

Domestic demand – Higher dynamism due to an economic acceleration in December

- **Gross fixed investment (December): 7.6% y/y (nsa); Banorte: 5.4%; consensus: 5.5% (range: 2.7% to 7.0%); previous: 5.9%**
- **Private consumption (December): 7.7 y/y (nsa); previous: 7.4%**
- **For the full-year, investment and consumption grew 10.0% and 8.2%, respectively. Both fell short of the 17.8% and 11.1% contractions seen in 2020, affected by the pandemic**
- **Investment climbed 1.2% m/m, accelerating at the margin. Construction was unchanged (0.0%), dragged by non-residential (-1.8%), but with residential compensating. ‘Machinery and equipment’ was better (2.2%), boosted by the domestic component (3.6%)**
- **Consumption grew 1.5%, stringing its sixth month higher. The move was led by imported goods, which increased 2.2%. Services were up 1.4%, as the rise in Omicron cases was seen more clearly until January**
- **Domestic demand remains dampened and has likely extended its weakness to the first months of 2022, affected by a more difficult global and local backdrop**

GFI improved in December. Investment came in at 7.6% y/y (see [Chart 1](#)), higher than consensus and our 5.4%. By sectors, machinery and equipment accelerated to 12.3% –despite a more challenging base effect– while construction reached 3.7% (see [Chart 2](#)). Given these results, investment in full-year 2021 grew 10.0%, not enough to make up for the 17.8% contraction seen in 2020, as shown in [Table 1](#).

Sequentially (using seasonally adjusted figures), it rose 1.2% m/m ([Chart 3](#)). This is its third consecutive increase, highlighting strong revisions to the series considering that losses had been reported since August. As a result, it is 15.5% below its historical high in September 2015 and 2.3% lower than in February 2020 ([Chart 4](#)). By sectors, construction remains the laggard, unchanged at 0.0% ([Table 2](#)). At first sight, this is contrary to the [0.8% increase in industrial production](#). Nevertheless, the latter was driven by related services, not accounted by GFI. On the other hand, the non-residential sector –more closely related to infrastructure spending– was the weakest (-1.8%), in line with said report. Nonetheless, residential managed to remain stable (0.0%). In our view, higher raw materials costs keep affecting project development and even as [the sector added jobs in the period](#). ‘Machinery and equipment’ (2.2%) was better once again. Imports (2.0%) maintained strong dynamics, in our view helped at the margin by MXN stability, as well as still muted concerns and trade disruptions because of Omicron. In turn, the domestic sector rebounded 3.6%. Nevertheless, this was seen only after plunging 5.9% in November. Considering this, the sequential advance was low, with its nascent recovery from the pandemic shock stalled since early 2021.

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Consumption keeps strengthening. The figure came in at 7.7% y/y ([Chart 5](#)), with imported goods still high (13.7%) on base effects, while domestic goods and services (7.0%) were more stable. Positively, and consistent with stability in epidemiological conditions, services reached 9.8%. For further details see [Table 3](#). With this, consumption accumulated an 8.2% increase in the year. Although positive, it was not enough to compensate for the 11.1% contraction in 2020.

With seasonally adjusted figures, consumption grew 1.5% m/m adding six months stronger ([Chart 7](#)) and with an accumulated increase of 3.8% in this period. We believe this reflects progress on several fronts, including: (1) Stable virus conditions, with mobility improving; (2) still strong fundamentals, with remittances accelerating and employment improving at the margin; and (3) some boost from holiday purchases, even despite a negative skew due to *El Buen Fin* (Mexico's Black Friday) in the previous month. Price pressures moderated, with declines in the non-core, but persistence to the upside at the core which probably had a negative impact on the indicator. Inside, domestic categories accelerated (+1.5%), with goods up 1.7% and the services at 1.4% –albeit skewed by a less favorable base–. On the other hand, imported goods kept up a very good pace at +2.2% ([Table 4](#)). With these results, consumption is 1.1% below its historical high (July 2019) and just -0.4% vs February 2020 ([Chart 8](#)).

Domestic demand likely remains muted despite December's rebound. As mentioned in previous reports, the outlook for domestic demand remains difficult, especially for investment. Specifically, the beginning of 2022 likely saw another leg down in activity, with the surge in Omicron cases affecting dynamism. This has already been flagged by [employment](#) and [trade](#) in January as well as other soft indicators, such as business confidence and [IMEF PMIs](#).

