Weak investment and resilient consumption in September

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- **Gross fixed investment (September): 9.9% y/y (nsa); Banorte: 12.6%; consensus: 11.5% (range: 6.7% to 15.0%); previous: 13.2%**
- **Private consumption (September): 8.1 y/y (nsa); previous: 10.5%**
- **Investment fell 1.6% m/m, not enough to erase accumulated progress in the previous two months. This was explained by a generalized decline, with construction down 1.5% and machinery and equipment by 1.6%. In the former, weakness was centered in residential, while the domestic component was a drag in the latter**
- **Consumption picked up 0.9% m/m after decelerating in the previous month, possibly reflecting better pandemic conditions. By sector, results were mixed, with strength in domestic (mainly services) but lower in imported goods**
- **After weakness in 3Q21, we believe the outlook is more favorable for the remainder of 2021, expecting a sequential recovery. Despite of this, some risks persist**

GFI declines in September. Investment came in at 9.9% y/y (see Chart 1), below consensus (11.5%) and our 12.6% estimate. Annual figures keep moderating as the base effect reduces given the gradual reopening in 2020, albeit still being high relative to other sectors. In this sense, both construction (9.4%) and machinery and equipment (10.6%) kept relevant expansions (Chart 2).

Sequentially (using seasonally adjusted figures), investment declined 1.6% m/m (Chart 3). This was significant, although not enough to reverse the accumulated gain of 3.9% in the previous two months. In addition, it happened in a backdrop of an additional decline in economic activity, along prevailing challenges for the sector. In this respect, investment is 16.5% below its historical high in September 2015 and is 3.6% lower than in February 2020 (Chart 4). By sectors, construction backtracked 1.5%, highlighting the strong contraction of the residential sector (-4.0%), consistent with the performance of 'edification' in industrial production. Non-residential stood at +0.7%, in our opinion still supported by the increase in spending by the Federal Government on infrastructure projects, especially priority projects of the administration. Machinery and equipment stringed a second month lower at -1.6%. Nevertheless, unlike August, weakness centered in the domestic component as it fell 3.1%, while the imported one was better at the margin, at -0.1% (Table 2). An important highlight in both was the contraction in transportation, down 7.5% and 3.1%, respectively, showing the challenges faced by this sector. Meanwhile, 'others' picked up in both categories, led by the domestic component (6.4%), while imports were quite modest (0.2%).

Strong rebound in consumption, with favorable revisions to the historical series. The figure came in at 8.1% y/y (Chart 5). Inside, the base effect remains more evident in imported goods at 20.4%, with domestic ones up 6.6% (Chart 6).

Dynamics are similar for both, with strong growth rates in durable and semi-durables as they were the most impacted in the previous year (Table 3). Meanwhile, domestic services remain relatively high at 9.4%.

With seasonally adjusted figures, consumption rebounded 0.9% m/m (Chart 7) after stagnating in August. We note that historical data was revised significantly, with a stronger performance than originally in the previous two months. Back to September, we believe the improvement was supported by better virus conditions after a record high in cases in late August. Nevertheless, several challenges persisted in the period, including: (1) Additional job losses; (2) a marginal deceleration in the flow of remittances; and (3) an acceleration in inflationary pressures. Therefore, performance inside was mixed. Domestic categories were higher (0.9%), with services up 0.9% and goods by 0.4%, as shown in Table 4. Meanwhile, imported categories had a second consecutive month lower, at -0.1%. With these results, consumption stands 3.6% lower than its historical high (July 2019) and -3.1% relative to February 2020 (Chart 8).

