengthening in fundamentals. All components improved, highlighting imported goods (1.2%)**
- **Domestic demand conditions have worsened at the margin, with some headwinds from lower growth expectations, higher inflation and interest rate hikes, among others**

GFI declines in November. Investment came in at 5.9% y/y (see Chart 1), slightly higher than consensus (5.7%), but below our 7.8%. The annual rate was benefited by an additional working day in the annual comparison and a still benign base effect. Specifically, machinery and equipment stood at 12.0% and construction at 1.1%, as shown in Chart 2.

Sequentially (using seasonally adjusted figures), investment fell 0.1% m/m (Chart 3), adding a third consecutive month lower and with a 1.8% accumulated decline in the period. Moreover, it has been sluggish since about March, when the post-pandemic recovery seems to have halted. Hence, investment is 16.7% below its historical high in September 2015 and 3.8% lower than in February 2020 (Chart 4). By sectors, machinery and equipment (0.2%) was better (Table 2). This was driven by imports (2.6%), as already signaled by purchases of capital goods within the trade balance. This also happened despite high inflation –that distorts figures in nominal terms– as well as a modest average depreciation of the exchange rate, albeit weakening significantly during the second half of the period. The domestic sector backtracked to -5.9%, likely reflecting an adjustment from base-effects given strong growth in October. Nevertheless, the overall trend has been weak most of the year. Construction fell 0.7%, with three consecutive months in contraction. The residential sector dipped 0.7%, consistent with the decline in edification in the industrial production report. In this sense, reports have abounded about complications due to the steep increase in raw material prices, affecting the profitability of ongoing and planned projects, among other factors. In contrast, non-residential grew 1.0%. We highlight that the government has been calling for an acceleration in key infrastructure projects, which we think may be helping this category.

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Consumption keeps strengthening. The figure came in at 7.5% y/y (Chart 5), with imported goods still quite high (18.0%) on base effects, while domestic goods and services (6.1%) were more stable. Within the latter, services reached 8.9%, in our view helped by epidemiological conditions. Further details are presented in Table 3.

With seasonally adjusted figures, consumption grew 0.7% m/m adding five month of improvement (Chart 7) and with a accumulated increase of 2.3% in this period. It is our take that performance was benefitted by several factors, including: (1) Better virus conditions, with cases still decreasing; (2) stronger fundamentals, with additional gains on employment and with remittances maintaining a good pace despite negative seasonality and (3) an additional impulse by the seasonal sales of *El Buen Fin* (Mexico's Black Friday). Nevertheless, prices pressures continued to rise, with widespread increases that probably undermined purchasing power of consumers. Inside, domestic categories were quite stable (+0.2%), with goods up 0.2% and the services more dynamic at 0.7%. On the other hand, imported goods kept up a very good pace of progress at +1.2% (Table 4). With these results, consumption is 2.6% below its historical high (July 2019) and -2.2% vs February 2020 (Chart 8).

Headwinds for domestic demand rising again, especially for investment. In our view, today's results were mixed and still somewhat weak considering a better evolution of the pandemic –in terms of daily cases and deaths– since September and throughout the end of the year. This was also reflected in other indicators such as mobility, consumer and business confidence. Nevertheless, this improvement was not reflected in real economic activity, as seen in the 0.1% q/q contraction in 4Q21 –even with stronger signals for December–. Looking into 2022, the backdrop has worsened both globally and locally, with daily cases in our country shooting up since the start of the year as new highs were registered in several days. The indicators mentioned above have also weakened and economic activity took a hit, at least according to IMEF's PMI indicators.

In our view, investment prospects remain much more affected. Limitations for an acceleration include lower 2022 GDP expectations, high input costs –including raw materials and energy, reducing project profitability– and prospects of higher interest rates as central banks act to contain inflation. Despite of the latter, some pockets of strength remain. According to real-estate broker CBRE, construction of industrial parks should remain vigorous, especially in logistics and light manufacturing in states such as Guanajuato and Queretaro. Moreover, demand would stay strong as supply chain problems are still there and maritime transportation costs remain elevated. In the public sector, the government is still working at an accelerated pace to complete key priority projects, although its overall impact on this component of aggregate demand should be modest. In turn, the government's ability to boost investment further remains constrained.

In consumption, fundamentals have been mixed lately. In our view, price pressures are still the most important obstacle, with core goods and services increasing further in the first half of January. Although employment kept recovering in December, it looks poised to reverse gains in January –in seasonally adjusted terms– as economic weakness extended to the period and permits for temporary leave surged because of the increase in Omicron cases. On the other hand, remittances stayed resilient at the end of 2021, but US labor market data signal worse employment conditions. We continue seeing strength in inflows, although we now expect more modest growth in the year. Lastly, credit has been improving gradually, expecting this trend to continue in coming months.