For investment, we remain especially concerned about construction. The president of the *Mexican Construction Chamber* (CMIC, by its acronym in Spanish), Francisco Solares, said they expect the sector to grow between 3% to 5% this year, helped by higher Federal spending in infrastructure. Although positive, it would not be enough to make up for the accumulated losses since the pandemic started. Among the problems, they identify a high concentration of projects which fails to benefit small- and medium-sized companies, along the low participation of the private sector in the government's priority projects. Moreover, they estimated that at least 2,500 companies have shifted away from the sector since 2018. This has been because of the impact from the pandemic, among other factors. The latter limits potential growth, to which we should add lower GDP expectations. Although some attractive opportunities remain for the private sector in industrial parks, logistics and light manufacturing, inflation in raw materials, the increase in transportation costs and higher interest rates also act as important headwinds. We are still waiting for the third package of public-private investments to be unveiled by the Federal Government. According to the Minister of Finance, it will include about 40 new projects in areas such as roads, energy, telecom and ports.

In consumption, we are still concerned about inflation, especially as core goods and services remain highly pressured. As of the [1st half of February](#), these had increased 8.2% and 4.6% y/y, respectively. Apart from this, we should consider the recent rise in crude-oil prices (which will translate into gasoline) and other commodities due to Russia's invasion of Ukraine. This will keep pressuring companies' costs, at least in the short term, while we cannot rule out additional supply chain problems because of further delays in trade. Other issues include weaker employment, as mentioned above, and a second consecutive monthly drop in consumer confidence in January. More positively, indicators such as [remittances](#), [consumer loans](#) and mobility show more resiliency. Hence, we expect the recovery in consumption to continue, although gradually and with risks also rising in the last few weeks.

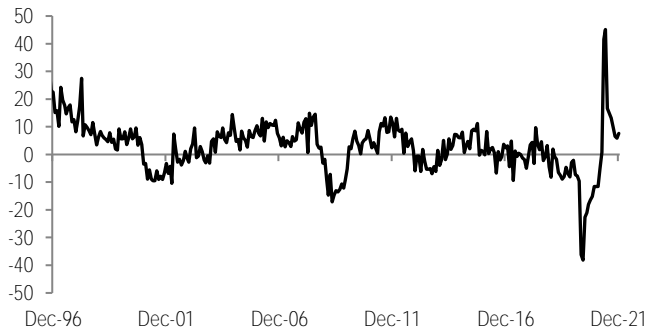
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Dec-21	Dec-20	2021	2020	Dec-21	Dec-20
Total	7.6	-11.6	10.0	-17.8	8.1	-12.8
Construction	3.7	-15.5	5.6	-17.2	4.2	-14.9
Residential	-1.3	-10.1	6.7	-15.8	-1.2	-10.3
Non-residential	9.8	-21.1	4.5	-18.6	11.4	-19.3
Machinery and equipment	12.3	-6.4	16.0	-18.7	13.1	-9.9
Domestic	1.3	-9.3	12.1	-20.1	1.9	-12.5
Transportation Equipment	-6.0	-15.8	8.8	-25.8	-5.2	-19.1
Other machinery and equipment	8.8	-1.4	16.4	-11.7	7.3	-4.2
Imported	19.1	-4.5	18.6	-17.7	19.5	-7.9
Transportation Equipment	20.9	-31.9	14.8	-34.7	21.0	-32.5
Other machinery and equipment	18.9	0.1	19.1	-14.7	19.1	-4.3

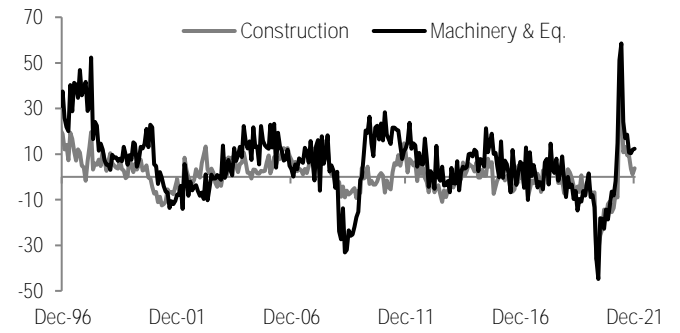
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



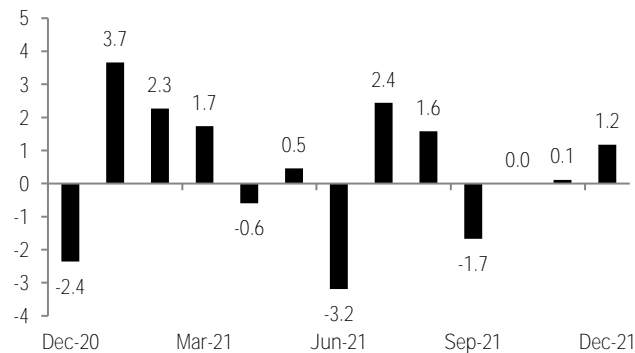
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Table 2: Gross fixed investment
% m/m sa: % 3m/3m sa

