GFI was still weak at the end of 2019

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- **Gross fixed investment (December): -3.0% y/y (nsa); Banorte: -1.4%; consensus: -2.9% (range: -5.0% to 0.0%); previous: -3.6%**
- **During 4Q19, investment contracted 5.2% y/y. With this, GFI plunged 4.9% in full-year 2019, weakest in a decade**
- **Using seasonally-adjusted figures, GFI plunged 1.5% m/m, more than reversing the 0.9% jump registered in November**
- **Construction stayed limited even with higher government spending in the period, declining 0.1% m/m. The residential sector extended recent gains, while the non-residential was weaker at the margin**
- **On the other hand, machinery and equipment fell significantly at -3.2%, with both the domestic and imported components down, albeit with the former at a faster pace**
- **We maintain our view of a modest improvement in investment this year. Nevertheless, low business confidence and the increase in uncertainty about global growth due to the Coronavirus mean greater challenges and risks to the downside for the sector**

GFI declines 3.0% y/y in December, barely moderating its pace of decline despite more benign base effects. This was practically in line with consensus (-2.9%), but lower than our -1.4% forecast. It was also above the -3.5% observed in November. Part of the reason we expected a better performance in annual terms was a higher impact from favorable base effects, which wasn't as positive as we anticipated. We should also mention that the month had one more working day in the annual comparison. With this print, GFI accumulated a 4.9% contraction in full-year 2019 (Table 1, below), weakest since 2009 during the financial crisis (-11.7%). During 2019, investment has been affected by a plethora of factors, including the typical slowdown in the first year of a new administration, some temporary shocks at the start of the year and to the auto sector, and high uncertainty –both domestic and external–, among the most relevant.

Weak performance in monthly terms, despite some signs of support from public spending. GFI contracted 1.5% m/m (sa), weak even even discounting for the +0.9% observed in November (Chart 3). By sector, we highlight that machinery and equipment was the weakest, standing at -3.2%. In particular, the performance of the domestic sector (-3.1%) was dragged by the steep 5.3% contraction in transportation equipment, which practically reversed the previous month's gains. Meanwhile, the imported component was also lower (-2.4%), although with transportation at +1.2%, extending the increase of the previous month, while the rest of M&Eq. stood at -1.6%. Construction declined 0.6%, with the residential sector stronger (0.6%), which was one of the few bright spots within the report. On the other hand, the non-residential sector contracted 0.2%, adding four consecutive months of declines. We believed the latter could have been supported by higher government spending, with physical investment up 13.9% y/y in real terms. Nevertheless, the report's signal is opposite to this.

Overall, 4Q19 declined 1.9% 3m/3m, moderating at the margin from the -2.2% of the previous quarter (Table 2). Despite of these, absolute investment levels remain low, still hovering around those observed in early 2014 (Chart 4).

Downside risks for investment have increased in recent weeks. We maintain our view of a modest improvement relative to 2019, with our current forecast at 0.3% y/y. Nevertheless, downside risks have increased. The most relevant is the impact that the Coronavirus outbreak is having in global economic activity, reducing the attractiveness of new projects. Closely behind is the effect that the outbreak may have on uncertainty –in turn impacting business and consumer confidence– and risk premiums. Although it is too early to assess its impact as it is an ongoing issue, we believe investment spending is likely the most vulnerable component of aggregate demand because of this backdrop.

In response to the latter, the Minister of Finance, Arturo Herrera, stated earlier this week that they are in talks to coordinate their response with the central bank, although affirming that the effect on the Mexican economy has been marginal. He said the MoF will keep respecting the central bank's autonomy, and that from their side they are working to speed up already budgeted spending plans to help economic growth, albeit without providing details if this includes infrastructure outlays.

Moreover, data released so far for the start of 2020 keep failing to signal a relevant improvement. Among them, we keep highlighting additional pressures in business confidence, with all sectors (except services and commerce) sliding further to a two-year low through February. As we have mentioned repeatedly, we think better dynamics in this indicator are a necessary condition to anticipate a turnaround. January's capital goods imports within the trade balance fell both in the annual comparison (-13.6% y/y) and sequentially (-0.4% m/m). Meanwhile, physical investment by the Federal Government dipped 15.2% y/y in real terms in, led by the energy sector, suggesting headwinds remain for non-residential construction. Meanwhile banking credit for construction remains weak through January, while overall data for corporates is still muted.

