

Domestic demand – Growth continued at the start of 4Q22

- **Gross fixed investment (October): 6.2% y/y (nsa); Banorte: 5.7%; consensus: 4.5% (range: 3.2% to 6.3%); previous: 3.3%**
- **Private consumption (October): 5.3% y/y (nsa); Banorte: 5.5%; previous: 6.0%**
- **Investment grew 1.4% m/m, erasing September's losses (-0.7%). Inside, both categories were positive. Construction advanced 2.0%, driven by the residential sector. Machinery and equipment rebounded 0.8%, favored by the domestic component**
- **Consumption maintained its expansion trend, up 0.2% m/m and with accumulated gains of 1.4% in the last four months, although at a slower pace. This was mainly boosted by services, up 0.7%**
- **At the end of 2022, headwinds for investment prevailed while consumption was more favorable, aided by solid fundamentals. Thus, domestic demand in the fourth quarter likely kept advancing, albeit more modestly**

Investment grew, partially favored by a base effect. At an annual rate, investment grew 6.2% (see [Chart 1](#)), above consensus (4.5%) and closer to our estimate (5.7%). By sectors, machinery and equipment managed a double-digit pace of 14.1% for a third consecutive month, once again with the imported category driving results (18.9%). Construction moderated to -0.4%, ([Chart 2](#)), noting persistent declines in the residential sector (-3.8%). Further details can be seen in [Table 1](#).

Using seasonally adjusted figures, investment rose 1.4% m/m ([Chart 3](#)), enough to offset losses from the previous month (-0.7%). Nonetheless, it is still 10.0% lower than its historical high in July 2018 ([Chart 4](#)). By sectors, construction grew 2.0%, possibly aided by a moderation in input prices in the sector. The non-residential sector stayed positive at 2.3%, in our view reflecting –at least in part– an acceleration in the construction of warehouses and/or industrial parks. Meanwhile, residential activity rebounded 1.9%, albeit still somewhat limited. This is consistent with the results within industrial production, with edification up 1.3%. Meanwhile, machinery and equipment grew 0.8%. This is explained by the domestic component at 3.3%. On the other hand, the imported component was more stable, up 0.2%, with ‘other’ as the main driver (+0.5%), as seen in [Table 2](#).

Slight moderation in consumption, albeit still growing. It stood at +5.3% y/y in a backdrop of more modest inflationary pressures, but with a more challenging base effect ([Chart 5](#)). Domestic goods picked up 4.3%, with higher dynamism of semi-durable goods (6.8%) and negative in durables (-0.8%). Imported goods were more stable albeit advancing 12.0%, with durables leading the charge (18.9%). Additionally, services continued their recovery at 7.2%. For further details, see [Table 3](#).

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Sequentially, consumption grew 0.2% m/m ([Chart 7](#)), extending the recovery of the three previous months. This is positive as our original expectation was of a decline, anticipating consumers to wait until November to take advantage of *El Buen Fin* sales (Mexico's Black Friday). However, early data was also favorable, noting an acceleration in ANTAD's same-store sales to +1.5% y/y in real terms. The latter seems to reflect both higher dynamism and lower inflationary pressures, mainly [on declines in the non-core component](#). On the other hand, fundamentals remain as a strong support. In the [labor market](#), the unemployment rate was stable, and new jobs added stood at 925.6 thousand. [Remittances stringed six months above US\\$5 billion](#), with resilience in the US labor market. Domestic services led the expansion at +0.7%, adding three months to the upside ([Table 4](#)) and likely supported by a further normalization in activities. Meanwhile, domestic goods posted a second consecutive month of null progress (0.0%), while imported goods backtracked 1.8%, still maintaining a quite volatile behavior ([Chart 8](#)).

Domestic demand in the fourth quarter likely kept advancing, albeit more modestly. By the end of 4Q22 and based on timely data for November, we think that domestic demand will slow down slightly. This is based on industrial activity abroad, albeit with domestic consumption managing to stay somewhat resilient.

