

Domestic demand – Generalized strength at the end of 2022

- **Gross fixed investment (December): 9.4% y/y (nsa); Banorte: 8.3%; consensus: 6.4% (range: 4.6% to 8.3%); previous: 7.4%**
- **Private consumption (December): 3.3% y/y (nsa); Banorte: 2.8%; previous: 4.0%**
- **Investment increased 2.7% m/m, favored by an additional boost in activity, along other positive drivers. Inside, machinery and equipment rose 3.1%, helped by the domestic component. In addition, construction added a third month to the upside at +2.0%**
- **Consumption rose 1.0% m/m, more than offsetting the loss from the previous month and reestablishing its upward trend. Expansion focused on services (2.2%), with a more modest performance in imported goods (0.6%)**
- **In the short-term, we anticipate that dynamism will continue both on the investment side –with a boost to construction– and on consumption –with solid fundamentals. However, headwinds such as inflationary pressures and higher interest rates may limit the pace of progress**

Investment accelerates at the end of the year. At an annual rate, investment grew 9.4% ([Chart 1](#)), higher than the consensus (6.4%) but closer to our estimate (8.3%). By sectors, we highlight the growth of the two subcategories. Machinery and equipment increased 13.5%, which implies its fifth month in a row with double-digit rates, with the domestic sector outperforming. Meanwhile, construction rose 5.8% ([Chart 2](#)), once again driven by the non-residential sector. Details are presented in [Table 1](#). With this result, GFI grew 6.0% in 2022.

With seasonally adjusted figures, investment grew 2.7% m/m ([Chart 3](#)), with three months to the upside and with an accumulated expansion of 5.1% in said period. Inside, performance was positive. We highlight construction, up 2.0%, in our view boosted by an increase in the demand for industrial real estate –which has allowed both new and previously halted projects to resume. As such, non-residential activity grew 2.2%, while the residential sector remains somewhat subdued at 0.1%. Machinery and equipment was stronger at 3.1%. By sectors, the imported component increased 2.2%, not ruling out that the strength the MXN could have weighed negatively on the print. In addition, on the domestic front there was an increase of 7.3%, as seen in [Table 2](#). These results are consistent with the those seen in the [industrial production](#) report, where manufacturing also had a better performance, with evidence of some bottlenecks easing.

Consumption rebounds in December. The result came in at 3.3% a/a, with the base of comparison normalizing further ([Chart 5](#)). Looking at the breakdown, imported goods rose by 1.6%, with a mixed performance inside, noting non-durable to the upside (+11.3%), but with durables down (-12.3%). Domestic goods were more modest at 0.5%, with gains centered in durables (22.8%). On the other hand, services remained high at 6.5%. For further details, see [Table 3](#). Considering this, consumption expanded 6.5% in full-year 2022.

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Sequentially, consumption increased 1.0% m/m ([Chart 7](#)), offsetting November's negative performance. As such, we consider that the decline in the previous month marked only a pause, with the resilience of the sector continuing despite prevailing headwinds. The latter would be based on (1) [Historically low unemployment rates](#) –reaching new minimums in December and January; (2) continuity of government transfers through social programs; (3) sustained income in [households which receive remittances](#); and (4) an expansion in the seasonality of discounts (especially by SMEs) that were typically seen only in November. According to relevant figures, ANTAD's same-store sales grew 1.1% y/y in real terms. In the same line, sales reported by AMIA had a notable increase of 10.3% m/m, after a contraction in November. In the detail, all categories were higher, highlighting services at 2.2% –with the pandemic clearly being left behind– and with domestic goods at 0.9% ([Chart 8](#)). Meanwhile, imported goods climbed only 0.6%, disappointing slightly relative to the dynamism seen in non-oil consumption goods imports in the trade balance.

We expect domestic demand to keep growing, albeit with some concerns considering prevailing headwinds. Timely data signals that consumption and manufacturing have continued to strengthen, at least in the first month of 2023. In this context, figures from ANTAD and IMEF indicators show that domestic demand kept growing. In our opinion, this could be a sign of inertia –which plays highly in [our yearly GDP forecast](#)–, although we do not rule out that favorable headwinds are nourishing it, such as: (1) Higher normalization of supply chains and inventories; (2) better international trade conditions (with lower transportation costs); (3) [the increase to the minimum wage](#); (4) arrival of Asian companies ready for the distribution/commercialization of intermediate or consumer goods, within the framework of the nearshoring effort; and (5) higher demand for consumer goods or imported machinery and equipment due to the strength of the MXN, among others.