	% m/m			% 3m/3m	
	Dec-21	Nov-21	Oct-21	Oct-Dec*21	Sep-Nov*21
Total	1.2	0.1	0.0	-0.5	0.8
Construction	0.0	-0.8	-0.5	-4.4	3.5
Residential	0.0	-0.7	0.4	-7.9	-5.6
Non-residential	-1.8	1.0	-1.1	-0.3	9.0
Machinery and equipment	2.2	0.7	3.4	10.1	-2.2
Domestic	3.6	-5.9	4.2	-4.6	-12.3
Transportation Equipment	3.6	-9.4	3.1	-22.3	-25.7
Other machinery and equipment	4.4	-4.7	3.2	11.4	5.0
Imported	2.0	3.8	1.0	15.4	6.7
Transportation Equipment	1.2	21.7	-12.8	-0.7	-17.2
Other machinery and equipment	2.0	2.2	3.3	16.7	8.5

Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

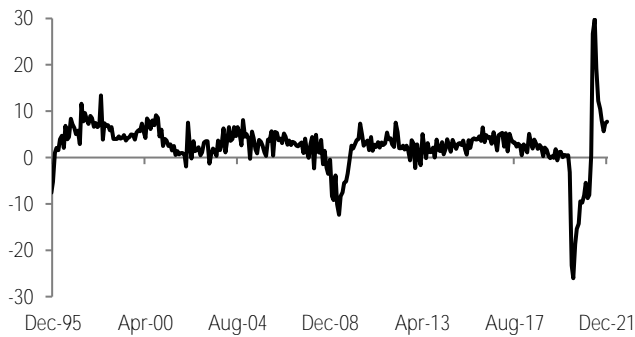
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Dec-21	Dec-20	2021	2020	Dec-21	Dec-20
Total	7.7	-5.5	8.2	-11.1	7.4	-6.7
Domestic	7.0	-6.7	6.5	-10.8	6.7	-7.7
Goods	4.2	-0.5	6.7	-7.7	4.0	-2.1
Durables	-7.4	-1.2	13.0	-14.6	--	--
Semi-durables	7.2	0.1	19.9	-23.2	--	--
Non-durables	5.3	-0.4	4.0	-3.8	--	--
Services	9.8	-12.4	6.2	-13.8	9.6	-12.6
Imported goods	13.7	5.3	23.3	-13.0	13.4	0.9
Durables	22.7	3.0	33.0	-24.6	--	--
Semi-durables	23.3	8.4	19.4	-8.4	--	--
Non-durables	1.2	5.9	18.3	-5.0	--	--

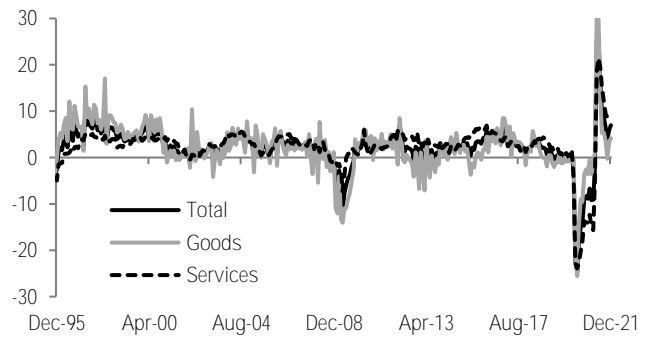
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



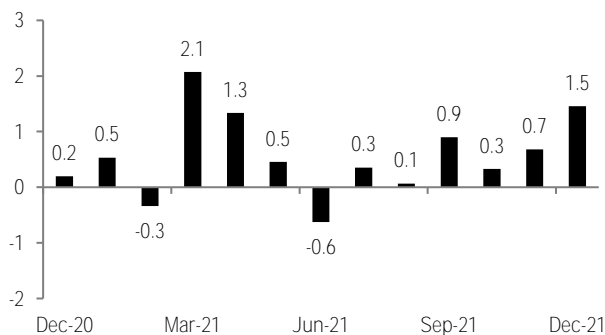
Source: INEGI

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

	% m/m			% 3m/3m	
	Dec-21	Nov-21	Oct-21	Oct-Dec'21	Sep-Nov'21
Total	1.5	0.7	0.3	1.9	1.5
Domestic	1.5	0.2	0.4	1.8	1.6
Goods	1.7	0.1	0.3	1.3	1.1
Services	1.4	0.9	0.2	1.9	1.4
Imported goods	2.2	1.3	2.0	2.4	-0.2

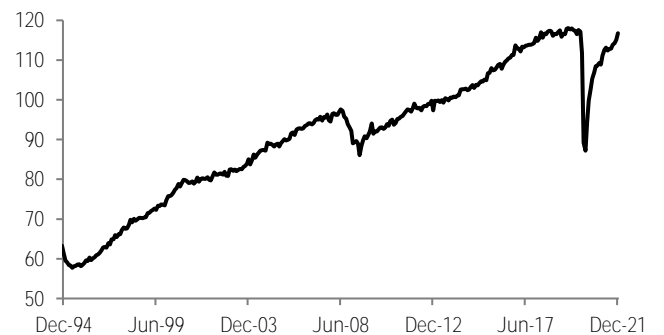
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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