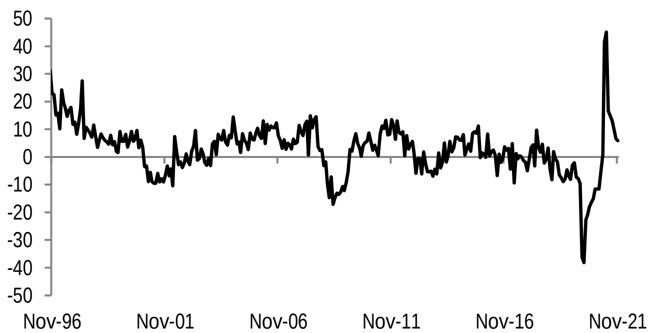
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Nov-21	Nov-20	Jan-Nov’**21**	Jan-Nov’**20**	Nov-21	Nov-20
Total	5.9	-11.6	10.3	-18.4	4.3	-10.8
Construction	1.1	-10.8	5.8	-17.3	1.4	-10.7
Residential	-7.0	-3.2	7.5	-16.3	-7.2	-3.7
Non-residential	11.2	-18.8	4.1	-18.4	12.0	-17.8
Machinery and equipment	12.0	-12.5	16.4	-19.8	7.3	-11.6
Domestic	-2.4	-16.6	13.3	-21.1	-4.5	-15.1
Transportation Equipment	-8.4	-25.6	10.2	-26.6	-9.6	-22.4
Other machinery and equipment	2.8	-6.7	17.2	-12.7	1.4	-6.2
Imported	21.4	-9.6	18.5	-18.9	14.4	-9.4
Transportation Equipment	17.6	-26.2	14.3	-34.9	15.7	-27.9
Other machinery and equipment	22.0	-6.5	19.1	-16.1	14.2	-5.6

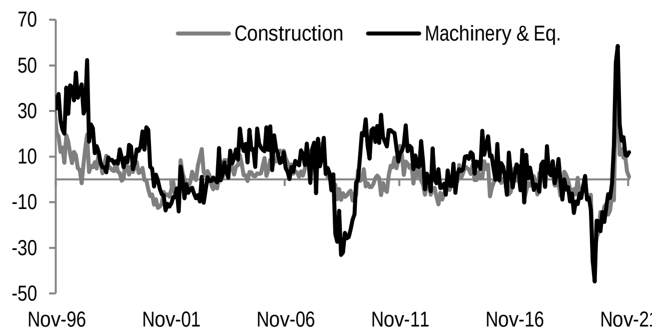
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



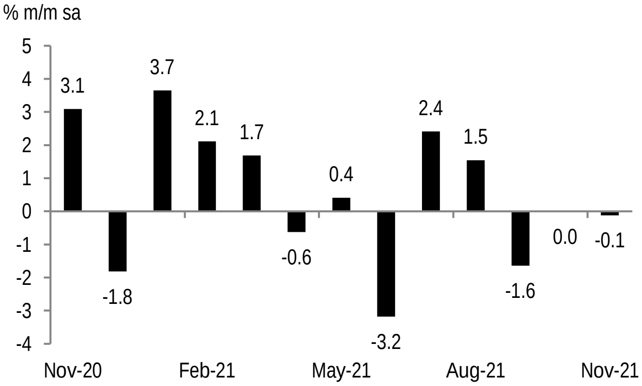
Source: INEGI

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

	% m/m			% 3m/3m	
	Nov-21	Oct-21	Sep-21	Sep-Nov‘**21**	Aug-Oct‘**21**
Total	-0.1	0.0	-1.6	0.4	3.8
Construction	-0.7	-0.4	-3.2	2.5	13.9
Residential	-0.7	0.4	-5.9	-5.2	8.9
Non-residential	1.0	-0.7	0.4	10.8	13.1
Machinery and equipment	0.2	2.8	-1.6	-2.8	-4.9
Domestic	-5.9	4.6	-2.9	-11.5	-10.5
Transportation Equipment	-8.8	2.0	-7.7	-27.3	-14.0
Other machinery and equipment	-5.7	3.6	7.0	3.8	-12.9
Imported	2.6	0.8	0.4	3.5	0.9
Transportation Equipment	21.1	-12.5	-3.3	-17.9	-20.2
Other machinery and equipment	1.0	3.0	0.4	5.0	2.0

