

## Domestic demand – Positive results in August as investment surprises to the upside

- **Gross fixed investment (August): 6.5% y/y (nsa); Banorte: 3.7%; consensus: 3.6% (range: 1.0% to 6.0%); previous: 2.1%**
- **Private consumption (August): 8.0% y/y (nsa); previous: 4.8%**
- **Investment rose 1.9% m/m, erasing the -1.5% from July. Construction was positive (0.3%) despite a decline in non-residential. Machinery and equipment bounced back 2.6%, noting strength in the domestic component**
- **Consumption added a third month higher –accelerating vs. the previous two months– at 0.7% m/m. Inside, strength came in from services at +1.5%**
- **Going forward, risks remain tilted towards investment –highlighting cost pressures and higher financing costs. Meanwhile, the consolidation in fundamentals may provide the necessary boost for consumption to maintain its positive trend**

**Investment rebounds, surprising to the upside.** Investment grew 6.5% y/y (see [Chart 1](#)), higher than consensus (3.6%) and our estimate (3.7%). We had one more working day in the annual comparison, skewing figures up. Therefore, with seasonally adjusted figures, the result was lower at 4.6% y/y. By sectors, and back to original figures, machinery and equipment returned to double-digit growth at 22.6%, once again favored by imported goods. Construction backtracked 5.6%, deepening the decline of the previous month (-2.3%) –with the two categories negative– as seen in [Chart 2](#). Further details can be seen in [Table 1](#).

In sequential terms (using seasonally adjusted figures), investment grew 1.9% m/m ([Chart 3](#)), erasing the 1.5% drop of the previous month. With this, the level of activity stands 1.9% above February 2020, used as a pre-pandemic metric. However, it is still 11.7% below its historical high in July 2018 ([Chart 4](#)). Inside, machinery and equipment rebounded 2.6%. This is mainly explained by the 3.4% expansion in the domestic category. Strength centered in transportation (6.0%), while ‘others’ backtracked once again (-1.1%). Meanwhile, the imported component rose 2.2% –in line with trade balance figures–, with the boost also coming from transportation (+14.6), as seen in [Table 2](#). Construction grew 0.3%, not enough to offset the -1.7% of the previous month. Inside, the non-residential sector extended its decline at -1.2%, in line with civil engineering, as well as ‘services related to mining’ in the [industrial production report](#). Meanwhile, the residential sector grew 1.1%, quite positive considering many negative signs for the sector.

**Private consumption extends higher.** This stood at +8.0% y/y, adding a positive result to its 18-month expansion trend ([Chart 5](#)). With adjusted figures, growth was 7.1% y/y. Back to original figures, we highlight that imported goods kept accelerating, reaching 21.9%, especially due to semi-durable goods (37.5%).

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Meanwhile, domestic goods (3.8%) also improved –albeit still with strong differences still between semi-durable (12.6%) and non-durable goods (1.9%). Services remained high at 8.3%. For further details, see [Table 3](#).

Sequentially, consumption accelerated, up 0.7% m/m ([Chart 7](#)). These results are consistent with strong fundamentals in the period, with [employment positive](#) despite distortions due to the summer holiday. In addition, [remittances](#) managed a fourth consecutive month above US\$5 billion. This could have helped households fend off [inflationary pressures](#), once again highlighting the core component. Inside, imported goods remained to the downside at -1.7%, adding two months lower ([Table 4](#)). Domestic services rebounded 1.5%, in our opinion favored by higher mobility. Finally, domestic goods dropped 0.7% ([Chart 8](#)).

**Mixed signals for domestic demand, with higher risks for investment, but with consumption consolidating.** [Available data for September](#) points to a stronger performance as a whole. We believe this is partly due to the dynamism in external demand, albeit with the domestic component also key. Strength in the latter is centered in consumption, while investment seems more volatile, impacted by inflation and the tightening of monetary policy, although possibly benefiting in the medium- and long-term from *nearshoring*.