Positive signals for the rest of the year, despite some risks for the recovery. In our view, today's results are relatively consistent with the deceleration of activity in 3Q21, suggesting an important impact from the 'third wave' of COVID-19, among other factors. Following this, we believe signals for the last quarter of 2021 are more positive, supporting our view of a resumption of the recovery. In our view, the main driver behind this is that virus' conditions have improved meaningfully, with the number of cases dropping and significant steps forward in the 'traffic light' indicator. This has allowed mobility indicators to gain ground strongly, surpassing pre-pandemic reference levels. It is our take that this will lead to an acceleration, with consumers and companies showing higher confidence. In this backdrop, more timely data point to higher dynamism in October. Broadly speaking, INEGI's *Timely Indicator of Economic Activity* anticipates a sequential rebound –which could be even higher considering September's downward surprise–. On the other hand, employment rebounded strongly, with gains centered on services. More precisely, trade balance figures were somewhat mixed, with non-oil consumption goods imports accelerating to 3.2% m/m, although with capital goods unchanged (0.0% m/m).

Taking all this into account, and even though overall dynamism should benefit total activity, we think the effect will be differentiated between consumption and investment, with more gains in the former. Specifically, pent-up demand from previous months, as well as more favorable fundamentals (*e.g.* employment, credit) and higher confidence may help consumption. This could be especially relevant for services. Moreover, the year-end holiday shopping season will likely help. In this sense, preliminary sales data during *El Buen Fin* (Mexico's Black Friday) points to growth of about 10% y/y. Nevertheless, there are some distortions because of the length of the period –as last year, discounts were extended to help maintain social distancing measures– and probably also because of higher inflation. Meanwhile, we believe there are two main risks: (1) The extension of price pressures, which have been even higher than projected and led us to revise upwards our forecasts for this year and 2022; and (2) a potential rebound in COVID-19 cases as the winter approaches –as in 2020– and the possible spread of the new variant, 'omicron'.

Lastly, additional investment strength could be a result of higher global growth expectations, especially in the US. We highlight the recent approval of the infrastructure package with US$550 billion in new money, along the possibility of a spending package of almost US$ 2 trillion, which could in turn induce a positive spillover to our country. Locally, the *Spending Budget* already contemplates higher resources for infrastructure, reaching a high since the GFC, which should support the sector. Nevertheless, challenges remain elevated, summing up for those related to consumption also the persistent problems in supply chains and other idiosyncratic factors.

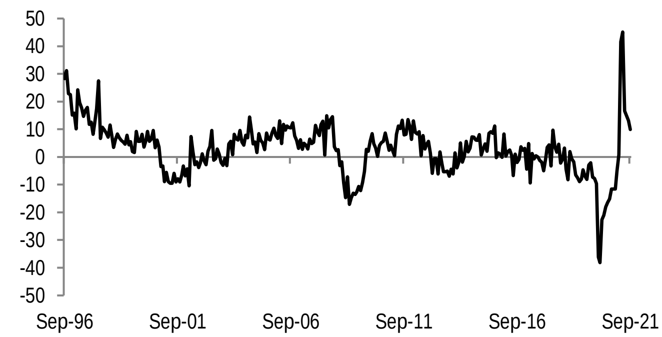
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Sep-21	Sep-20	Jan-Sep**'21**	Jan-Sep**'20**	Sep-21	Sep-20
Total	9.9	-16.4	11.2	-19.5	10.8	-17.7
Construction	9.4	-18.0	6.6	-18.6	10.0	-17.1
Residential	5.6	-15.4	10.3	-18.7	6.5	-13.8
Non-residential	13.0	-20.4	3.0	-18.5	12.8	-20.5
Machinery and equipment	10.6	-14.3	17.7	-20.7	11.1	-17.4
Domestic	1.9	-14.1	16.6	-22.4	0.7	-16.4
Transportation Equipment	0.1	-19.7	13.6	-27.6	-0.4	-22.4
Other machinery and equipment	4.2	-5.8	20.7	-14.0	2.5	-8.1
Imported	17.4	-14.5	18.5	-19.6	19.7	-18.3
Transportation Equipment	12.2	-28.3	16.5	-36.8	11.4	-28.6
Other machinery and equipment	18.1	-12.2	18.8	-16.6	20.5	-16.5

