

GFI started 2020 on a relatively good footing, although the outlook is now more adverse

- **Gross fixed investment (January): -8.8% y/y (nsa); Banorte: -9.6%; consensus: -8.9% (range: -12.0% to -2.1%); previous: -3.0%**
- **It should be noted that poor performance in annual terms is largely explained by a very challenging base effect, as GFI in January 2019 spiked +2.1%**
- **Using seasonally-adjusted figures, GFI edged-up 1.7% m/m, more than reversing the 1.3% plunge seen in the previous month**
- **Construction was considerably higher at 1.4% m/m, driven by the 5.6% expansion in the non-residential sector. Surprisingly, residential contracted 0.8%**
- **Moreover, machinery and equipment grew 0.6%, with the domestic component (1.1%) outpacing the imported sector (0.3%)**
- **We now expect investment to fall considerably this year, with business sentiment highly impacted by the COVID-19 pandemic, the global recession and other domestic factors**

GFI declines 8.8% y/y in January, highly impacted by an adverse base effect. This was practically in line with consensus (-8.9%), but higher than our -9.6% forecast. It was also a considerable setback relative to the 3.0% contraction seen in December ([Table 1](#), below). Nevertheless, we should note that most of the negative performance in annual terms is explained by a very challenging base effect, as investment in January 2019 was actually positive at +2.1%. Moreover, there was not an additional working day to prop-up the figure, as there was in the previous month. In this sense, the fall was generalized, albeit with construction showing a slightly better performance at -7.1% when taking into account the factors outlined above. Meanwhile, machinery and equipment (M&Eq.) decreased 11.2% ([Chart 2](#)).

Stronger performance in monthly terms, supported by non-residential construction. GFI edged-up 1.7% m/m (sa), which we see as quite positive as it erased the 1.3% contraction seen in December ([Chart 3](#)). By sector, construction was the strongest at 1.4%. Inside, dynamics were explained by the 5.6% expansion in the non-residential sector. This was surprising to us, as public spending figures for January seemed to suggest a more sluggish performance, with physical investment contracting 15.2% y/y in real terms. Also surprising was the 0.8% contraction in the residential sector, which had been more resilient in recent months. Meanwhile, machinery and equipment was up 0.6%. In particular, the performance of the domestic sector (1.1%) was boosted by the 2.2% growth in transportation equipment, although not enough to reverse losses in the previous month (-5.2%). Meanwhile, the imported component was relatively weaker (0.3%), with a considerable plunge in transportation at -14.1%, while the rest of M&Eq. grew only 1.8%.

April 6, 2020

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

Document for distribution among
public

In this context, activity declined only 0.7% on a 3m/3m basis, improving relative to the -1.6% in the previous period ([Table 2](#)). In addition, and despite remaining low, absolute investment levels were starting to show some tentative signs of bottoming out after the persistent decline observed last year ([Chart 4](#)).

The outlook for investment is materially worse. As recently outlined in our [quarterly outlook](#), we now expect investment to fall 9.5% y/y in 2020. This would be explained by a series of factors, both external and domestic. The most relevant one would be the former, as uncertainty about the duration and impact of the COVID-19 pandemic will likely push businesses to halt investments to address more immediate financial needs arising from the stop in activity. This will surely take a toll on business confidence, as we have started to see in March figures, with the main four sectors (construction, manufacturing, commerce and non-financial services) weaker and a significant impact in the ‘adequate moment to invest’ component. This is also consistent with overall sentiment within the [latest analyst survey from Banxico](#), in which external factors now lead the challenges ahead in terms of total responses. In the domestic front, and despite [signs of the continuation of some public investment projects](#), other factors such as the [recent credit rating downgrade by S&P Global](#), could further dampen investment projects. Nevertheless, there are other, more promising signs, such as the government announcing that they will release soon the plan for public-private partnerships in the energy sector, estimated at \$339 billion (US\$13.4 billion). Moreover, despite the possibility that [Banxico keeps reducing the reference rate](#) could be a countering factor, the scenario has turned much more complex given the uncertainty shock to both global and domestic demand because of the virus.

In the very short term, data for February suggests weakness will continue, as portrayed by the steep contraction in capital goods imports (-11.1% y/y; -2.2% m/m), with our expectation that construction will also be relatively slow. There is a slight positive signal, as physical investment by the Federal Government edged-up 4.8% y/y in real terms, although as we seen today, it might not hold much water as a predictor for future activity. In this regard, we could see the plunge as soon as March, with IMEFs and business confidence (as previously described) taking a toll.

All in all, we recognize considerable risks to the downside going forward, as the duration and ultimate impact of the pandemic will be a key factor to determine how much investment can fall. Moreover, we will need to see if stimulus plans in the US start to have their desired effect, as the high degree of dependency could result in some boost to our economy.