Considering this, we believe domestic demand –particularly consumption– will be key to sustain economic activity, especially in a context of higher risks abroad. Consumption could be supported by tourism –and services as a whole–, as well as a rebound in retail sales –which were somewhat weak by the end of 3Q22– influenced by year-end sales and some recreational activities (*e.g.* Day of the Dead, Mexican Revolution holiday, Mexico City F1 Grand Prix, FIFA World Cup, etc.). In our view, this could feed off partly from some relief in inflationary pressures, albeit still with some concerns due to pressures in food items. As we have mentioned previously, households’ income could remain supported by strength in fundamentals. In our view, job growth will keep momentum. Meanwhile, remittances could maintain their positive performance on the resilience of the US labor market, while banking credit will continue its recovery trend, representing an additional way of financing for some consumers.

Turning to investment, the main headwinds are: (1) Higher financing costs on the back of monetary tightening; (2) higher risks of a global recession; and (3) inflationary pressures, particularly in raw materials. On a positive note, new investments for several industries should continue as part of nearshoring efforts, albeit concentrated in the auto and electronics sector according to the Mexican Business Council for Foreign Trade, Investment and Technology (COMECE in Spanish). In this sense, domestic demand will likely continue benefitting from said investments. Nevertheless, given their nature and time of implementation, the boost would be gradual and reflected mainly in the medium-term.

Finally, we remain with an eye on talks related to USMCA controversies. In this sense, the first virtual meeting between Mexico’s Economy Minister, Raquel Buenrostro, and the US Trade Representative, Katherine Tai, took place on November 4<sup>th</sup>. They “agreed to have permanent communications for all topics on the bilateral agenda”, promised to continue with consultations, and to enable work groups between both countries.

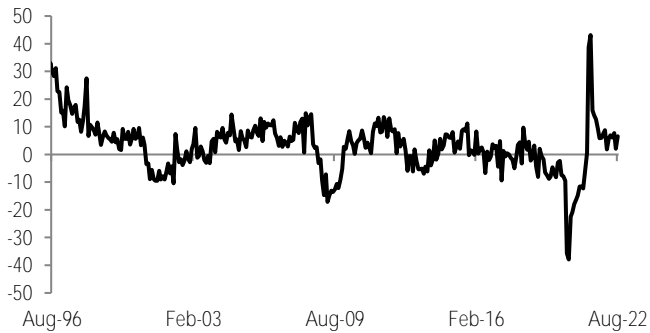
## Gross Fixed Investment

Table 1: Gross fixed investment  
% y/y nsa

	nsa				sa	
	Aug-22	Aug-21	Jan-Aug'22	Jan-Aug'21	Aug-22	Aug-21
Total	6.5	12.7	5.7	10.5	4.6	11.8
Construction	-5.6	8.8	0.4	4.7	-5.8	7.7
Residential	-7.6	6.4	-4.1	8.8	-8.1	5.6
Non-residential	-3.4	11.4	5.2	0.7	-3.1	10.8
Machinery and equipment	22.6	18.5	12.4	18.7	18.2	16.5
Domestic	17.0	7.2	6.5	18.8	13.6	7.5
Transportation Equipment	19.5	9.3	6.8	15.6	14.8	8.0
Other machinery and equipment	13.6	4.5	6.0	23.3	11.5	6.3
Imported	26.0	26.5	16.2	18.6	21.0	22.4
Transportation Equipment	33.2	33.1	13.3	17.0	32.0	32.4
Other machinery and equipment	25.1	25.6	16.6	18.9	20.0	21.2