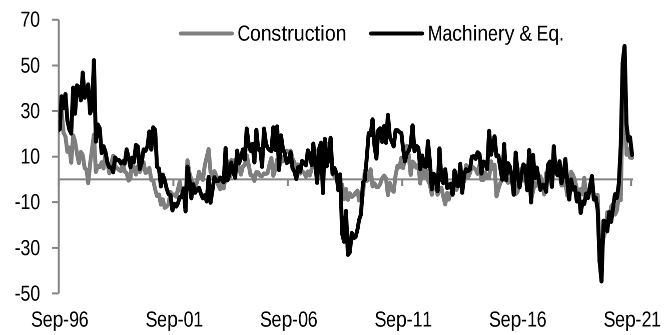
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



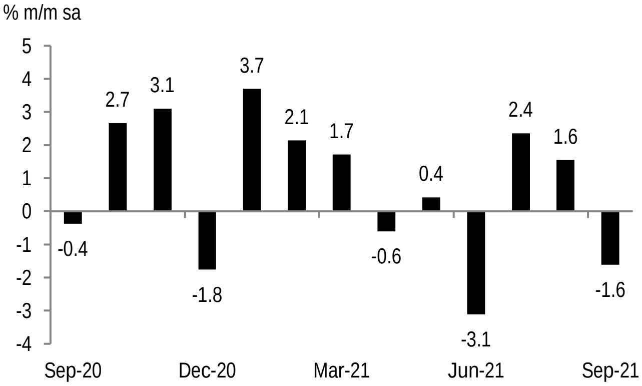
Source: INEGI

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

	% m/m			% 3m/3m	
	Sep-21	Aug-21	Jul-21	Jul-Sep**'21**	Jun-Aug**'21**
Total	-1.6	1.6	2.4	0.8	-1.0
Construction	-1.5	4.0	3.3	2.7	-0.5
Residential	-4.0	5.7	3.2	2.7	-0.3
Non-residential	0.7	2.6	2.4	2.6	0.0
Machinery and equipment	-1.6	-2.7	1.5	-1.2	-1.1
Domestic	-3.1	-1.5	-0.1	-3.5	-2.6
Transportation Equipment	-7.5	4.4	-2.8	-2.6	-2.7
Other machinery and equipment	6.4	-9.1	0.8	-6.1	-5.3
Imported	-0.1	-2.9	4.2	1.7	0.6
Transportation Equipment	-3.1	5.9	-7.8	-2.9	-3.6
Other machinery and equipment	0.2	-5.3	9.0	3.1	0.5

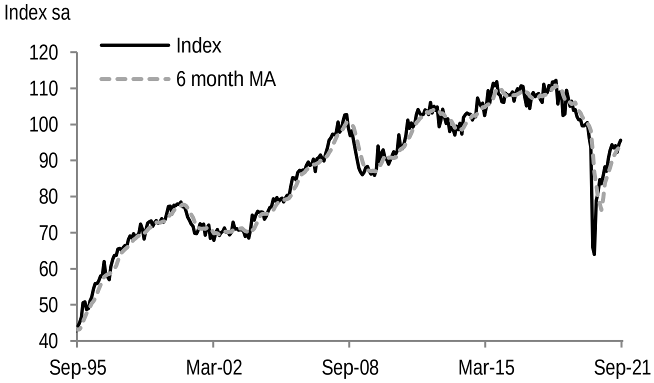
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