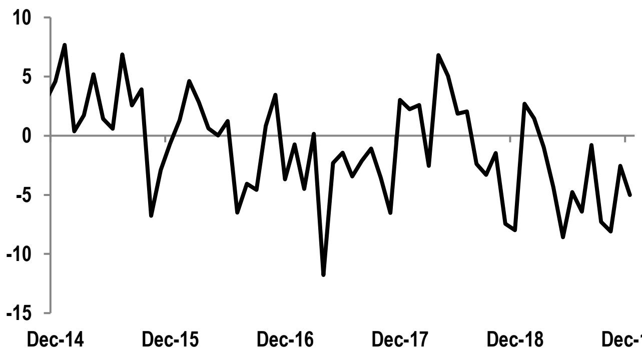
On a relatively more positive note, we keep waiting for the Government's proposals for investment in the energy sector, which was scheduled for late February but has been delayed at least to the first half of this month. Moreover, the ratification of USMCA (expected to be in force by 2H20), and the potential rerouting of FDI given the situation on China could help provide some boost to investment into our country.

Table 1: Gross fixed investment
% y/y nsa

	Dec-19	Nov-19	2019	2018
Total	**-3.0**	**-3.6**	**-4.9**	**0.9**
Construction	**-5.0**	**-2.5**	**-3.7**	**-0.5**
Residential	1.4	5.0	-1.5	1.1
Non-residential	-10.6	-9.1	-5.8	-2.0
Machinery and equipment	**-0.2**	**-4.9**	**-6.5**	**2.8**
Domestic	-2.1	2.1	-3.8	-2.0
Transportation Equipment	3.1	9.6	0.8	-1.6
Other machinery and equipment	-8.9	-6.6	-10.8	-2.7
Imported	1.1	-9.0	-8.2	6.1
Transportation Equipment	3.4	-4.0	-2.4	4.4
Other machinery and equipment	0.7	-9.9	-9.2	6.4

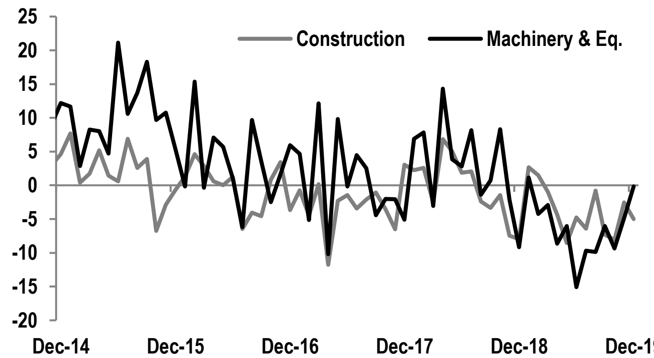
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



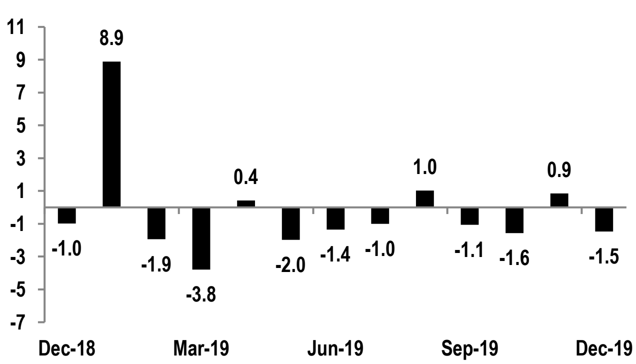
Source: INEGI

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

		% m/m		% 3m/3m	
	Dec-19	Nov-19	Oct-19	Oct-Dec '19	Sep-Nov '19
Total	**-1.5**	**0.9**	**-1.6**	**-1.9**	**-1.5**
Construction	**-0.1**	**1.4**	**-2.1**	**-3.2**	**-4.1**
Residential	0.6	3.3	-1.1	1.1	0.1
Non-residential	-0.2	-1.3	-1.8	-5.4	-6.6
Machinery and equipment	**-3.2**	**2.4**	**-1.8**	**-0.3**	**1.5**
Domestic	-3.1	3.4	-5.8	-2.9	-1.1
Transportation Equipment	-5.3	5.5	-8.5	-5.6	-4.8
Other machinery and equipment	-3.4	-0.1	-3.7	-2.7	3.2
Imported	-2.4	0.8	1.4	0.9	3.1
Transportation Equipment	1.2	5.8	-2.5	-2.9	-4.3
Other machinery and equipment	-1.6	-0.8	2.2	2.5	5.7

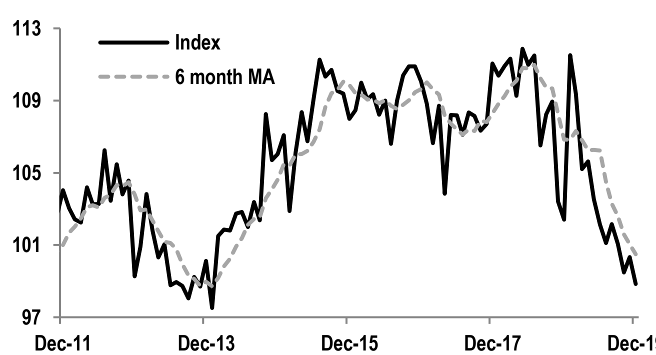
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

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