Investment remains in a difficult spot, at least in the short-term, with the main challenges externally. Among them, we note the high probability of either a recession or slowdown in US economic activity, as well as the potential impact from accumulated rate hikes since the start of tightening cycles globally. In this respect, the US manufacturing PMI from *S&P Global* declined in the last three months through December. Nevertheless, Mexico's IMEF indicator managed to stay above the 50pts threshold and picked up in the same period. In this backdrop, we do not rule out that other factors, such as higher COVID-19 cases in China or a renewed uptick in energy prices, could hurt the immediate outlook.

On a medium-term basis, we believe appetite for nearshoring will stay elevated, constituting a key opportunity for private investment to accelerate. In this front, news have had a positive bias, both from ongoing developments and new projects. Among the latter, we highlight Tesla's recent decision to build two new plants (automotive and auto parts plants) that could imply an investment of US\$10 billion. An additional effect that will extend to 2023 is growth in the real estate sector. This would be driven by high demand of both industrial parks and warehouses, in turn supporting the need for more housing, hotels and offices. According to the *Mexican Association of Private Industrial Parks* (AMPIP, for its Spanish acronym) more than US\$30 billion could be raised for the construction of industrial spaces; meanwhile, the housing consultancy *Softec* anticipates investment of up to \$580 billion (about US\$30 billion). On the other hand, progress on current USMCA consultations and controversies seems promising. Nevertheless, detailed information remains relatively scarce. The North American Leaders' Summit –currently taking place– seems poised for positive news. According to the Mexican Foreign Ministry, a deeper economic integration agenda and the Sonora Plan (which refers to investment in semiconductors and investment synergies between Sonora and Arizona) are among the issues considered during this event.

Consumption will remain as the driver of domestic demand growth. We do not rule out a slight pause despite good dynamism in fundamentals and diminished price pressures. This would be a consequence of different adjustments that households have made throughout the year to face rising prices, which we think has prevented a more vigorous recovery in consumer confidence. Even accounting for this, we should note that we expect resilience to remain as the key characteristic for domestic consumption.

All in all, domestic demand has surprised to the upside, and it is likely that kept expanding through the last quarter of the year, although with a modest slowdown. For 2023, we believe that private investment may gain additional momentum, while consumption should advance further.

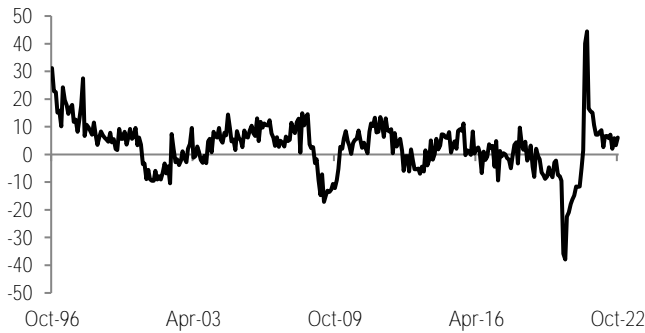
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Oct-22	Oct-21	Jan-Oct'22	Jan-Oct'21	Oct-22	Oct-21
Total	6.2	7.1	5.5	11.1	6.5	4.4
Construction	-0.4	5.4	0.3	7.7	-0.5	-5.0
Residential	-3.8	-5.0	-5.0	3.3	-4.0	-7.2
Non-residential	2.5	16.6	5.1	12.1	2.6	-2.9
Machinery and equipment	14.1	9.2	12.2	15.8	14.1	15.9
Domestic	6.6	-0.2	4.9	11.3	5.8	6.1
Transportation Equipment	11.9	-6.1	6.3	7.4	11.3	10.7
Other machinery and equipment	0.9	7.1	3.1	16.4	-0.6	-0.5
Imported	18.9	16.0	16.8	18.8	20.0	21.2
Transportation Equipment	58.3	-3.0	21.8	17.5	60.1	50.0
Other machinery and equipment	14.1	18.8	16.1	19.0	14.7	17.6

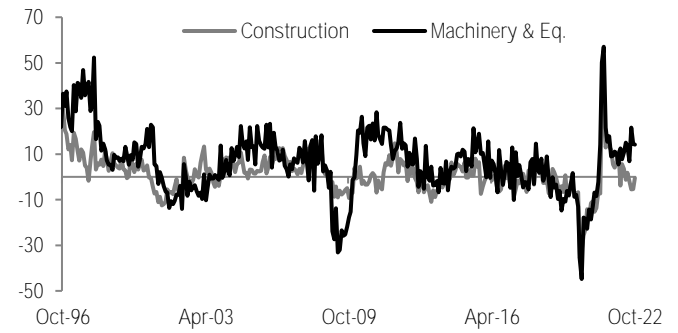
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



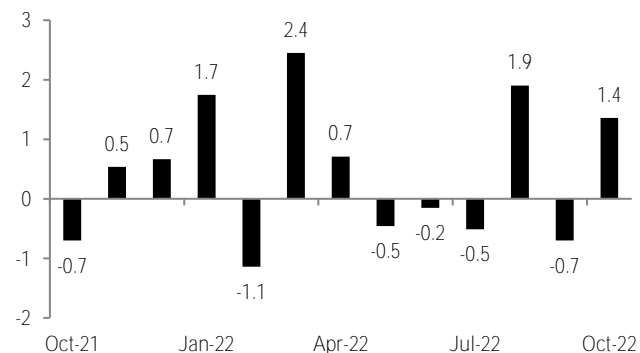
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Table 2: Gross fixed investment
% m/m sa: % 3m/3m sa

	% m/m			% 3m/3m	
	Oct-22	Sep-22	Aug-22	Aug-Oct'22	Jul-Sep'22
Total	1.4	-0.7	1.9	1.5	0.3
Construction	2.0	-0.9	0.5	0.2	-1.4
Residential	1.9	-2.9	1.1	0.1	-0.9
Non-residential	2.3	0.8	-1.4	-1.3	-2.5
Machinery and equipment	0.8	-1.4	2.8	2.3	2.0
Domestic	3.3	-5.9	2.9	0.4	0.8
Transportation Equipment	2.1	-7.2	6.6	2.6	2.6
Other machinery and equipment	3.6	-2.7	-1.0	-1.7	-2.0
Imported	0.2	0.5	2.2	2.9	2.2
Transportation Equipment	-2.3	8.3	18.9	18.8	8.3
Other machinery and equipment	0.5	-0.3	-0.5	0.9	1.7

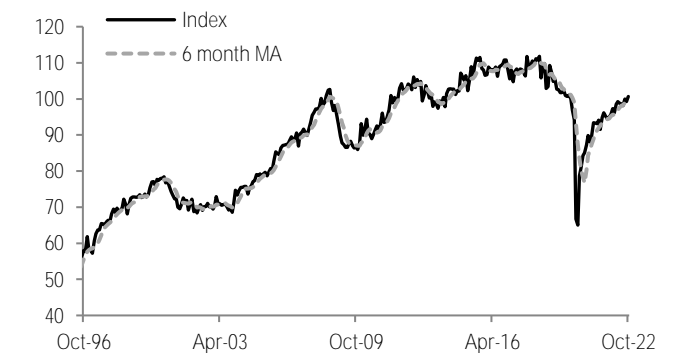
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

