

Domestic demand – A step back in investment while consumption consolidates

- **Gross fixed investment (September): 3.3% y/y (nsa); Banorte: 5.3%; consensus: 5.5% (range: 4.0% to 9.9%); previous: 6.5%**
- **Private consumption (September): 6.1% y/y (nsa); previous: 8.0%**
- **Investment fell 0.9% m/m, partially erasing progress of the previous month (1.8%). Inside, both categories declined. Machinery and equipment dropped 1.4%, dragged down by the domestic component. Meanwhile, construction had a setback of 0.8% despite gains in the non-residential sector**
- **Consumption remains strong, up by 0.4% m/m, which implies a third consecutive month higher, although at a more moderate pace. Inside, imported goods led at 1.4%**
- **We remain focused on investment towards the end of the year, with weakness from abroad and higher uncertainty about activity ahead, possible weighing on dynamism. Domestic demand could be favored by consumption, with better local activity related to various recreational activities and holidays in 4Q22**

Investment drops, consistent with a more challenging backdrop. At an annual rate, investment grew 3.3% y/y (see [Chart 1](#)), below consensus (5.5%) and our estimate (5.3%). We had one working day less, skewing the result downward. Hence, with seasonally adjusted figures it was higher by 4.2% a/a. By sectors, and back to original figures, machinery and equipment had double-digit growth of 14.3%, with the imported component as the best category. Construction continued to fall, down -5.3% (as seen in [Chart 2](#)), with both items negative. Further details can be seen in [Table 1](#).

In sequential terms (using seasonally adjusted figures), investment fell 0.9% m/m ([Chart 3](#)), not enough to erase August's +1.8%. With this, the level of activity stands 2.1% above February 2020, used as a pre-pandemic metric. However, it is still 11.5% lower than its historical high in December 2017 ([Chart 4](#)). By sectors, machinery and equipment fell 1.4%. This is explained by the domestic component at -5.8%, partially impacted by a challenging base –and with transportation erasing all gains of the previous month, at -7.2%. On the contrary, the imported component kept its upward trend at +0.5%, driven by transportation (+9.8%), as seen in [Table 2](#). Construction declined 0.8%, weak considering null progress in August (0.0%). Inside, residential activity (-2.6%) was the main drag. This is consistent the [industrial production report](#), where edification contracted significantly. Meanwhile, the non-residential sector grew 0.6%, helped by government projects and nearshoring-related activities.

Consumption continues its positive trend. It stood at +6.1% y/y, with a slightly more negative base effect and inflationary pressures continuing ([Chart 5](#)). With adjusted figures, growth was 6.0% y/y. Back to original figures, we highlight that imported goods moderated slightly, although still leading at 18.3%, especially due to durable goods (29.5%).

December 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

Cintia Nava
Senior Economist, Mexico
cintia.nava.roa@banorte.com

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



Document for distribution among the general public

Meanwhile, domestic goods (2.3%) remain lower –mainly on durables (-7.8%) and non-durables (2.2%). Finally, we highlight growth in services (6.3%). For further details, see [Table 3](#).

Sequentially, it rose 0.4% m/m ([Chart 7](#)), moderating its pace vs the previous month (0.6%). We believe this reflects mixed signals in the period. Specifically, negative results for ANTAD’s same-stores (-0.5% y/y in real terms), as well as prevailing [inflationary pressures](#) in the core component. However, fundamentals keep providing support, even with some not-so-positive results. Regarding the [labor market](#) the unemployment rate decreased –although with a pause in new job creation. On the other hand, [remittances](#) added a fifth month above US\$5 billion. Domestic goods grew 0.3%, enough to erase the losses of the previous month (-0.2%). Additionally, services kept advancing by 0.6% ([Table 4](#)), likely boosted by the return to in-person classes in the new school year and a drop in COVID-19 contagions. Finally, imported goods grew 1.4% ([Chart 8](#)), probably benefited by the strength of the Mexican peso.

We anticipate that consumption will continue as the main driver of domestic demand in 4Q22, with higher risks for investment. Regarding the beginning of 4Q22 and based on timely data for October, we think domestic demand may maintain a favorable performance. Meanwhile, signals from abroad are somewhat mixed, in our view remaining as the biggest risk ahead.

On investment, the scenario is still challenging. Fears of a global recession, the lengthening of the war in Ukraine, and the possibility that the monetary tightening cycle continues in 2023, have begun to dampen demand internationally. In addition, China continued its COVID-zero policy for most of this quarter –with plans to relax some measures until December. Despite of the latter, US domestic demand seems resilient –specifically since October–, also reflected in its manufacturing sector. This rebound has already been seen in [IMEF’s PMI manufacturing](#) (November). Therefore, we anticipate that investment may indirectly benefit from this impulse towards the end of the year.

More directly, we remain attentive about the working-groups and upcoming resolutions on the current consultations and controversies within the USMCA framework. According to the Economy Minister, Raquel Buenrostro, progress on energy sector consultations is on the right track and a move through the next stage, which is a panel, may be avoided. Last week, the Minister proposed a new round of negotiations –within this consultation phase–between December and early January to reach an agreement before the North American Leaders’ Summit, on January 9th and 10th. Regarding the auto sector, Alejandro Encinas, the Deputy Secretary of Foreign Trade, said there is already a preliminary decision that could be published in coming days. The resolution could imply a new methodology related to the rules of origin that could benefit productive processes within our country. Along with USMCA consultations, the Mexican and US governments have kept announcing investment alliances that will boost domestic demand as soon as next year. Following up on the *High-Level Economic Dialogue* (DEAN, for its acronym in Spanish) this year, US Commerce Secretary Gina Raimondo, and her Mexican counterpart Minister Buenrostro, have agreed to strengthen current coordination efforts to accelerate new investments in Mexico.

Likewise, they announced that governments will disclose the economic and fiscal benefits that both countries will offer in the face of nearshoring in the first two months of 2023, thereby taking advantage of appetite from at least 400 US companies –which currently produce in Asia– to move production to Mexico.

Finally, we expect consumption dynamism to extend into 4Q22. We believe there could be some relief due to the moderation in non-core inflation, although there are still concerns about higher prices in food items within the core. Meanwhile, the labor market remain solid with [strong job creation in October](#), as well as an acceleration in wages in annual terms. In addition, remittances will keep contributing to the consolidation of consumption. On the latter, we remain focused on US labor market dynamism, which despite expectations that it will close 2022 strong, we do not rule out a moderation during 2023 ahead of a potential economic slowdown.

All in all, we conclude that consumption will continue as the main driver within domestic demand for the rest of 2022. By 2023, investment could have some elements to resume a bigger role, including higher FDI flows and less uncertainty about USMCA processes. However, we remain cautious in the face of a possible economic deceleration coupled with high interest rates. On consumption, we anticipate a negative spillover from more challenging conditions in the US –with possible effects on local employment and lower remittances. However, the domestic scenario is showing resiliency, which we believe will keep it relatively positive over the next year.

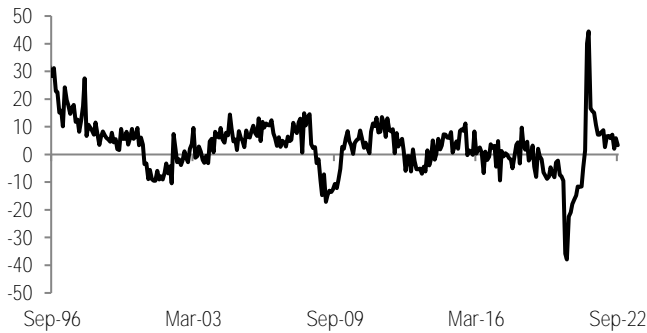
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Sep-22	Sep-21	Jan-Sep'22	Jan-Sep'21	Sep-22	Sep-21
Total	3.3	10.6	5.4	11.6	4.2	11.8
Construction	-5.3	11.9	0.4	8.0	-5.2	12.2
Residential	-7.9	-1.3	-5.1	4.3	-7.1	-0.1
Non-residential	-3.3	24.5	5.4	11.6	-3.3	24.3
Machinery and equipment	14.3	9.0	12.0	16.6	15.9	10.7
Domestic	4.1	-2.4	4.7	12.8	6.1	-2.8
Transportation Equipment	8.4	-4.2	5.7	9.1	10.7	-4.6
Other machinery and equipment	-1.1	-0.1	3.4	17.8	-0.6	-0.9
Imported	20.9	17.8	16.5	19.1	21.1	20.4
Transportation Equipment	52.2	15.8	17.9	20.2	50.3	13.8
Other machinery and equipment	16.7	18.0	16.3	19.0	17.4	21.2

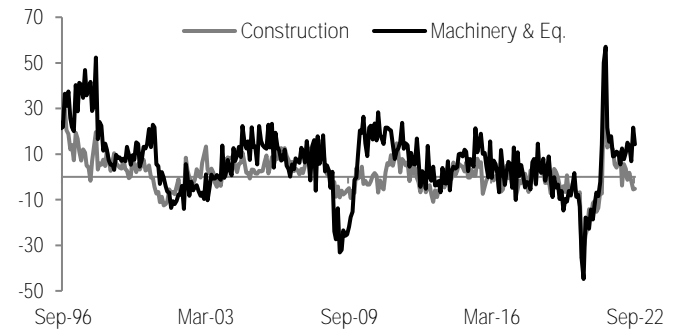
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



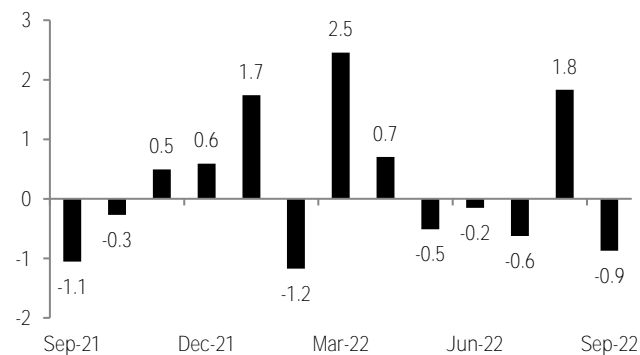
Source: INEGI

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

	% m/m			% 3m/3m	
	Sep-22	Aug-22	Jul-22	Jul-Sep'22	Jun-Aug'22
Total	-0.9	1.8	-0.6	0.1	-0.3
Construction	-0.8	0.0	-0.4	-7.3	-10.4
Residential	-2.6	1.0	1.5	-3.8	-10.1
Non-residential	0.6	-1.7	-2.2	-11.4	-8.1
Machinery and equipment	-1.4	2.8	-0.2	8.4	13.4
Domestic	-5.8	2.9	1.3	2.9	7.6
Transportation Equipment	-7.2	6.7	2.6	10.5	10.7
Other machinery and equipment	-2.8	-1.1	-1.7	-9.6	-0.9
Imported	0.5	2.2	-0.6	8.9	15.8
Transportation Equipment	9.8	17.2	-5.7	40.9	22.0
Other machinery and equipment	-0.9	0.6	0.7	8.0	15.0

Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

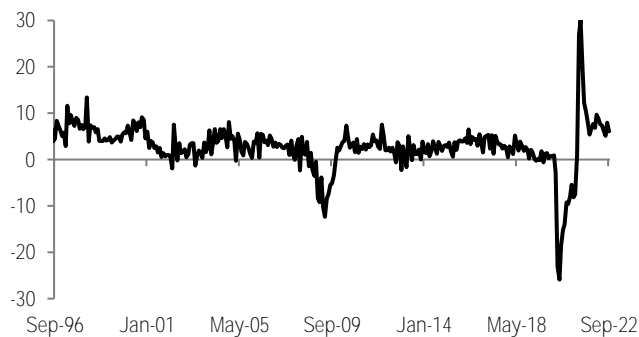
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Sep-22	Sep-21	Jan-Sep'22	Jan-Sep'21	Sep-22	Sep-21
	Total	6.1	8.2	7.3	9.0	6.0
Domestic	4.3	6.8	6.1	7.2	4.2	6.8
Goods	2.3	3.8	3.0	8.3	2.3	4.1
Durables	-7.8	-2.2	-5.3	11.3	--	--
Semi-durables	10.4	-5.6	5.1	27.2	--	--
Non-durables	2.2	6.4	3.6	5.2	--	--
Services	6.3	9.9	9.3	6.0	6.3	9.8
Imported goods	18.3	19.7	16.1	25.3	18.7	22.7
Durables	29.5	9.6	23.2	29.2	--	--
Semi-durables	24.5	18.5	30.4	14.0	--	--
Non-durables	7.4	28.2	4.6	28.6	--	--

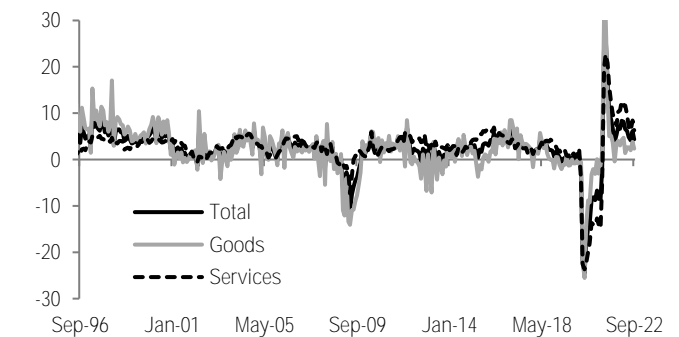
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



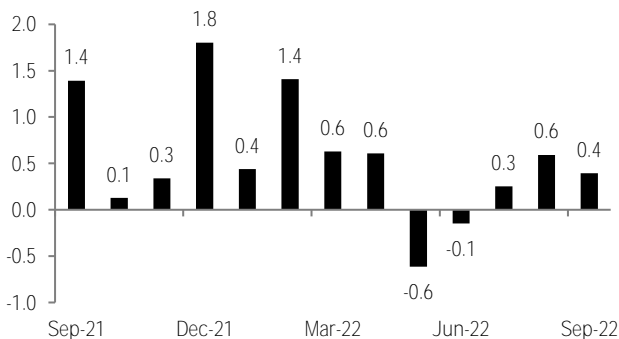
Source: INEGI

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

	% m/m			% 3m/3m	
	Sep-22	Aug-22	Jul-22	Jul-Sep'22	Jun-Aug'22
Total	0.4	0.6	0.3	0.5	0.0
Domestic	0.4	0.4	0.3	0.1	-0.5
Goods	0.3	-0.2	0.7	0.1	-0.6
Services	0.6	1.1	-0.2	0.1	-0.4
Imported goods	1.4	-1.6	-0.8	1.6	4.2

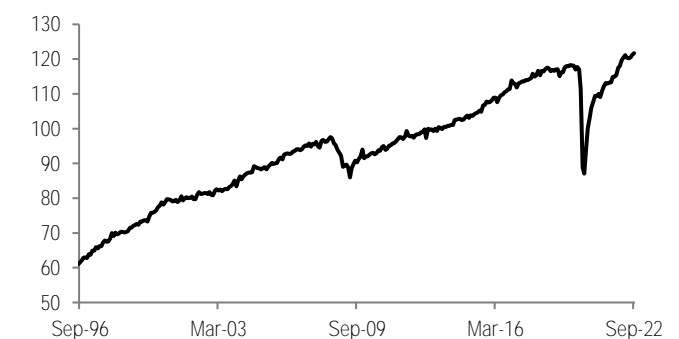
Source: INEGI

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 Enriquez, Cintia Gisela Nava Roa, 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 and Daniel Sebastián Sosa Aguilar, 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.

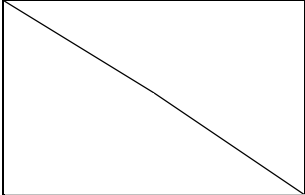
Securities holdings and other disclosures.

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 HOLD SELL	When the share expected performance is greater than the MEXBOL estimated performance. When the share expected performance is similar to the MEXBOL estimated performance. 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	alejandro.padilla@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 Enriquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Cintia Gisela Nava Roa	Senior Economist, Mexico	cintia.nava.roa@banorte.com	(55) 1103 - 4000
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 Thalía 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

Corporate Debt

Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.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	alejandro.cervantes@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

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
Oswaldo Brondo Menchaca	Head of Specialized Banking Services	oswaldo.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