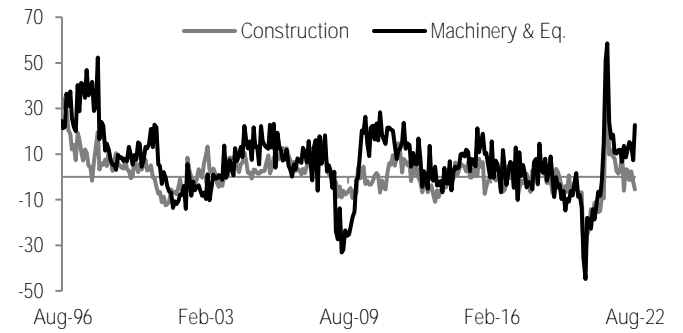
Source: INEGI

Chart 1: Gross fixed investment  
% y/y



Source: INEGI

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



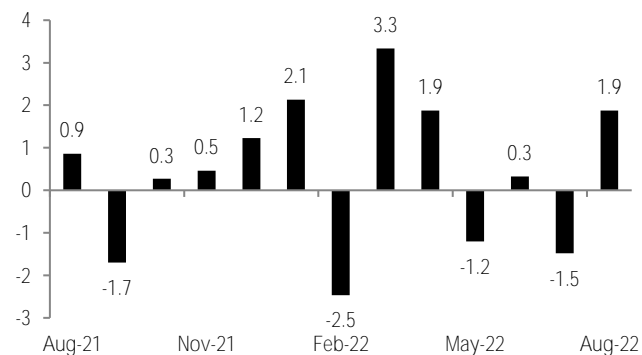
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Table 2: Gross fixed investment  
% m/m sa: % 3m/3m sa

	% m/m			% 3m/3m	
	Aug-22	Jul-22	Jun-22	Jun-Aug'22	May-Jul'22
Total	1.9	-1.5	0.3	1.9	-1.5
Construction	0.3	-1.7	0.2	0.3	-1.7
Residential	1.1	0.1	-1.3	1.1	0.1
Non-residential	-1.2	-3.5	1.3	-1.2	-3.5
Machinery and equipment	2.6	-0.1	1.3	2.6	-0.1
Domestic	3.4	1.9	-0.6	3.4	1.9
Transportation Equipment	6.0	3.3	-4.0	6.0	3.3
Other machinery and equipment	-1.1	-1.6	4.8	-1.1	-1.6
Imported	2.2	-1.1	2.3	2.2	-1.1
Transportation Equipment	14.6	-4.6	-0.6	14.6	-4.6
Other machinery and equipment	0.5	0.5	2.5	0.5	0.5

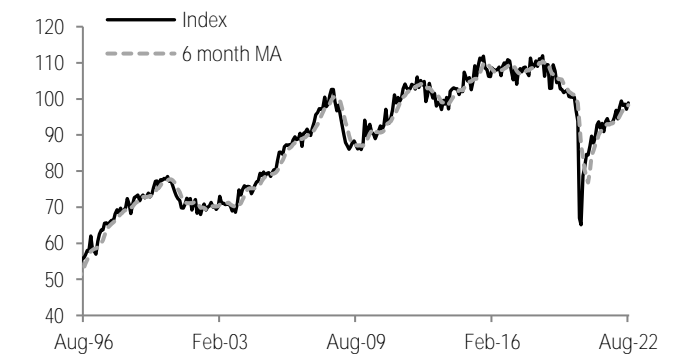
Source: INEGI

Chart 3: Gross fixed investment  
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment  
Index sa



Source: INEGI

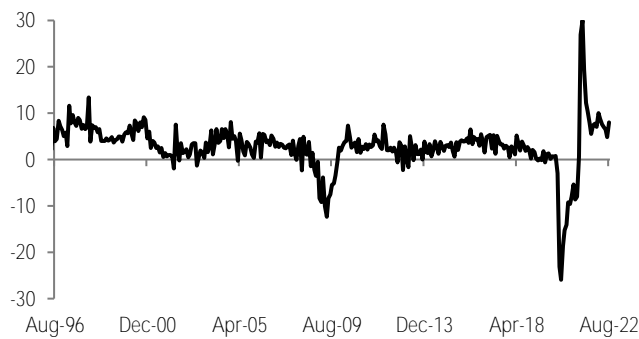
## Private consumption

Table 3: Private consumption  
% y/y nsa

	nsa				sa	
	Aug-22	Aug-21	Jan-Aug'22	Jan-Aug'21	Aug-22	Aug-21
Total	8.0	10.4	7.4	8.8	7.1	9.9
Domestic	6.1	8.7	6.2	6.9	5.4	8.6
Goods	3.8	5.3	2.8	9.0	2.6	4.9
Durables	6.2	11.6	-1.8	21.9	--	--
Semi-durables	12.6	6.7	3.5	36.2	--	--
Non-durables	1.9	4.2	3.3	3.8	--	--
Services	8.3	12.2	9.6	4.9	8.3	12.3
Imported goods	21.9	24.7	17.1	26.7	17.3	20.3
Durables	29.2	27.2	26.7	42.6	--	--
Semi-durables	37.5	19.8	28.3	15.7	--	--
Non-durables	8.5	25.7	4.4	22.2	--	--

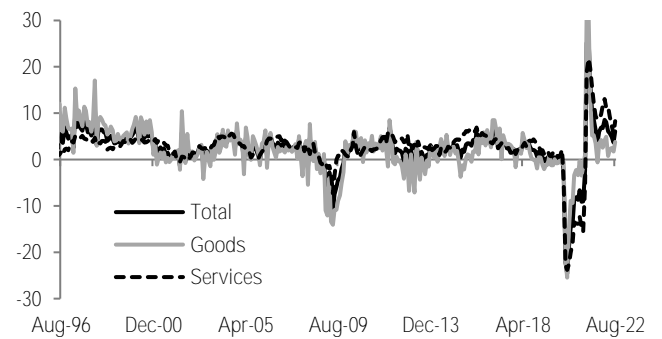
Source: INEGI

Chart 5: Private consumption  
% y/y



Source: INEGI

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



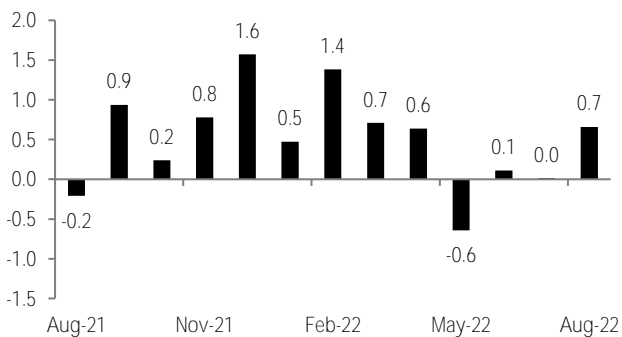
Source: INEGI

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

	% m/m			% 3m/3m	
	Aug-22	Jul-22	Jun-22	Jun-Aug'22	May-Jul'22
Total	0.7	0.0	0.1	0.1	0.1
Domestic	0.7	0.1	-0.3	-0.3	-0.3
Goods	-0.7	0.9	-0.2	-0.7	-1.0
Services	1.5	-1.0	-0.5	-0.8	-0.2
Imported goods	-1.7	-0.9	4.0	3.8	4.5

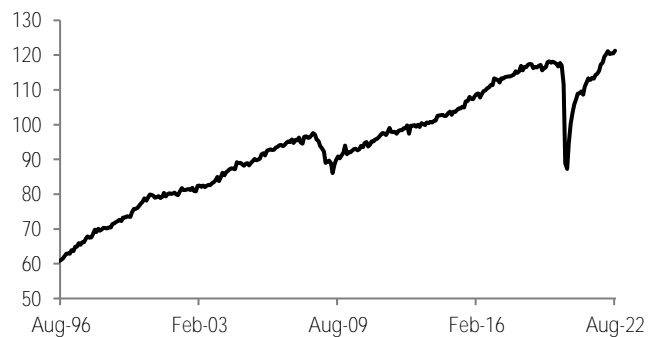
Source: INEGI

Chart 7: Private consumption  
% m/m sa



Source: INEGI

Chart 8: Private consumption  
Index sa



Source: INEGI

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