Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Mexico's Investment, Consumption and Autos Reports

- **Mexico: Investment rises, consumption moderates, and autos languish**

MEXICO: INVESTMENT RISES, CONSUMPTION MODERATES, AND AUTOS LANGUISH

I. Investment rose in March but remains below pre-pandemic levels

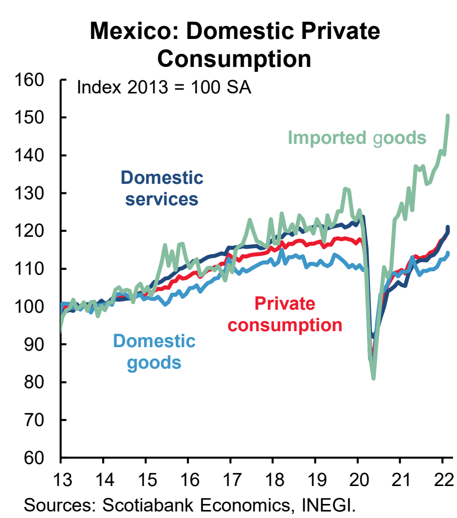
According to INEGI, gross fixed investment in March soared in real annual terms by 5.9% y/y (2.0% previously). By components, machinery and equipment decelerated to 8.6% y/y from 13.6% previous, while construction increased 3.6% y/y after a previous drop of -5.8% (chart 1). In seasonally adjusted monthly terms, investment rose 2.9% m/m (-2.3% previously), supported by the 5.2% increase in construction, which was more than enough to offset the -1.3% drop in machinery and equipment. Investment continues to be a drag for economic recovery as it remains below pre-pandemic levels, especially the construction component, and given the uncertain environment and the increase in interest rates, we do not expect a rebound in investment this year.

II. Consumption moderated in March, yet services dynamism continues

INEGI data also show private consumption decelerated from February's 10.0% y/y to 8.8% in March on a non-seasonally adjusted basis. Domestic goods rose from 4.2% y/y to 4.8%, led by non-durable goods, which increased by 6.0%, and followed by semi-durable goods, which moderated from 6.5% y/y to 4.7%, offsetting the -3.5% drop in durable goods. While services decelerated from 13.1% to 11.3%, they remain dynamic, as COVID-19-related risks are gone. Imported goods moderated from 21.8% y/y to 14.1%. On a cumulative annual basis, consumption has increased by 8.6% in the first three months of the year. In its seasonally adjusted monthly sequential comparison, consumption moderated from 1.4% m/m to 0.7%, derived from a remission in imported goods, from 6.6% m/m to 0.7%, and in domestic goods, from 1.1% m/m to 0.5%, which contrasted with the dynamism in services of 1.3% (1.2% previously) (chart 2). Going forward, we maintain our outlook for moderate increases in consumption, above pre-pandemic levels, supported by labour income and remittances, although with downside risks from persistent inflation and interest rate hikes.

Chart 1

Chart 2

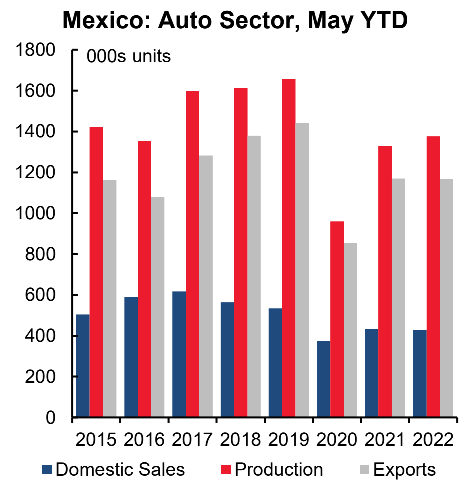


III. Auto industry rose in May, but cumulative numbers remain modest with downside pressures

The auto sector report for May shows that production rose 15.2% y/y (-6.6% previously), to 275,436 assembled units. Domestic sales grew 5.2% y/y (-1.0% previous), to 91,215 units, and exports moderated to 1.1% (2.9% previously) with 244,643 units. On a cumulative basis for the January–May 2022 period, 428,056 units have been sold, a decrease of -0.9% YTD, while 1,376,028 units were produced (+3.5% YTD) and 1,166,921 units were exported, -0.3% YTD less than last year (chart 3). For the coming months, we expect production to remain flat, as supply disruptions continue. For the demand side, domestic sales and exports could also face limited growth, affected by inventory shortages, as well as downside risks coming from inflation pressures and rate hikes, both in Mexico as its trade partners.

—Miguel Saldaña

Chart 3



Sources: Scotiabank Economics, INEGI.