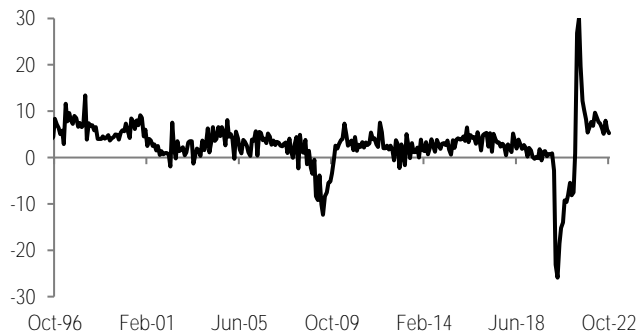
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Oct-22	Oct-21	Jan-Oct'22	Jan-Oct'21	Oct-22	Oct-21
Total	5.3	5.4	7.1	8.6	5.8	6.8
Domestic	4.3	3.8	5.9	6.8	4.6	4.9
Goods	1.5	-0.4	2.8	7.4	1.9	1.2
Durables	-0.8	-5.2	-5.0	9.2	--	--
Semi-durables	6.8	-10.2	5.3	22.0	--	--
Non-durables	0.9	2.2	3.3	4.9	--	--
Services	7.2	8.6	9.1	6.3	7.5	9.0
Imported goods	12.0	18.0	15.7	24.4	13.2	22.6
Durables	18.9	9.3	22.7	26.5	--	--
Semi-durables	13.6	23.5	28.3	15.1	--	--
Non-durables	5.8	22.2	4.7	27.9	--	--

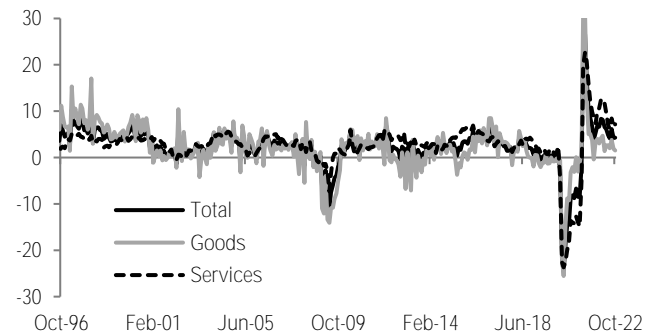
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



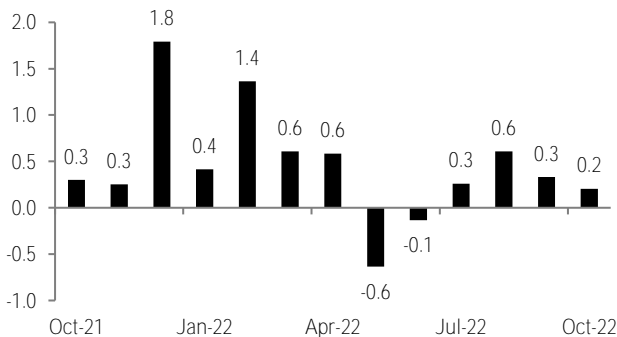
Source: INEGI

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

	% m/m			% 3m/3m	
	Oct-22	Sep-22	Aug-22	Aug-Oct'22	Jul-Sep'22
Total	0.2	0.3	0.6	1.0	0.5
Domestic	0.3	0.3	0.4	0.8	0.2
Goods	0.0	0.0	-0.2	0.2	0.0
Services	0.7	0.7	1.2	1.6	0.2
Imported goods	-1.8	1.2	-1.7	-0.7	1.4

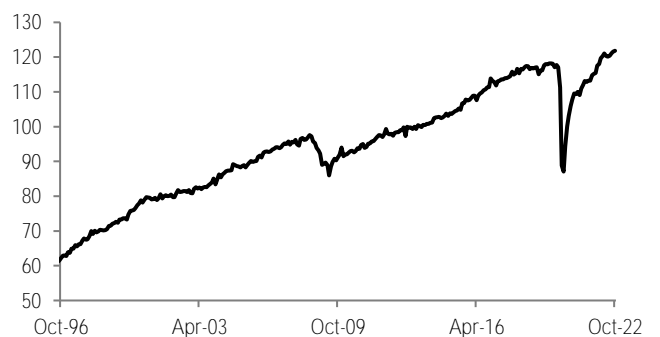
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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