

FDI – Inflows of US\$ 32.9 billion in 2019, up 4.2% y/y

February 18, 2020

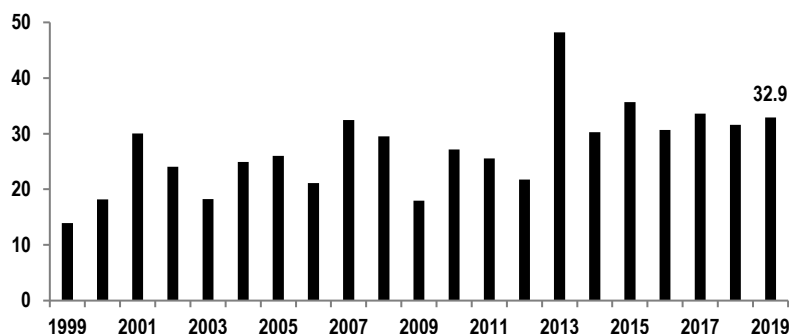
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- The Ministry of Economy released the preliminary estimate of FDI in 2019
- During the year, our country received US\$ 32.9 billion in net inflows, 4.2% higher in nominal terms with respect to revised figures for 2018
- By type of investment, most consisted of reinvested profits (53.1%). On the other hand, new investments represented 39.0%
- At the sector level, manufacturing received most of the resources, with 47.2% of the total. The second most benefited was financial services and insurance (15.3%)
- The US represented 36.8%, maintaining the lead as the country with the highest contribution
- We believe the result is favorable, particularly when taking into account the high degree of uncertainty experienced throughout the year, both domestic and external
- For 2020, it is our take that FDI could accelerate, benefitted by lower uncertainty and better expectations for Mexico’s GDP growth

Foreign direct investment reaches US\$ 32.9 billion in 2019. According to preliminary data released by the Ministry of Economy, net foreign direct investments was 4.2% y/y higher in nominal terms when compared to 2018, when it reached US\$ 31.6 billion (see chart below). In particular, inflows stood at US\$ 41.9 billion, while outflows reached US\$ 9 billion. By type, 53.1% consisted of reinvested profits, 39.0% of new investments, and 7.9% of inter-company investments. It should be mentioned that the share of profits reinvested relative to new money increased when compared to 2018, which in our view could be related to higher uncertainty, both domestic and global.

Foreign direct investment
US\$ billion



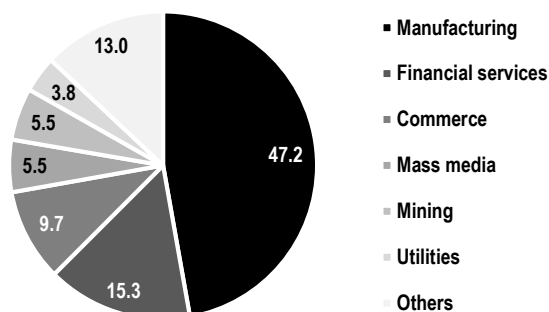
Source: MoE

Manufacturing remains as the sector concentrating most investments. In this respect, this sector received 47.2% of total inflows, reaffirming its position as one of the key activities for our country’s economy. Other relevant sectors include financial services (15.3%) and commerce (9.7%), as shown in the chart below on the left.

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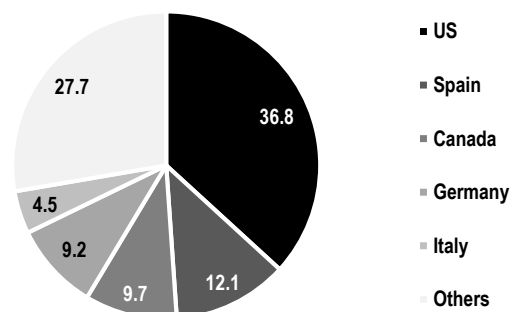
The US remains as the top investor in our country. As has been the case since data on FDI is published (back to 1999), the US was the country with the highest amount of investments in Mexico, representing 36.8% of the total. Moreover, we highlight that other countries with relevant investments include Spain (12.1%), Canada (9.7%), Germany (9.2%) and Italy (4.5%), among others.

FDI by sector of economic activity
% of total



Source: MoE

FDI by country of origin
% of total



Source: MoE

Favorable results in an adverse environment. We believe today’s results are positive, particularly when taking into account the backdrop experienced in 2019, both domestically and globally. Regarding the latter, uncertainty climbed in trade, driven by the protectionist agenda of the US that resulted in higher tensions with China and the European Union, along threats of higher tariffs against our country. To this, we should add concerns about the deceleration of global economic activity, which exacerbated during the second half of the year. We believe these factors could have impacted investment appetite. In this respect, the United Nation’s *Global Investment Trends Monitor* estimates a 1% decline in global FDI during 2019, in our view highly influenced by the abovementioned factors. In the domestic front, we believe an additional impact may have been felt as it was the first year of a new administration, which is characterized by relatively low levels of investment. Broadly speaking, we believe performance in 2019 was quite favorable, reaffirming the high confidence placed by investors in our country as a key location for global supply chains.

Better conditions for 2020. In our view, FDI could accelerate this year, benefited by an environment characterized by lower risks, both internal and external. In the former, a scenario in which GDP growth will likely be higher, along lower uncertainty after the ratification of USMCA in the US, should help increase foreign investment flows. On the other hand, lower trade tensions globally and the relative strength of economic activity in the US could also support inflows, although we do not rule out higher risks in the horizon. Among them, we point to the potential impact from the “Coronavirus” outbreak, which so far remains very challenging to estimate, along the US election later this year.

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