

Domestic demand – Further progress in investment and consumption in April

- **Gross fixed investment (Apr): 7.0% y/y (nsa); Banorte: 5.0%; consensus: 7.2% (range: 0.9% to 8.7%); previous: 6.1%**
- **Private consumption (Apr): 7.6% y/y (nsa); previous: 8.7%**
- **Investment rose 1.9% m/m, adding two months with gains. Machinery and equipment was positive at 4.1%, driven by imports (5.3%). Construction grew 0.7%, mainly on the back of the 1.4% increase in the residential sector**
- **Consumption stringed a tenth month of gains, climbing 0.8%, Inside, we highlight imported goods (+1.5%). In domestic categories, services kept their dynamism at +1.4%, with eight months improving**
- **We believe domestic demand will keep advancing through 2Q22, although likely with a more modest growth rate. Moreover, we anticipate increasing challenges in the second half of the year, while others could materialize**

Investment extends gains in April. Investment came in at 7.0% y/y (see [Chart 1](#)), close to consensus (7.2%), and higher than our 5.0%. Using seasonally adjusted figures it was at 8.4% y/y, with one less working day due to the *Easter* holiday. By sectors, and back to original data, machinery and equipment rose 11.7% –with imports as the main driver (17.3%)–, while construction increased 3.3% –driven by the non-residential component (3.9%)– ([Chart 2](#)). Details can be seen in [Table 1](#).

Sequentially (using seasonally adjusted figures), investment continued to grow, up 1.9% m/m. This is very positive considering the +3.4% of the previous month. Figures so far in the year –except for February– suggest that investment has consolidated its recovery trend ([Chart 3](#)). Nevertheless, considering that it came from such a low starting point, even before the pandemic, additional progress is needed. As such, the sector stood 2.8% above February 2020 –used as a pre-pandemic metric–, but 10.6% below its historical high in September 2015 ([Chart 4](#)). Inside, both items gained. The best was machinery and equipment, increasing 4.1%. The imported component (+5.3%) once again led dynamism, a situation that has prevailed through the year. Figures were relatively line with capital goods imports in the trade balance (+6.9%), although more modest considering that the latter are measured in nominal terms. Strength centered in transportation (10.4%), but with ‘others’ also positive (4.9%). The domestic component climbed 3.4%, consistent with positive results within [industrial production](#). Both categories were higher, with transportation at +4.8% and ‘others’ at 2.8%.

Construction climbed 0.7%, positive considering the +5.7% in March ([Table 2](#)). Similar to machinery and equipment, this is consistent with industrial production, although likely boosted by the acceleration in ‘services related to mining’ which in said report includes the oil rig construction.

July 6, 2022

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Executive Director of Economic Research
and Financial Markets Strategy
juan.alderete.macal@banorte.com

Francisco Flores
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Yazmín Pérez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*



Document for distribution among the general public

Looking at the breakdown, the expansion centered in the residential sector (+1.4%), adding a second month up despite a more challenging backdrop in terms of prices. Meanwhile, non-residential was flat (0.0%), not ruling out lower dynamism after the inauguration of the *Felipe Ángeles Airport* in the previous month.

Private consumption maintains its positive trend, slightly accelerating. In annual terms, growth was 7.6% y/y, implying a second consecutive moderation ([Chart 5](#)). Seasonally adjusted, the growth rate stood at 8.0% y/y. Using original figures, we highlight the +19.7% in imported goods. Within the domestic component, services continue to show strength (+11.4%), likely reflecting a lower impact of contagions on mobility and activity, especially considering progress on vaccinations. Finally, goods (0.9%) remain positive. For more details, see [Table 3](#).

Sequentially, consumption increased 0.8% m/m ([Chart 7](#)), achieving a ten-month cycle of gains (from July 2021) something not seen since 1994 (from February to November). We believe this is explained by dynamism in its fundamentals. We highlight [employment](#) –which, reached a record in April in the total number of employees– and [remittances](#) –in a context of a new maximum of Mexican migrants employed in the US. Additionally, we see a couple of positive factors, including a low level of contagious and remnants of extra income in households that receive social programs (due to advanced payments during February-March). However, inflationary pressures likely limited additional growth. Inside, all categories improved, with imported goods (1.5%) leading. Meanwhile domestic services were also strong at +1.4%, with goods more modest at +0.2% ([Table 4](#)). With these results, consumption marked a new historical high for a fourth month in a row ([Chart 8](#)).

Domestic demand will keep advancing in 2Q22, but at a slower pace. We believe that economic uncertainty during the second quarter will be reflected in domestic demand. Timely data indicates some moderation since May, although the effect could be clearer towards the end of the period. According to [INEGI's Timely Indicator of Economic Activity](#), services and industry would moderate. Meanwhile, employment fell in May (although not ruling out a one single period fall, especially after June's IMSS figures). Finally, capital goods imports in [May's trade balance](#) dropped for the first time after eight months of positive rates. With June data, sentiment indicators showed a similar path. [IMEF's indicators](#) closed 2Q22 with a decline for a second month in a row, highlighting manufacturing, which ended in contraction. Likewise, in the US manufacturing ISM fell in the same period. Lastly, consumer confidence in both Mexico and the US deteriorated, likely driven by inflation in both countries.

On a positive note, other data suggests room for domestic activity to continue expanding at a modest pace in 2Q22. Regarding private consumption, [remittances remained strong in May](#) –expecting this to continue in June. In addition, sales from ANTAD affiliated stores, vehicles reported by AMIA and consumer credit, also posted gains. On investment, they include: (1) Lower commodity prices (*e.g.* energy and metals –copper, tin, palladium, etc.); (2) relaxation of Chinese lockdowns; and (3) prevailing company interest to operate in our country.

In the second half of the year, the outlook will be challenging. This is due to an extension of some of the risks and the possibility that new ones could materialize. Among the former: (1) [Inflationary pressures will continue the rest of the year](#) – with the peak of the cycle in 3Q22 and a 8.1% y/y year-end rate; (2) China's zero-contagion policy could pressure international trade again; and (3) the war in Ukraine and sanctions against Russia could drive up the prices of some commodities, such as energy, fertilizers, and grains. On the latter, concerns have risen about: (1) A US economic slowdown, implying lower employment and consumption; (2) a possible energy crisis in Europe; and (3) [a more restrictive monetary policy](#) by Banxico, in line with other central banks.

Despite this scenario, domestic demand would end the year with positive rates. On investment, growth will come from both the public and private sectors. On the latter, companies will keep betting on the reconfiguration of international trade (both due to nearshoring and the weaknesses of current production chains, starkly revealed by the pandemic), where Mexico is strategic place for the assembly and manufacturing of several industries. According to Francisco González Díaz, president of the National Auto Parts Manufacturing Industry, most appetite has been in additive manufacturing and 3D printing, textiles, metal extrusion and fusion, glass, and plastic parts (the latter, traditionally produced in Asia). In this sense, we consider non-residential construction could be boosted in the second half of the year. This would come on the back of greater demand for plants and industrial buildings, as well as the federal government's project for the '*Corridor Interoceánico del Istmo*', which started last month. Said project contemplates the construction of 10 industrial parks and the rehabilitation of 309 kilometers of the *Istmo de Tehuantepec* railroad tracks.

Finally, we maintain our consumption forecast for the rest of the year, believing that it will remain as one of the main drivers of aggregate demand. However, we are watching closely the evolution of fundamentals, especially remittances and the labor market both in the US and Mexico, as well as on the possible impact from higher inflation.

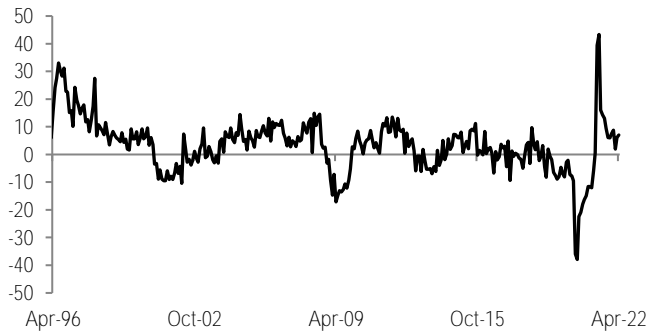
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Apr-22	Apr-21	Jan-Apr'22	Jan-Apr'21	Apr-22	Apr-21
Total	7.0	39.4	6.0	2.1	8.4	37.9
Construction	3.3	31.0	2.9	-3.5	4.9	28.8
Residential	2.7	52.6	-2.7	0.1	5.2	49.1
Non-residential	3.9	13.8	8.8	-7.1	4.4	1.2
Machinery and equipment	11.7	51.2	10.0	10.6	14.9	48.0
Domestic	2.5	93.9	5.3	9.5	5.0	91.0
Transportation Equipment	5.6	115.0	4.2	4.2	13.1	105.4
Other machinery and equipment	-0.6	76.6	6.6	16.5	-0.3	75.6
Imported	17.3	33.1	12.9	11.2	21.7	29.5
Transportation Equipment	21.9	56.6	6.9	-5.3	22.5	57.6
Other machinery and equipment	16.7	30.8	13.7	13.8	21.3	26.9