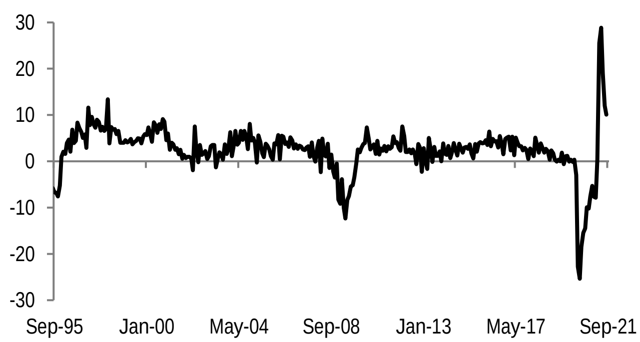
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Sep-21	Sep-20	Jan-**Sep'21**	Jan-**Sep'20**	Sep-21	Sep-20
Total	8.1	-9.5	8.7	-12.2	8.2	-10.8
Domestic	6.6	-8.9	6.8	-11.8	6.6	-10.0
Goods	3.8	-3.6	8.4	-9.6	4.1	-5.4
Durables	5.4	-3.7	19.8	-16.3	--	--
Semi-durables	-4.2	-9.3	30.1	-29.8	--	--
Non-durables	5.1	-2.4	4.1	-4.7	--	--
Services	9.4	-13.7	5.2	-13.9	9.0	-14.3
Imported goods	20.4	-13.9	25.9	-15.5	23.1	-18.0
Durables	19.6	-27.3	39.4	-29.1	--	--
Semi-durables	20.7	-10.4	16.3	-10.9	--	--
Non-durables	21.0	-1.9	22.0	-6.1	--	--

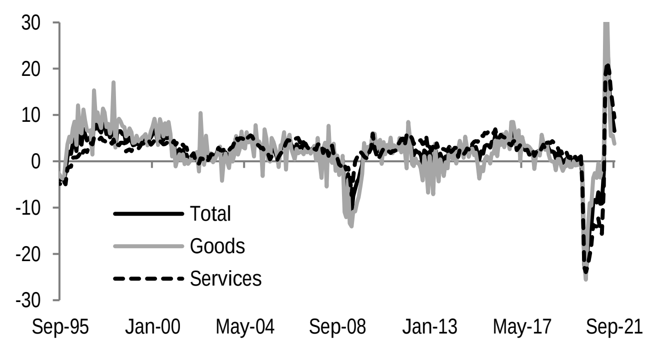
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



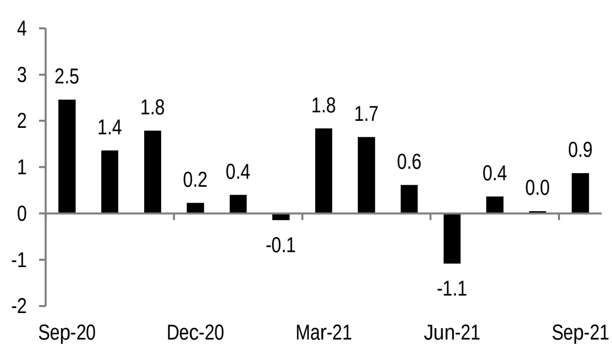
Source: INEGI

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

	% m/m			% 3m/3m	
	Sep-21	Aug-21	Jul-21	Jul-Sep**'21**	Jun-Aug**'21**
Total	0.9	0.0	0.4	0.2	0.1
Domestic	0.9	0.2	0.2	0.2	0.2
Goods	0.4	-0.1	0.8	-0.8	-1.5
Services	0.9	0.1	0.0	0.9	1.5
Imported goods	-0.1	-3.5	0.9	0.5	2.1

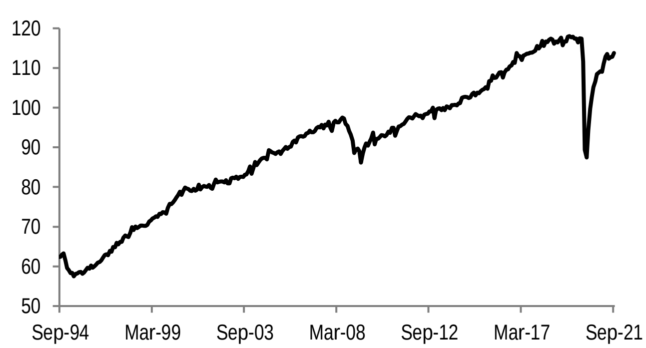
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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