However, it is worth mentioning that the same elements that limited performance through most of 2022 are still present in the economy. In the first place, inflationary pressures, which, although no longer focused on energy, remain in processed foods and specific services, along with some raw materials after the reopening in China. As a result of this, the second factor follows, being additional monetary tightening at a global level.

All in all, our view in both sectors remains constructive, with both being relevant drivers for economic activity in the year. While consumption holds the key for resilience in the short-term, we believe investment –particularly the one related to nearshoring– will be rather relevant to influence the trajectory of the Mexican economy in the medium-term.

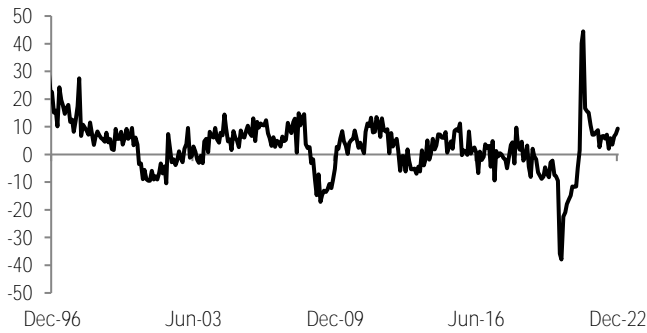
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Dec-22	Dec-21	Jan-Dec'22	Jan-Dec'21	Dec-22	Dec-21
Total	9.4	8.1	6.0	10.5	10.3	6.8
Construction	5.8	6.2	1.1	7.3	5.8	3.1
Residential	-1.8	-4.4	-4.4	1.3	-2.2	-1.9
Non-residential	13.1	18.9	6.2	13.4	13.6	7.3
Machinery and equipment	13.5	10.3	12.4	14.8	15.4	12.4
Domestic	24.6	-3.5	7.3	8.4	25.0	15.8
Transportation Equipment	38.8	-9.2	9.6	4.5	38.7	26.2
Other machinery and equipment	11.7	2.3	4.7	13.3	12.5	9.9
Imported	8.0	18.8	15.4	19.0	11.5	10.3
Transportation Equipment	35.9	24.3	23.3	18.4	34.8	23.6
Other machinery and equipment	4.6	18.2	14.3	19.1	8.2	8.4

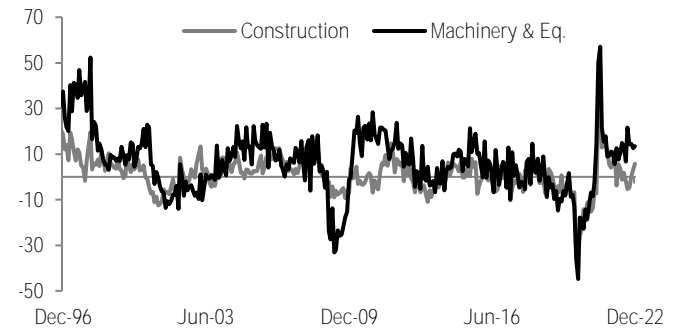
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



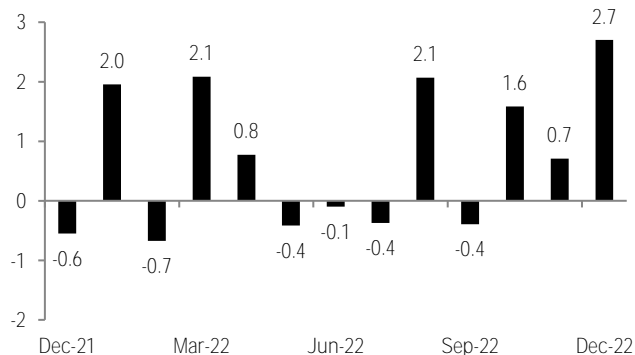
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Table 2: Gross fixed investment
% m/m sa: % 3m/3m sa

	% m/m			% 3m/3m	
	Dec-22	Nov-22	Oct-22	Oct-Dec'22	Sep-Nov'22
Total	2.7	0.7	1.6	3.4	2.1
Construction	2.0	2.0	2.2	4.1	2.1
Residential	0.1	1.0	1.9	0.9	-0.2
Non-residential	2.2	4.2	2.9	7.6	4.1
Machinery and equipment	3.1	-0.9	1.1	1.6	0.9
Domestic	7.3	0.9	7.1	6.4	0.6
Transportation Equipment	12.0	1.1	3.1	5.3	0.7
Other machinery and equipment	3.2	1.1	7.2	6.2	0.5
Imported	2.2	-3.4	0.1	-0.4	0.6
Transportation Equipment	7.3	-3.8	-3.1	7.9	15.0
Other machinery and equipment	1.0	-3.2	0.6	-1.6	-1.0

Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

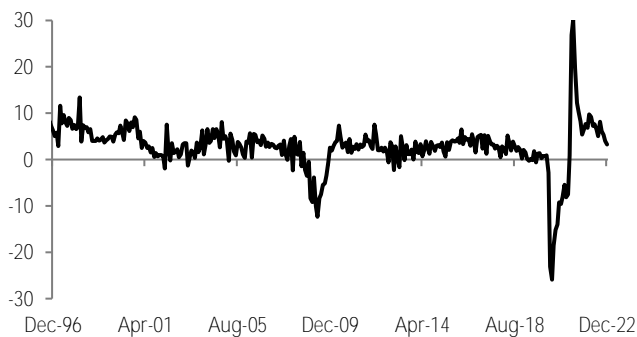
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Dec-22	Dec-21	Jan-Dec'22	Jan-Dec'21	Dec-22	Dec-21
Total	3.3	7.6	6.5	8.3	3.8	7.5
Domestic	3.5	7.1	5.6	6.7	3.6	6.9
Goods	0.5	4.0	2.4	6.7	0.6	3.9
Durables	22.8	-13.5	-2.9	5.3	--	--
Semi-durables	-1.4	4.0	4.9	17.4	--	--
Non-durables	-1.7	6.3	2.7	5.2	--	--
Services	6.5	10.3	8.8	6.7	6.5	10.2
Imported goods	1.6	12.0	13.5	22.3	5.2	12.0
Durables	-12.3	13.2	17.6	23.0	--	--
Semi-durables	5.8	22.6	23.3	17.3	--	--
Non-durables	11.3	5.7	5.8	24.4	--	--

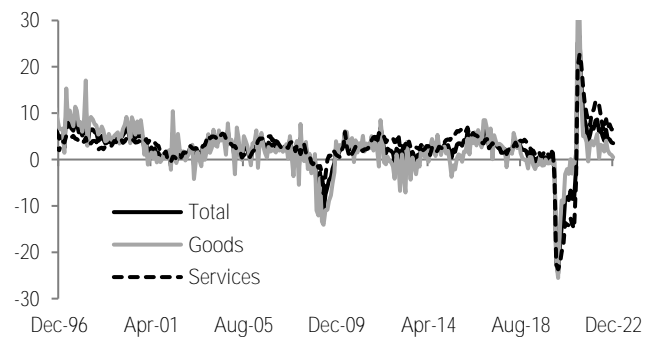
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



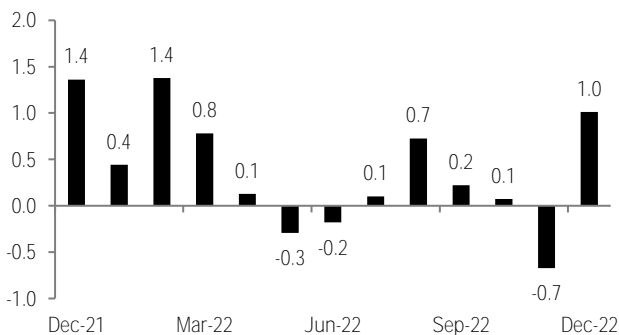
Source: INEGI

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

	% m/m			% 3m/3m	
	Dec-22	Nov-22	Oct-22	Oct-Dec'22	Sep-Nov'22
Total	1.0	-0.7	0.1	0.4	0.6
Domestic	1.2	-0.3	0.2	0.8	0.8
Goods	0.9	-0.1	-0.3	-0.1	-0.2
Services	2.2	-1.1	0.8	1.6	1.5
Imported goods	0.6	-3.7	-2.2	-4.4	-3.2

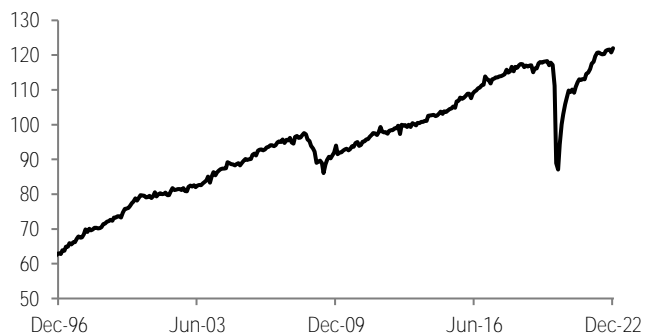
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, 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 Enríquez, 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, Daniel Sebastián Sosa Aguilar and Andrea Muñoz Sánchez, 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.

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