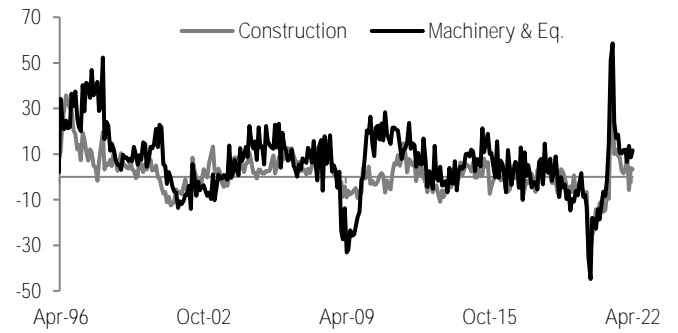
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



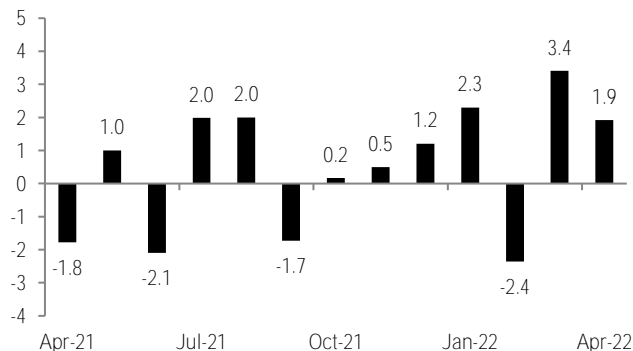
Source: INEGI

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

	% m/m			% 3m/3m	
	Apr-22	Mar-22	Feb-22	Feb-Apr'22	Jan-Mar'22
Total	1.9	3.4	-2.4	2.4	2.8
Construction	0.7	5.7	-9.0	-1.7	1.2
Residential	1.4	5.0	-1.1	0.5	-2.2
Non-residential	0.0	5.9	-15.0	-4.3	3.9
Machinery and equipment	4.1	0.7	5.5	7.8	5.1
Domestic	3.4	-0.1	-3.3	4.8	7.2
Transportation Equipment	4.8	1.7	-2.9	9.7	11.0
Other machinery and equipment	2.8	0.4	-3.8	3.0	5.5
Imported	5.3	0.8	11.7	9.9	3.4
Transportation Equipment	10.4	-0.3	17.5	11.1	4.6
Other machinery and equipment	4.9	-0.7	12.2	9.5	3.3

Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

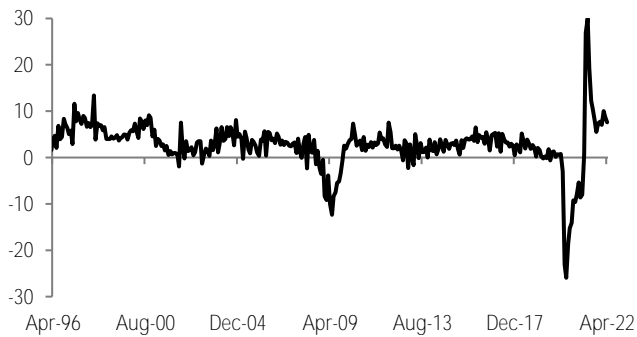
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Apr-22	Apr-21	Jan-Apr'22	Jan-Apr'21	Apr-22	Apr-21
Total	7.6	26.9	8.3	1.1	8.0	26.3
Domestic	6.1	25.1	7.3	-0.4	6.2	24.5
Goods	0.9	32.1	3.1	5.3	1.2	31.2
Durables	-7.2	97.1	-1.3	10.9	--	--
Semi-durables	-5.6	421.9	0.4	28.4	--	--
Non-durables	3.5	8.9	4.1	1.3	--	--
Services	11.4	18.8	11.8	-5.7	11.3	18.6
Imported goods	19.7	44.2	16.1	14.7	22.8	43.8
Durables	43.4	61.9	26.8	22.3	--	--
Semi-durables	21.3	42.7	28.1	7.3	--	--
Non-durables	1.2	33.9	2.2	13.1	--	--

