

Domestic demand weakness at the end of 2021

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- **Gross fixed investment (Jun): 17.1% y/y (nsa); Banorte: 17.6%; consensus: 17.7% (range: 14.7% to 21.3%); previous: 46.5%**
- **Private consumption (Jun): 19.1% y/y (nsa); previous: 28.9%**
- **In sequential terms, investment declined 1.8%, more than reversing the +0.5% seen in May. The move was driven by construction (-2.9%). Nevertheless, Machinery and equipment was also weak (-0.4%), specially the domestic component (-1.4%)**
- **Consumption fell 0.8% m/m, breaking with three months higher. In our view, this could be related to a deterioration in virus conditions, albeit also possibly skewed by a more difficult base effect. In this sense, we highlight that services were the only ones positive at 0.7%, with sizable losses in domestic goods (-2.0%)**
- **We expect economic growth to continue in the second half of the year, although at a more modest pace as people stay cautious due to COVID-19. We are waiting for more information on investment, while we see consumption as relatively resilient on fundamentals**

GFI with a relevant fall in June. Investment stood at 17.1% y/y (see [Chart 1](#)), below our 17.6% forecast. By sectors, both construction (11.5%), and machinery and equipment (24.5%) remained in expansion, although lower than in May ([Chart 2](#)). We recall that base effects start to become more challenging as the reopening began in the same month of 2020. Nevertheless, important distortions remain in the data, so the analysis of sequential data is much more informative. In this context, using sa figures, investment contracted 1.8% m/m (previous: 0.5%), eliminating accumulated gains since February ([Chart 3](#)). Specifically, we think investment was impacted by two drivers: (1) The prevalence of supply chain issues (with a stronger impact on machinery and equipment); and (2) uncertainty likely exacerbated by the renewed rise of COVID-19 cases. In this backdrop, construction fell the most at -2.9%, with losses centered on the residential sector (-4.4%). This is consistent with the performance in 'edification' within [industrial production](#). On the other hand, non-residential stood at -2.8%, without ruling out a modest impact after the June 6th election, recalling that there typically is an acceleration to improve the population's perception on incumbent parties. Nevertheless, considering results in previous months, the impulse from this looks quite modest. On machinery and equipment, it was also weak at -0.4%, with losses centered on the domestic component at -1.4% ([Table 2](#)), stringing three months in a row lower. Transportation declined 3.0%, in our view highly affected by stoppages at automakers due to the scarcity of raw materials, mainly semiconductors. Nevertheless, other delays seem also evident, with 'others' down 0.1%. The imported component declined 0.5%, wiping out May's +0.4%. Although this is higher than suggested by [capital goods imports](#), we think it was affected by the disruption in shipments from abroad, with reports of China por closing due to COVID-19. Overall, activity stands 18.0% below July 2018's all-time high and -4.4% vs. February 2020 ([Chart 4](#)).

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Consumption backtracks for the first time in three months. It stood at 19.1% y/y ([Chart 5](#)). As in GFI, base effects start to fade out due to the reopening. Consumption of imported goods remained as the highest at 48.3%, with domestic goods up 13.0% ([Table 3](#)). We highlight durable goods in both categories (95.0% and 40.2%, respectively), as well as semi-durables (35.3% and 47.5%), still very distorted by the pandemic ([Chart 6](#)).

With seasonally adjusted figures, consumption dropped 0.8% m/m ([Chart 7](#)), erasing the +0.7% of the previous month. This time around, we think that the main reason behind the decline could be a more difficult base effect, considering that accumulated gains in the last three months were at 5.0%. Nevertheless, we also believe there was an important impact from the pandemic, with daily cases starting to accelerate and with some restrictions by the end of the period. Nevertheless, we believe that strength in fundamentals, such as employment and remittances, as well as an additional improvement in banking credit, may have limited the magnitude of the contraction. In this backdrop, services were the only ones higher, up 0.7%, while weakness in domestic goods was notable, at -2.0%. With these, consumption is 4.3% below its all-time high (June 2019) and -2.7% to February 2020 ([Chart 8](#)).

We expect domestic demand to continue recovering, although likely more modest in 3Q21. We think today's figures are somewhat negative, affected by a more difficult global backdrop, highlighting the worsening in cases due to the spread of the 'delta' variant. In this context, factoring in that the curve of daily contagions kept rising domestically during July and almost all of August, we believe performance in 3Q21 could be limited by this factor. Nevertheless, and relative to other 'waves', we think several issues may make its impact more modest, such as: (1) Progress in vaccinations, which in turn has limited a stronger uptick in deaths; and (2) authorities' unwillingness to announce more severe restrictions. In our view, all of this has led to more resilient mobility indicators. Specifically, it is our take that the latter should be a strong support for consumption. This is also based on strong fundamentals, such as a [new historical high in remittances](#) and with [employment recovering all the losses due to the pandemic](#). In contrast, we remain concerned about the adverse effect from higher prices, even with the establishment of maximum prices to LP gas. Despite of this, we consider that the sector should remain resilient, and after the external front, be the second engine behind the recovery.

