

## Domestic demand – Slight moderation, in line with a challenging backdrop

- **Gross fixed investment (November): 6.6% y/y (nsa); Banorte: 5.7%; consensus: 5.5% (range: 5.3% to 6.8%); previous: 6.2%**
- **Private consumption (November): 4.1% y/y (nsa); Banorte: 3.9%; previous: 5.3%**
- **Investment was unchanged (0.0% m/m), partially explained due to a more challenging base. Inside, machinery and equipment declined 1.0%, dragged by the imported component. On the contrary, construction added a second month of increases at 1.4%**
- **Consumption declined 0.6% m/m, ending four months of increases and despite solid fundamentals. Weakness centered in imported goods, albeit with services also an inch lower**
- **In the short-term, headwinds appear to have moderated slightly, noting that lower costs might boost investment while consumption could have rebounded on a seasonal push. As such, domestic demand will likely close the year on a positive note, albeit with a moderation relative to 3Q22**

**Investment moderates its pace of growth, albeit remaining resilient.** At an annual rate, investment grew 6.6% ([Chart 1](#)), higher than consensus (5.5%) and our estimate (5.7%). By sectors, we highlight growth in the two subcategories. Machinery and equipment achieved a fourth month with a double-digit expansion at 12.6%, although moderating as the base of comparison normalizes further. Inside, both components posted high rates of expansion. Meanwhile, construction rose 1.7% ([Chart 2](#)), driven by the non-residential sector. Details are presented in [Table 1](#).

Using seasonally adjusted figures, investment was unchanged at 0.0% m/m ([Chart 3](#)), a figure that is relatively positive considering October's gains (+1.4%). Nevertheless, behavior inside was mixed. We highlight the fall in machinery and equipment at -1.0%. By sectors, there was a strong decline in the imported component (-3.7%), with some stability in the domestic front (0.0%). Construction added a second month of growth at 1.4%, which we believe is explained by: (1) An increase in demand for industrial spaces; and (2) a moderation in inflationary pressures, as seen in PPI for the sector. In this sense, non-residential activity increased by 2.8%, while the residential was also higher at 1.1%, as seen in [Table 2](#). These figures are broadly consistent with the data seen in the [industrial production](#) report.

**Consumption takes a step back despite the start of the discount season.** Consumption stood at 4.1% a/a, again moderating as distortions from base effects continue fading away ([Chart 5](#)). Domestic goods increased 1.1%, with durable and semi-durable goods higher at 6.5%. Services remained elevated at 6.4%. Imported goods normalized further at 6.6%, with non-durable items leading the increase (10.7%). For additional details, see [Table 3](#).

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Sequentially, consumption declined 0.6% m/m ([Chart 7](#)). This is somewhat disappointing if we consider expectations regarding the economic spillover of *El Buen Fin* (Mexican Black Friday) and the 2022 FIFA World Cup. However, it is not entirely surprising considering: (1) The 1.2% accumulated gain in the previous four months; (2) prevailing price pressures in the core component; and (3) additional monetary tightening. As such, this is consistent with the decline in ANTAD's same store (-1.6% y/y in real terms). Regarding fundamentals, these remained relatively strong. In the labor market, the unemployment rate kept falling (3.0%, sa), with 444.0 thousand positions created. On the other hand, remittances had an unusual deceleration, which we partially attribute to seasonal factors. Looking at the breakdown, two items had setbacks, with these being imported goods at -3.7% ([Chart 8](#))—matching related figures in the trade balance—and services at -0.3%, possibly reflecting some budget restrictions by households. Meanwhile, domestic goods were unchanged (0.0%), as seen in [Table 4](#).

**Some headwinds for domestic demand seem to have moderated in the short-term, although the situation remains complex.** In this sense, timely data for December (*e.g.* ANTAD and AMIA sales, and IMEF's PMI indicators) point to a slight improvement in dynamism, which could offset part of the slowdown in November. This is consistent with [a moderation in economic activity at the end of the year](#). Thus, focusing on the start of 2023, the development of some positive factors could give a boost to demand, with some tailwinds including: (1) A relative improvement in US demand, with strong employment figures; (2) higher levels of FDI given the continued interest in nearshoring efforts; (3) a strong labor market domestically, which should keep supporting household consumption, among others.

In terms of investment, news about new projects and the expansion of existing ones have been a constant in recent months, particularly in the automotive industry. According to data from the real estate consultancy *Market Analysis*, the automotive and auto parts industry currently occupies 44% of the total square meters demanded by new companies. In addition, and according to a report by the company *Directorio Automotriz* in Mexico in 4Q22 there were 62 announcements of new investment projects (from 17 countries) for this sector. The report identifies Guanajuato, Coahuila, Nuevo León, Querétaro, and San Luis Potosí as the main recipients of new projects in 2022. On the other hand, we believe that the sector obtained an additional boost due to the [favorable outcome on the rules of origin dispute within USMCA](#). Although new investments will likely be reflected in industrial indicators in the medium- or long-term, we anticipate that the economic spillover related to the first stages of their implementation is relevant enough to provide a boost to domestic demand, as we have already mentioned in other reports.

Regarding consumption, we believe that challenges stemming from price pressures will continue to weigh on dynamism—[especially considering turn-of-the-year adjustments by several companies](#). However, we believe that increase to the minimum wage, along strong fundamentals—with chances of an acceleration in remittances as US employment improved—should support the sector in coming months.

All in all, we believe that domestic demand could gain some momentum at the start of 2023, although we remain cautious of certain headwinds, such as: (1) Higher interest rates due to additional tightening by global central banks; and (2) the trajectory of inflation, considering some heightened risks, among others.

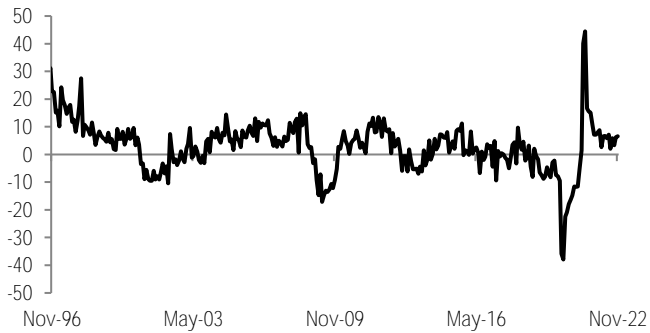
## Gross Fixed Investment

Table 1: Gross fixed investment  
% y/y nsa

	nsa				sa	
	Nov-22	Nov-21	Jan-Nov'22	Jan-Nov'21	Nov-22	Nov-21
Total	6.6	7.1	5.6	10.7	5.9	6.6
Construction	1.7	4.1	0.4	7.4	1.6	-0.6
Residential	-1.2	-10.6	-4.6	1.9	-1.7	-4.0
Non-residential	4.3	22.3	5.0	13.0	4.3	2.4
Machinery and equipment	12.6	11.0	12.3	15.3	12.2	14.3
Domestic	15.7	-4.9	5.9	9.6	15.1	6.6
Transportation Equipment	24.2	-12.1	7.4	5.8	25.1	10.8
Other machinery and equipment	9.3	1.4	4.0	14.6	9.7	1.9
Imported	11.0	21.4	16.2	19.1	10.3	19.8
Transportation Equipment	23.9	21.3	22.0	17.9	23.1	59.9
Other machinery and equipment	9.1	21.4	15.4	19.2	8.3	14.6

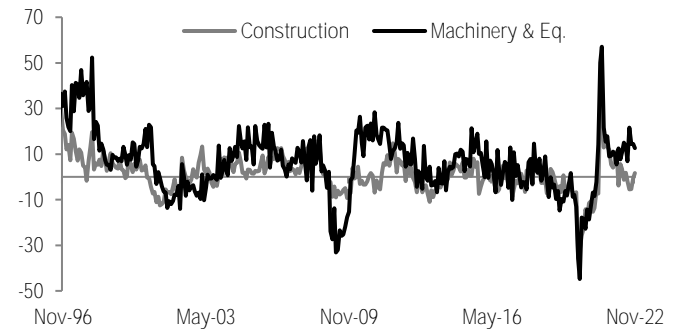
Source: INEGI

Chart 1: Gross fixed investment  
% y/y



Source: INEGI

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



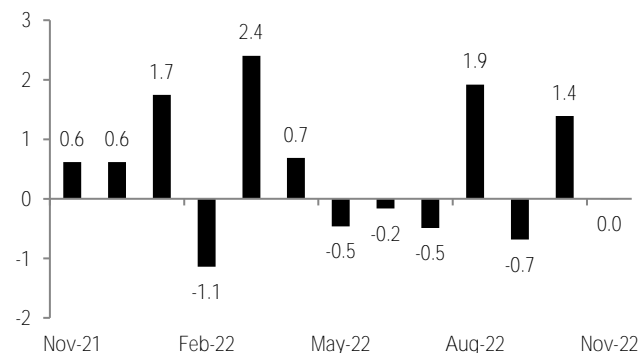
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Table 2: Gross fixed investment  
% m/m sa: % 3m/3m sa

	% m/m			% 3m/3m	
	Nov-22	Oct-22	Sep-22	Sep-Nov'22	Aug-Oct'22
Total	0.0	1.4	-0.7	1.3	1.5
Construction	1.4	1.9	-0.7	1.3	0.4
Residential	1.1	1.9	-2.9	0.0	0.2
Non-residential	2.8	2.4	1.0	2.2	-0.7
Machinery and equipment	-1.0	0.9	-1.5	0.4	2.2
Domestic	0.0	5.1	-6.8	-1.2	0.6
Transportation Equipment	-0.3	1.9	-7.1	-1.1	2.7
Other machinery and equipment	1.1	6.6	-3.6	0.1	-1.0
Imported	-3.7	0.0	0.3	0.3	2.6
Transportation Equipment	-4.7	-2.7	8.2	14.0	18.0
Other machinery and equipment	-3.4	0.5	-0.4	-1.2	0.7

Source: INEGI

Chart 3: Gross fixed investment  
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment  
Index sa



Source: INEGI

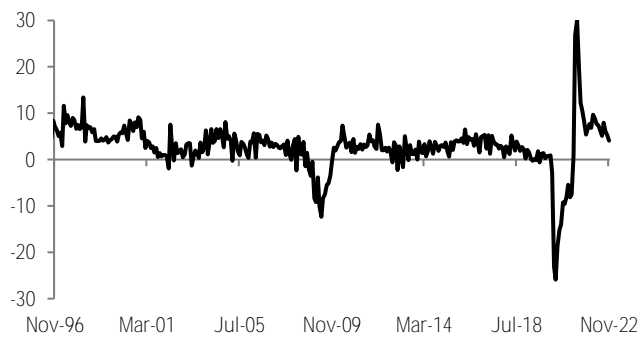
## Private consumption

Table 3: Private consumption  
% y/y nsa

	nsa				sa	
	Nov-22	Nov-21	Jan-Nov'22	Jan-Nov'21	Nov-22	Nov-21
Total	4.1	6.6	6.8	8.4	4.1	5.6
Domestic	3.7	5.4	5.7	6.7	3.8	4.7
Goods	1.1	3.5	2.6	7.0	1.0	1.8
Durables	6.5	-10.3	-4.3	7.3	--	--
Semi-durables	6.5	-6.3	5.4	18.6	--	--
Non-durables	-0.3	7.0	2.9	5.1	--	--
Services	6.4	7.4	8.9	6.4	6.9	8.0
Imported goods	6.6	15.8	14.7	23.5	6.3	10.4
Durables	6.3	8.4	20.9	24.2	--	--
Semi-durables	0.0	32.1	25.1	16.8	--	--
Non-durables	10.7	13.9	5.3	26.5	--	--

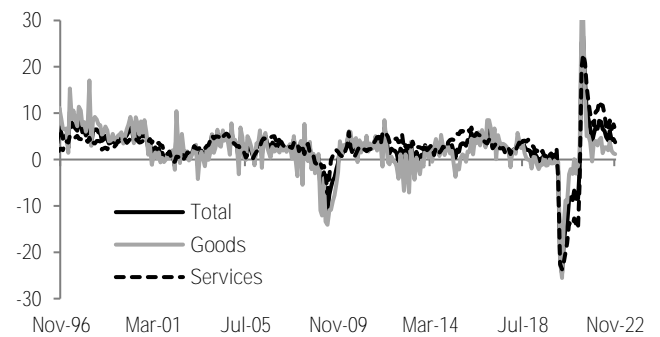
Source: INEGI

Chart 5: Private consumption  
% y/y



Source: INEGI

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



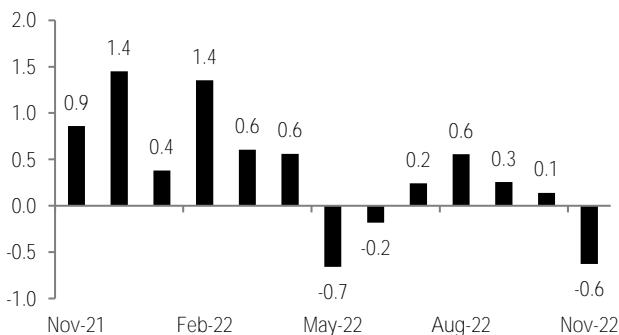
Source: INEGI

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

	% m/m			% 3m/3m	
	Nov-22	Oct-22	Sep-22	Sep-Nov'22	Aug-Oct'22
Total	-0.6	0.1	0.3	0.6	0.9
Domestic	-0.3	0.3	0.3	0.8	0.8
Goods	0.0	-0.2	0.0	-0.1	0.0
Services	-0.3	0.7	0.6	1.8	1.6
Imported goods	-3.7	-2.2	1.1	-3.2	-1.3

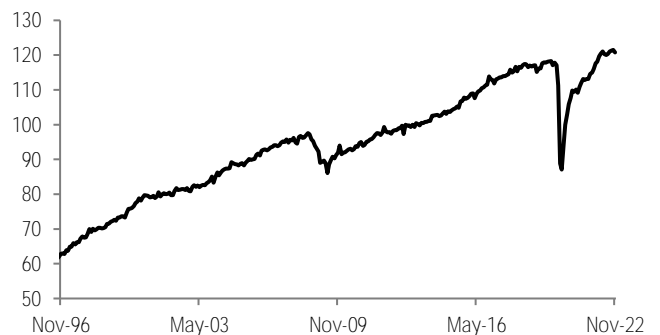
Source: INEGI

Chart 7: Private consumption  
% m/m sa



Source: INEGI

Chart 8: Private consumption  
Index sa



Source: INEGI

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