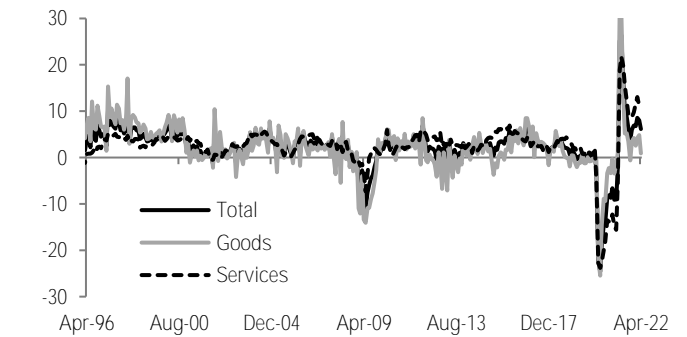
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



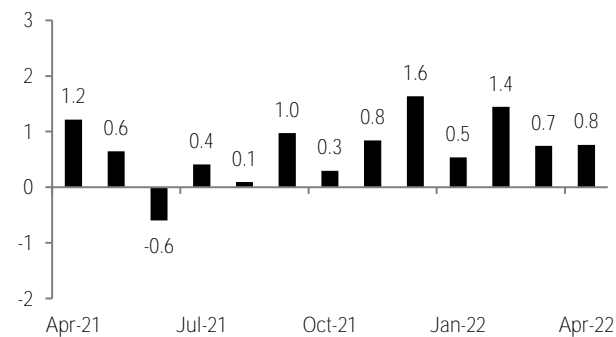
Source: INEGI

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

	% m/m			% 3m/3m	
	Apr-22	Mar-22	Feb-22	Feb-Apr'22	Jan-Mar'22
Total	0.8	0.7	1.4	3.1	3.1
Domestic	0.8	0.5	1.2	2.8	2.9
Goods	0.2	0.5	1.1	2.1	2.2
Services	1.4	1.3	1.3	4.1	4.0
Imported goods	1.5	0.8	6.5	8.1	6.4

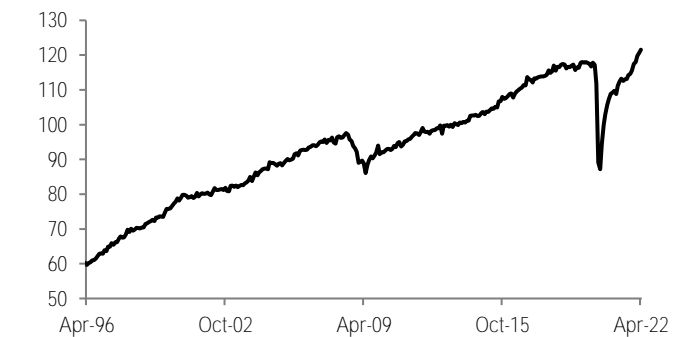
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldivar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Oscar Rodolfo Olivos Ortiz, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date but are subject to modifications and changes without prior notice: Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Alejandro Padilla Santana	Chief Economist and Head of Research	alejandropadilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
María Fernanda Vargas Santoyo	Analyst	maria.vargas.santoyo@banorte.com	(55) 1103 - 4000

Economic Research

Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katía Celina Goya Ostos	Director of Economic Research, Global	katia.goya@banorte.com	(55) 1670 - 1821
Yazmin Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Luis Leopoldo López Salinas	Manager Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707

Market Strategy

Manuel Jiménez Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
-------------------------	-----------------------------	----------------------------	------------------

Fixed income and FX Strategy

Leslie Thalia Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Isaías Rodríguez Sobrino	Strategist, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144

Equity Strategy

Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Paola Soto Leal	Analyst	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 1746
Oscar Rodolfo Olivos Ortiz	Analyst	oscar.olivos@banorte.com	(55) 1103 - 4000

Corporate Debt

Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Quantitative Analysis

Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandrocervantes@banorte.com	(55) 1670 - 2972
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Daniela Olea Suárez	Senior Analyst, Quantitative Analysis	daniela.olea.suarez@banorte.com	(55) 1103 - 4000
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
José De Jesús Ramírez Martínez	Senior Analyst, Quantitative Analysis	jose.ramirez.martinez@banorte.com	(55) 1103 - 4000
Daniel Sebastián Sosa Aguilar	Analyst, Quantitative Analysis	daniel.sosa@banorte.com	(55) 1103 - 4000
Salvador Austria Valencia	Analyst, Quantitative Analysis	salvador.austria.valencia@banorte.com	(55) 1103 - 4000

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebaldos@banorte.com	(55) 5004 - 1282
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 5140
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8173 - 9127
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5249 - 6423
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5004 - 1051
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 1670 - 1899