Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Mexico's September Investment Data, October Unemployment Rate and Revised GDP

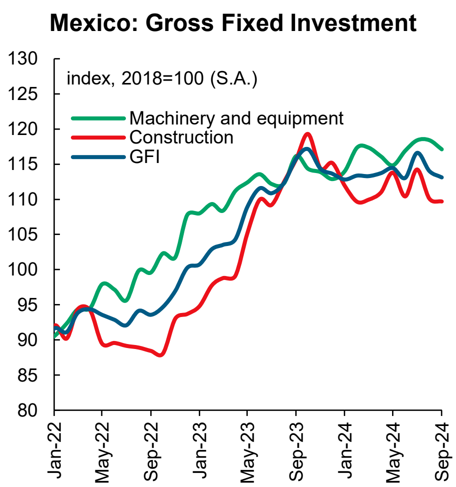
- **Mexico: In September, investment dropped affected by uncertainty and fewer infrastructure projects, and consumption moderated by slowing imported goods. Labour market and remittances slowed in October, yet they support an increasing consumption. GDP expectations for 2024 and USDMXN year-end forecast revised upwards in the Banxico Survey**

MEXICO: IN SEPTEMBER, INVESTMENT DROPPED AFFECTED BY UNCERTAINTY AND FEWER INFRASTRUCTURE PROJECTS, AND CONSUMPTION MODERATED BY SLOWING IMPORTED GOODS

During September, Gross Fixed Investment fell annually by -3.3% y/y from the previous increase of 0.5% (vs -0.5% consensus) (chart 1). Machinery and equipment decreased by -0.9% (4.2% previously), particularly, as the imported subcomponent fell by -4.1% (2.2% previously), possibly affected by USDMXN volatility, while the domestic subcomponent rose by 3.9% (7.2% previously). In the same sense, construction recorded a decline for the second consecutive time, of -5.3% (-2.7% previously), with non-residential construction dropping by -13.1% (-4.0% previously) and residential construction rebounding by 7.5% (-0.7% previously). For the January–September period, the index increased by 5.6% YTD. On a seasonally adjusted monthly comparison, gross fixed investment fell by -0.8% m/m (-2.2% previously), with construction decreasing by -0.4% m/m, and machinery and equipment by -1.1% m/m.

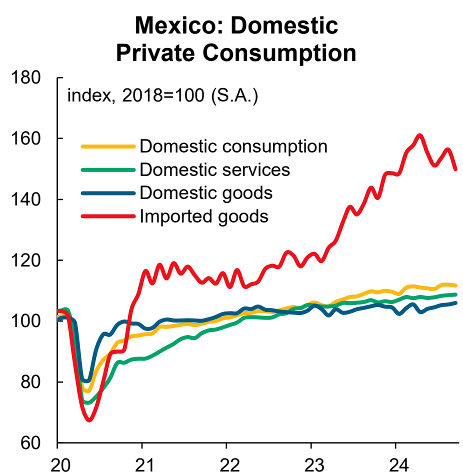
Also in September, private consumption moderated its pace, growing by 1.0% y/y (2.5% previously), with domestic consumption rising by 0.8%. In detail, domestic goods stagnated at 0.0% (0.8% previously), while domestic services slowed to 1.7% (2.2% previously) (chart 2). On the other hand, imported goods showed a significant slowdown, growing by 2.7% from a previous expansion of 9.4%. On a seasonally adjusted monthly comparison, private consumption fell by -0.3% (0.9% previously), driven by a decrease in imported goods of -4.1% (vs 1.7% in August).

Chart 1



Sources: Scotiabank Economics, INEGI.

Chart 2



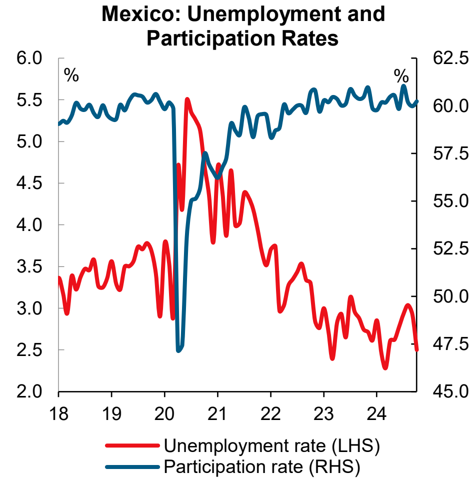
Sources: Scotiabank Economics, INEGI.

LABOUR MARKET AND REMITTANCES SLOWED IN OCTOBER, YET THEY SUPPORT AN INCREASING CONSUMPTION

In October, the unemployment rate fell to 2.5% from 2.9% previously. The participation rate dropped to 60.0%, of which 59.4 million are employed (chart 3). Among the employed, the informality rate slightly moderated to 54.2% from 54.3%, and the underemployment rate stands at 8.2%, representing 4.9 million people reported needing and being available to work more hours. The unemployment rate remains below 3.0%, however weakness in the labour market could be hidden in a lower participation rate in the month. In this sense, significant challenges persist in terms of labour force participation and underemployment as formal job creation is expected to slow, in line with the lower economic activity projected for 2025.

On the other hand, remittances recorded $5,722.7 million, up from $5,358.4 million. On an annual comparison, they showed a decline of -1.6% y/y (-4.6% previously). Year-to-date, they totaled $54,083 million, equivalent to an increase of 2.2% y/y, while over the last 12 months, they amounted to $64,492 million (an increase of 2.1% y/y). Despite concerns the expectations of a slower labour market and remittances in the coming months, both increasing salaries and the current level of remittances pose strong support for increased consumption, although moderate—in the short term, representing a key anchor for economic activity in this new, more uncertain, environment.

Chart 3



Sources: Scotiabank Economics, INEGI.

GDP EXPECTATIONS FOR 2024 AND USDMXN YEAR-END FORECAST REVISED UPWARDS IN THE BANXICO SURVEY

The Banxico Expectations Survey showed upward revisions in growth expectations for this year by private analysts, owing to a better-than-expected GDP figure for Q3. In line with Banxico's upward revision of the growth forecast (to 1.8% from the previous 1.5%), surveyed analysts also raised their growth forecasts, from 1.41% to 1.55% on average, after the final GDP estimate for Q3 resulted in 1.6% thanks to a significant rebound in agricultural activities, as well as lesser-than-expected moderation in industry and services. However, the outlook for 2025 remained practically unchanged, at 1.22%, suggesting some anticipated weakness in economic activity for the coming quarters. Regarding inflation, the forecast showed little variation, standing at 4.42% for 2024 and 3.84% for 2025, while the core inflation expectation dropped from 3.84% to 3.69% by the end of the year, and remained at 3.69% for the end of 2025, implying that analysts expect additional shocks in the agricultural component, along with a downward trend in the less volatile components, such as merchandises and services. On the other hand, following the episodes observed during November, analysts now expect an USDMXN of $20.22 by the end of this year (vs. $19.85 previously), and $20.71 by the end of 2025 ($20.06 previously), affected by the uncertainty generated by new possible protectionist measures towards Mexican exports. Finally, despite implied rates suggesting fewer cuts by the Federal Reserve, and comments from Governor Victoria Rodriguez about the possibility of making larger cuts in upcoming policy meetings, the year-end expected target interest rate remained unchanged, at 10.00% and 8.00%, for 2024 and 2025, respectively.

—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña