Scotiabank
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LATAM DAILY

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Latam Daily: Mexican Investment and Consumption Weakness, Economists Lower GDP Forecasts

- **Mexico: Gross fixed investment recorded its fourth consecutive month of annual declines, with construction weakness the stand out; Private consumption fell on year-on-year for the first time since February 2021; Analysts revised GDP expectations lower**

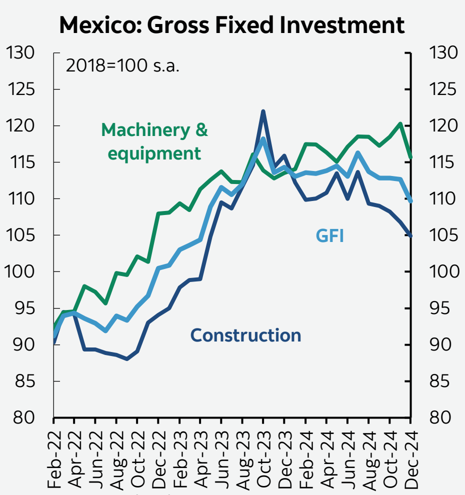
MEXICO: GROSS FIXED INVESTMENT RECORDED ITS FOURTH CONSECUTIVE MONTH OF ANNUAL DECLINES, WITH CONSTRUCTION WEAKNESS THE STAND OUT

In December, gross fixed investment (GFI) recorded its fourth straight month of declines, falling -4.0% y/y (-0.7% previous), more than anticipated (-2.5%). The drop was driven by a greater decline in construction, which fell -9.4% (-6.4% previous), marking five consecutive months in negative territory, with the non-residential investment subcomponent down -16.4% (-15.3% previous) and residential investment moderating its advance to 3.2% (7.1% previous). Meanwhile, investment in machinery and equipment slowed again, to 2.5% y/y from 5.8%; in particular, the domestic subcomponent decelerated 4.0% (11.3% previous), while the imported subcomponent moderated to 1.5% (2.0% previous). In the seasonally adjusted monthly comparison, GFI showed a decline of -2.6% m/m (from -0.2% previous), highlighting that construction decreased -1.8% m/m, and machinery and equipment -3.8% (chart 1).

The decline in construction is due to a significant drop in the public component, which has seen eight months of annual declines, this time -20.5% y/y (-22.9% in November), mainly due to the completion of infrastructure projects from the previous administration. On the private side, the fifth consecutive decline was recorded, at -6.8% y/y (-3.1% previous), explained by cautious sentiment due to greater domestic political uncertainty as well as the Mexico-US relationship. However, machinery and equipment remain at better levels with a 2.1% increase in private investment and 11.2% in the public component.

Looking ahead, we expect that uncertainty and volatility in Mexico-US tariff relations will lead to greater risk aversion among investors, which could result in a year of declines in investment.

Chart 1



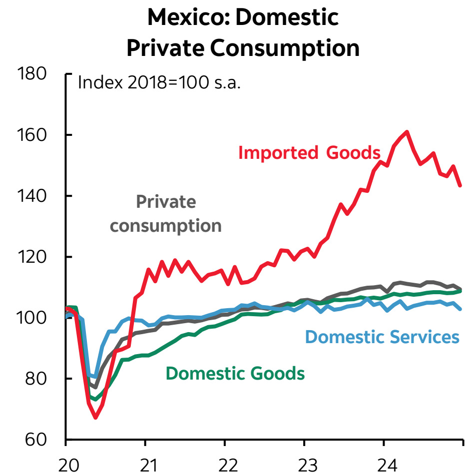
Sources: Scotiabank Economics, INEGI.

PRIVATE CONSUMPTION FELL ON AN ANNUAL BASIS FOR THE FIRST TIME SINCE FEBRUARY 2021

Also in December, private consumption fell on an annual basis for the first time since February 2021, by -0.7% y/y from 0.4% previously. In detail, domestic goods decreased by -2.1% (-1.0% previously), due to a decline in non-durable goods (-2.7%) and semi-durable goods (-0.4%), while durable goods slowed their advance to 0.2%. In contrast, services advanced by 2.3% (1.4% previously). Meanwhile, imported goods fell by -1.5% from -0.7%, marking two consecutive months of declines. In the seasonally adjusted monthly comparison, private consumption fell by -1.1% (0.5% previously), due to declines in domestic goods (1.8%) and imported goods (4.2%), although services grew at a slightly higher rate of 0.4% from 0.2% previously.

Despite the decline in December, consumption averaged a 2.8% increase in 2024 thanks to greater dynamism in the first half of the year. Looking ahead, we believe that slow job creation, along with lower dynamism in remittance flows, will affect household income, which in turn will impact private consumption. Additionally, given a weaker economic outlook, households may adopt more cautious behaviour, reducing their consumption in the coming months (chart 2).

Chart 2



Sources: Scotiabank Economics, INEGI.

ANALYSTS REVISED GDP EXPECTATIONS LOWER

In the Citi Expectations Survey, the growth expectation was revised down again, now to 0.8% from the previous 0.9%. For 2025, the consensus remained at 1.8%. Regarding the USDMXN, the expected level at the end of the year remained at $21.00, and at $21.50 by the end of 2025. In terms of monetary policy, almost all respondents anticipate that Banco de México will repeat a 50 basis points (bps) cut at the March meeting, with only two participants expecting a 25bps cut. Thus, the expected rate at the end of the year remains at 8.25% and 7.50% by the end of 2025.

Finally, the consensus expects February's monthly inflation to be 0.27%, which would result in an annual rate of 3.77%, up from the previous 3.59%, while the core component could be 3.61% annually (0.45% monthly), slowing from the previous 3.66%. With this, the consensus now expects year-end inflation to be 3.88%, along with 3.77% in the core component. In the coming months, we expect further downward revisions to GDP estimates, now that tariffs in the US have taken place, at least for now, while the USDMXN could face upward pressures with the tariffs implementation and a lower rate spread between Banxico and the Fed.

—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña