GFI recovers in November after recent temporary shocks

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- **Gross fixed investment (November): -3.5% y/y (nsa); Banorte: -4.8%; consensus: -4.2% (range: -5.5% to -0.6%); previous: -8.6%**
- **Using seasonally-adjusted figures, GFI rebounded 1.1% m/m, although this comes after steep declines in the previous two months, which were impacted by weakness within machinery and equipment, specifically in transportation, due to shocks to the auto sector**
- **Construction was up 1.2% m/m, with the residential sector showing more dynamism (3.1%) than non-residential (-0.5%), broadly consistent with the IP report**
- **We continue expecting a modest improvement in investment in 2020, with risks broadly balanced, although still with limited signs of more dynamism**

GFI declines 3.5% y/y in November, adding 10 months in the red. Investment fell once again, although standing above both consensus (-4.2%) and our forecast (-4.8%). This was also higher than the -8.6% observed in October and the strongest since March, although the period was heavily influenced to the upside by a base effect, which should extend towards the end of the year. As such, GFI accumulated a 5.1% contraction year-to-date (Table 1, below). We highlight that transportation equipment recovered 9.9% in the domestic sector but was still weak in imports at -4.0%, as operations started to normalize after the GM strike in the US and temporary stoppages in other plants in our country. Nonetheless, overall the report shows that investment remains muted, in our view reflecting high uncertainty and low spending by the Federal government, among other factors.

Tentative signs of a modest recovery. In the monthly comparison, GFI advanced 1.1% (sa). This is the first positive print after two consecutive months with strong declines (Chart 3). Considering the latter, this rebound remains quite modest, with activity at levels not seen since early 2014 (Chart 4). Taking a look at the breakdown, growth in construction was favorable (1.2%), particularly in the residential sector (3.1%), as shown in Table 2. This subcomponent has outperformed the non-residential sector for a fifth month in a row. Machinery and equipment (M&Eq) recovered more strongly, although this is distorted by the shock in transportation equipment in October, so we take the figure with some caution. In this respect and on the contrary, other domestic M&Eq showed a more muted performance at +0.2%, with other imported M&Eq at -0.8%, reflecting weakness already observed in capital goods imports within the trade balance report. Overall, we believe favorable signals in M&Eq are still missing.

We continue expecting investment to recover this year, albeit modestly. The report, although improving in annual terms when compared to recent months, was influenced to a great part by positive base-effects, especially in construction and domestic machinery and equipment. This will likely exacerbate in December, as imported M&Eq was also significantly weak in that period. On the other hand, seasonally-adjusted data showed a relevant increase, but with the index staying close to 5-year lows.

Moreover, other timelier data suggests performance remains weak. First, after a modest recovery in the previous month, business confidence inched lower again in January, with all main sectors retracing part of their gains. Manufacturing, retail and non-financial services reached new cycle lows, while construction is still hovering near minimums. As we have previously mentioned, we think better dynamics in this indicator are a necessary but not enough condition to anticipate a more lasting improvement in investment. Moreover, December's trade balance showed non-oil capital goods imports down 0.6% y/y (-1.9% m/m), portraying that difficulties remain. Nevertheless, spending in physical investment by the Federal Government rose 13.9% y/y in real terms in the same month, which could translate into higher dynamism in non-residential construction.

We continue believing that investment will improve relative to 2019. First, base effects will likely result in higher prints most of 2020, as shown today. Second, we expect capital spending by the Federal Government to increase as we have passed the first year of the administration (which typically sees difficulties in deploying spending), albeit with risks as fiscal income could come-in below expectations given GDP expectations above consensus. Third, we will watch closely the Government's proposals for investment in energy and health. According to press reports, the former plan will be presented by the end of February. It would aim for about $95-100 billion (≈0.4% of GDP) in new spending and could include strategic partnerships with the private sector. In conjunction with the first phase of the Infrastructure Plan –unveiled late last year–, and the creation of a new cabinet-level position to promote investment and economic growth –led by Chief of Staff, Alfonso Romo–, signal the government's willingness to accelerate spending and fast-track some projects. Fourth, we believe that the ratification of USMCA and the deal between the US and China could help reduce uncertainty in the private sector.

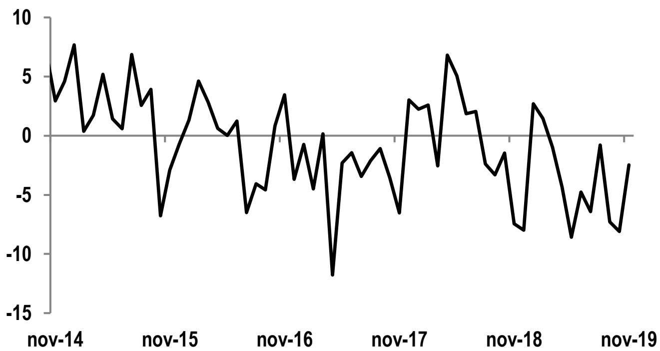
We maintain our forecast for investment to pick up 0.3% y/y in 2020. This would be significantly higher than in the previous year, although still very modest. For now, we believe risks are broadly balanced. Nevertheless, we are also cautious at least on two issues: (1) The deceleration in global economic activity, with the "Coronavirus" outbreak impacting dynamism in China and likely having an additional effect in other countries given the importance of this country in global supply chains, with manufacturing still in a weak spot after trade tensions; and (2) the US election, with the possibility of a more aggressive rhetoric by President Trump against Mexico to ensure support from his political base, including in themes such as migration and security, and which could result in another bout of higher uncertainty and volatility.