Meanwhile, we believe that the environment for investment is more challenging. Apart from additional uncertainty due to the rise in COVID-19 cases, other relevant factors may hit performance. Among them, we highlight two important issues regarding USMCA: (1) The beginning of consultations about rules of origin content in the auto sector; and (2) news about the dispute between Talos Energy (an oil company) and the Ministry of Energy for the Zama oilfield. On the former, Canada has joined the consultation –supporting Mexico's view–, although the definition about the procedures that will be followed still needs to be agreed. On the second, this is an initial approach, as Talos is looking to mediate before reaching an international arbitration or other legal actions. So far, we have not had a formal response of the Mexican government, so we will be very focused on this.

Another factor of uncertainty is the possibility of fiscal changes, even with the aim of a ‘fiscal reform’ diluting importantly. It should be mentioned that this factor will be resolved with the introduction of the *2022 Budget*, which should be presented to Congress no later than on Wednesday.

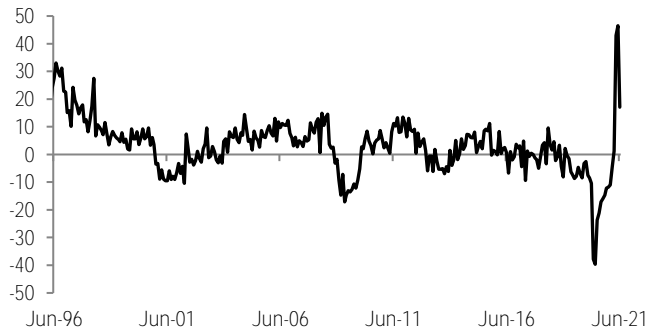
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Jun-21	Jun-20	Jan-Jun'21	Jan-Jun'20	Jun-21	Jun-20
Total	17.1	-23.7	11.1	-21.0	16.9	-24.2
Construction	11.5	-25.8	6.2	-19.1	12.2	-25.2
Residential	13.4	-25.1	12.3	-21.0	14.3	-24.4
Non-residential	9.7	-26.4	0.2	-17.2	10.3	-26.3
Machinery and equipment	24.5	-20.9	18.4	-23.6	24.5	-24.5
Domestic	33.4	-34.9	21.3	-28.5	32.6	-36.6
Transportation Equipment	30.0	-38.8	18.6	-33.8	28.5	-41.2
Other machinery and equipment	38.7	-27.6	25.0	-19.4	40.4	-29.4
Imported	19.3	-9.2	16.7	-20.4	19.4	-14.9
Transportation Equipment	63.6	-52.5	15.3	-37.5	65.4	-51.6
Other machinery and equipment	15.0	-0.5	16.8	-17.3	14.7	-7.6

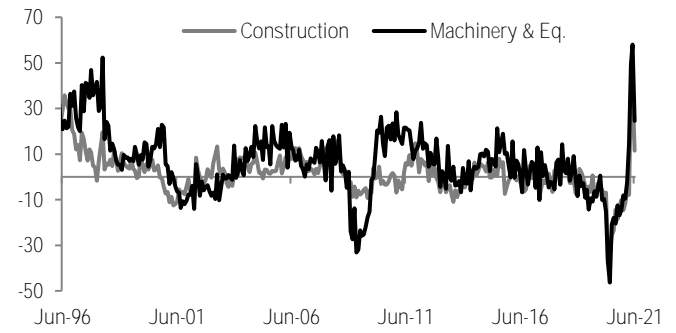
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



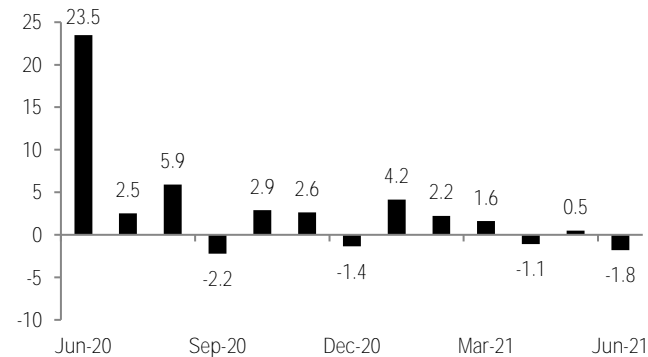
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Table 2: Gross fixed investment
% m/m sa: % 3m/3m sa

	% m/m			% 3m/3m	
	Jun-21	May-21	Apr-21	Apr-Jun'21	Mar-May'21
Total	-1.8	0.5	-1.1	0.4	3.9
Construction	-2.9	1.5	-1.5	-1.0	1.8
Residential	-4.4	2.6	-2.6	-3.2	-1.5
Non-residential	-2.8	0.2	-0.5	0.3	4.9
Machinery and equipment	-0.4	-0.7	-2.3	0.9	5.9
Domestic	-1.4	-0.8	-0.2	1.7	5.1
Transportation Equipment	-3.0	6.2	-8.6	-1.7	5.1
Other machinery and equipment	-0.1	-6.3	5.4	5.6	8.4
Imported	-0.5	0.4	-2.6	1.2	6.0
Transportation Equipment	4.1	1.4	-9.3	2.8	13.0
Other machinery and equipment	-1.9	-0.5	-1.1	0.1	4.5

Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

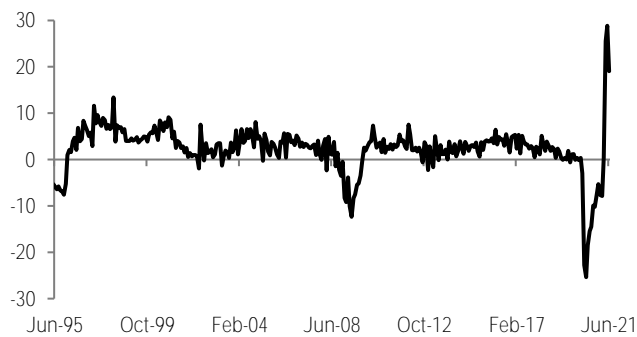
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Jun-21	Jun-20	Jan-Jun'21	Jan-Jun'20	Jun-21	Jun-20
Total	19.1	-18.5	7.9	-11.6	19.1	-19.7
Domestic	16.1	-18.4	5.8	-11.1	16.1	-19.2
Goods	13.0	-13.8	9.8	-9.8	12.9	-15.4
Durables	40.2	-26.2	24.5	-19.1	--	--
Semi-durables	47.5	-42.8	38.7	-38.2	--	--
Non-durables	6.0	-6.5	4.6	-3.1	--	--
Services	19.4	-22.7	2.0	-12.3	19.6	-22.7
Imported goods	48.3	-19.3	27.7	-15.8	48.9	-25.0
Durables	95.0	-38.2	44.9	-29.1	--	--
Semi-durables	35.3	-19.5	15.6	-15.9	--	--
Non-durables	29.5	-4.1	22.3	-4.2	--	--

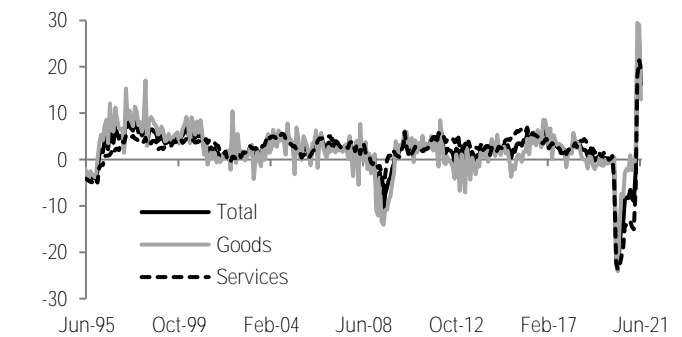
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



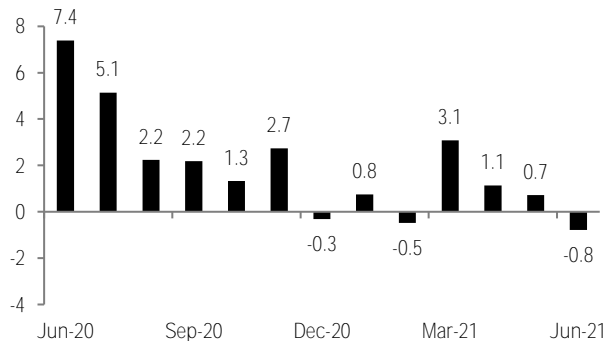
Source: INEGI

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

	% m/m			% 3m/3m	
	Jun-21	May-21	Apr-21	Apr-Jun'21	Mar-May'21
Total	-0.8	0.7	1.1	3.3	4.0
Domestic	-0.5	-0.3	2.3	3.3	3.6
Goods	-2.0	-1.4	1.8	0.5	1.4
Services	0.7	1.4	2.1	5.5	5.2
Imported goods	-0.9	6.0	-2.1	5.3	7.2

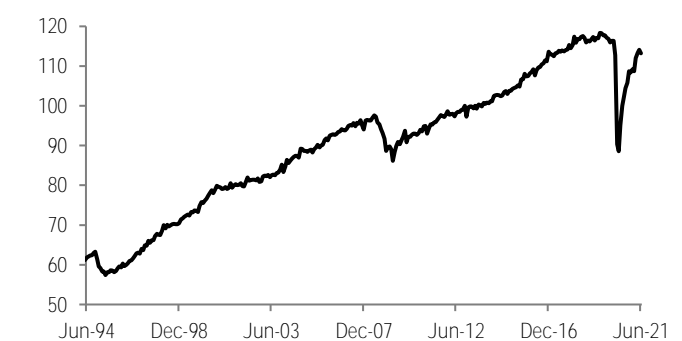
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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