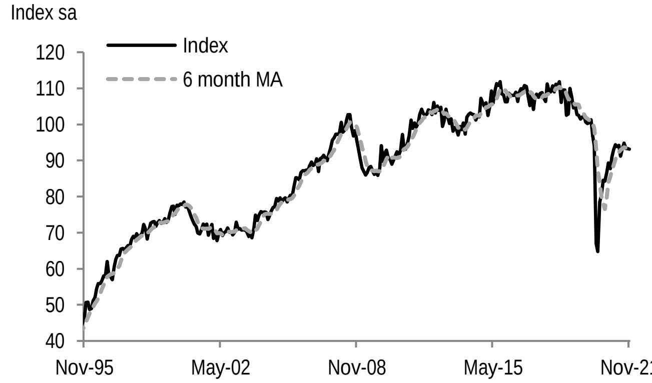
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

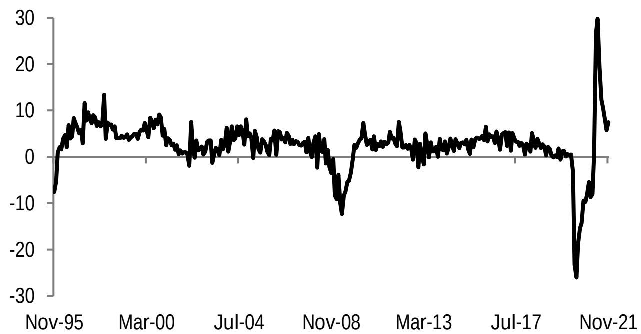
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Nov-21	Nov-20	Jan-Nov’**21**	Jan-**Nov’**20	Nov-21	Nov-20
Total	7.5	-8.2	8.3	-11.6	6.1	-7.6
Domestic	6.1	-8.9	6.5	-11.2	5.0	-8.3
Goods	3.5	-3.6	7.0	-8.3	1.6	-2.3
Durables	-4.1	-20.3	15.3	-15.9	--	--
Semi-durables	-5.3	-5.0	21.2	-24.9	--	--
Non-durables	6.1	-0.8	3.9	-4.1	--	--
Services	8.9	-14.1	5.9	-13.9	8.8	8.9
Imported goods	18.0	-2.0	24.4	-14.6	11.6	23.4
Durables	18.5	-7.7	34.3	-27.1	--	--
Semi-durables	34.2	3.6	19.1	-9.8	--	--
Non-durables	9.3	0.8	20.1	-6.0	--	--

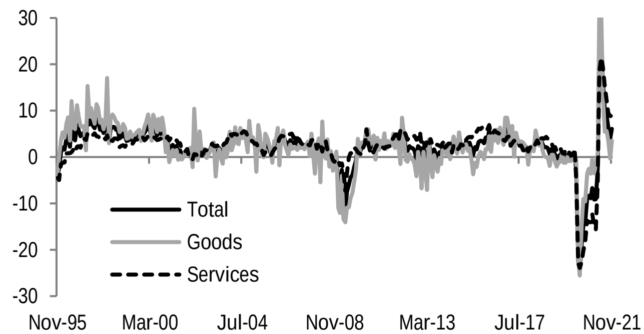
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



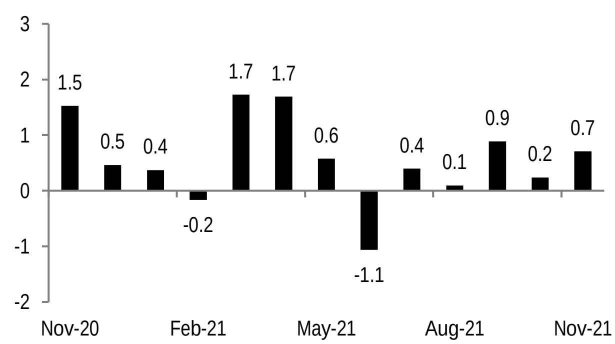
Source: INEGI

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

	% m/m			% 3m/3m	
	Nov-21	Oct-21	Sep-21	Sep-Nov‘**21**	Aug-Oct‘**21**
Total	0.7	0.2	0.9	1.5	0.7
Domestic	0.2	0.2	0.9	1.4	0.9
Goods	0.2	0.2	0.4	1.0	0.4
Services	0.7	0.1	0.8	1.2	0.8
Imported goods	1.2	1.5	-0.1	-0.7	-2.8

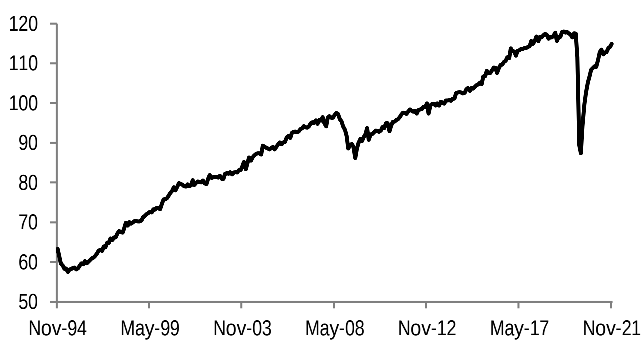
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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