Table 1: Gross fixed investment
% y/y nsa

	Nov-19	Oct-19	Jan-Nov, '19	Jan-Nov, '18
Total	**-3.5**	**-8.7**	**-5.1**	**1.8**
Construction	**-2.5**	**-8.1**	**-3.6**	**0.3**
Residential	4.5	-6.4	-1.8	2.1
Non-residential	-8.6	-9.7	-5.3	-1.4
Machinery and equipment	**-4.9**	**-9.3**	**-7.0**	**3.9**
Domestic	2.1	-5.7	-4.0	-1.2
Transportation Equipment	9.9	-5.6	0.6	-0.4
Other machinery and equipment	-6.7	-5.8	-11.0	-2.5
Imported	-9.0	-11.6	-9.0	7.5
Transportation Equipment	-4.0	-22.2	-2.9	5.9
Other machinery and equipment	-9.9	-9.5	-10.0	7.8

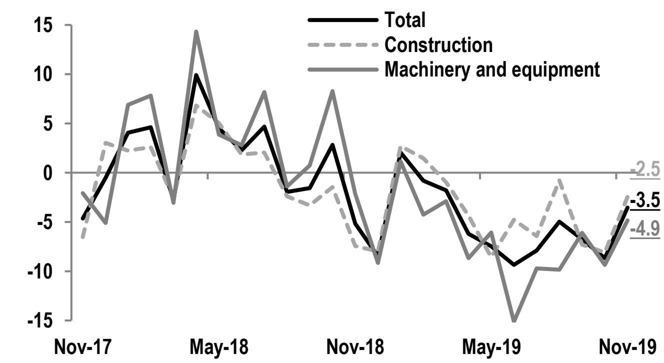
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



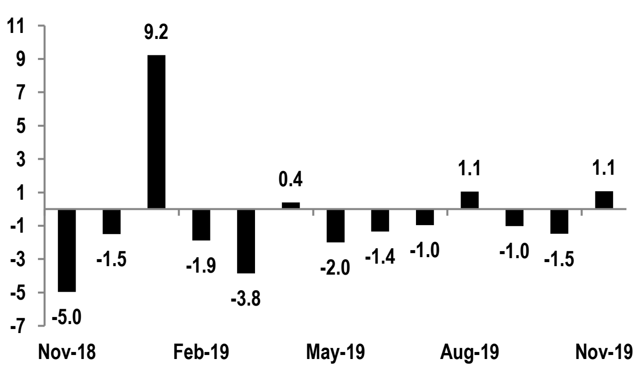
Source: INEGI

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

	% m/m			% 3m/3m	
	Nov-19	Oct-19	Sep-19	Sep-Nov ‘19	Aug-Oct ‘19
Total	**1.1**	**-1.5**	**-1.0**	**-1.3**	**-1.2**
Construction	**1.2**	**-1.8**	**-5.1**	**-4.2**	**-1.4**
Residential	3.1	-1.1	-1.4	0.1	0.5
Non-residential	-0.5	-1.8	-5.0	-6.4	-3.9
Machinery and equipment	**2.7**	**-1.7**	**1.0**	**1.7**	**-0.4**
Domestic	4.5	-6.0	4.2	-1.0	-3.3
Transportation Equipment	6.2	-8.2	4.5	-4.4	-8.4
Other machinery and equipment	0.2	-3.3	2.4	3.6	7.6
Imported	0.9	1.4	-2.1	3.5	2.1
Transportation Equipment	5.8	-2.6	-6.5	-4.4	-3.8
Other machinery and equipment	-0.8	2.3	-0.8	5.9	4.3

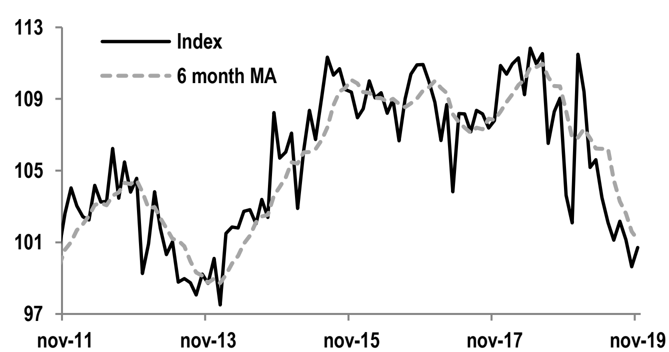
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

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