Table 1: Gross fixed investment

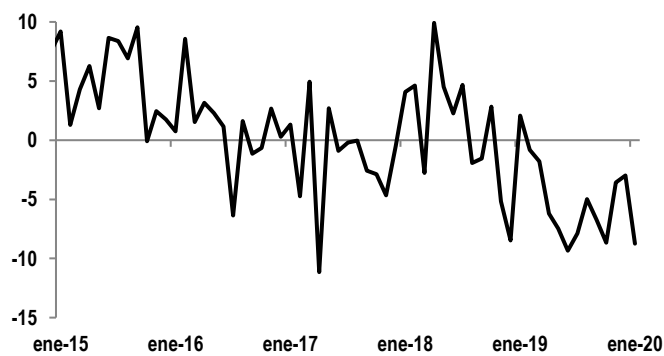
% y/y nsa

	Jan-20	Dec-19	2019	2018
Total	-8.8	-3.0	-4.9	0.9
Construction	-7.1	-5.0	-3.7	-0.5
Residential	-8.9	1.4	-1.5	1.1
Non-residential	-5.3	-10.6	-5.8	-2.0
Machinery and equipment	-11.2	-0.2	-6.5	2.8
Domestic	-7.9	-2.1	-3.8	-2.0
Transportation Equipment	-9.0	3.1	0.8	-1.6
Other machinery and equipment	-6.3	-8.9	-10.8	-2.7
Imported	-13.0	1.1	-8.2	6.1
Transportation Equipment	-22.0	3.4	-2.4	4.4
Other machinery and equipment	-11.6	0.7	-9.2	6.4

Source: INEGI

Chart 1: Gross fixed investment

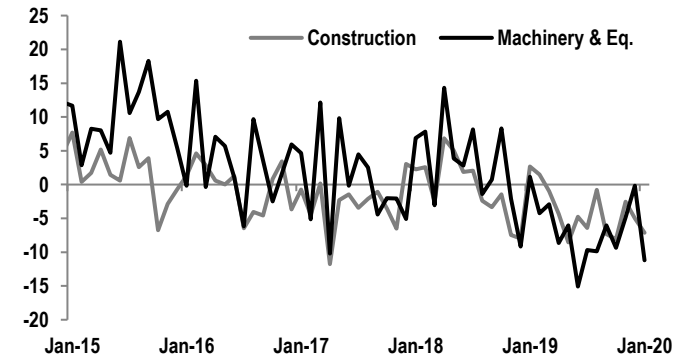
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector

% y/y



Source: INEGI

Table 2: Gross fixed investment

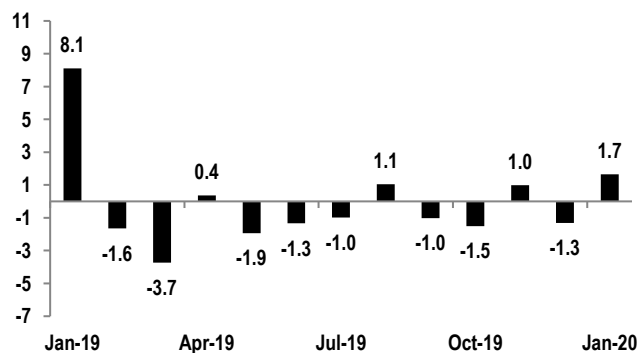
% m/m sa; % 3m/3m sa

	Jan-20	% m/m			% 3m/3m	
	Jan-20	Dec-19	Nov-19	Nov'19-Jan'20	Oct-Dec'19	
Total	1.7	-1.3	1.0	-0.7	-1.6	
Construction	1.4	0.4	1.8	-0.4	-2.6	
Residential	-0.8	0.6	3.2	2.0	0.9	
Non-residential	5.6	-1.1	-0.2	-1.7	-4.5	
Machinery and equipment	0.6	-3.3	2.2	-0.8	-0.6	
Domestic	1.1	-3.6	2.2	-2.8	-4.2	
Transportation Equipment	2.2	-5.2	5.5	-1.9	-5.6	
Other machinery and equipment	0.9	-3.3	0.0	-3.6	-2.7	
Imported	0.3	-2.5	0.7	-0.7	0.8	
Transportation Equipment	-14.1	-1.7	5.3	-4.9	-4.5	
Other machinery and equipment	1.8	-1.5	-0.8	0.0	2.6	

Source: INEGI

Chart 3: Gross fixed investment

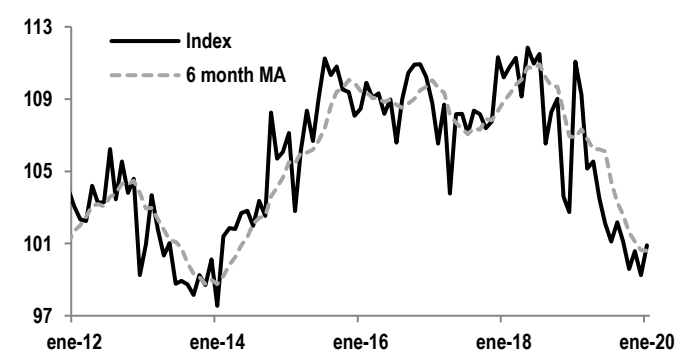
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment

Index sa



Source: INEGI

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V. since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Economic Research and Financial Market Strategy

Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Economic Research

Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707

Market Strategy

Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
-------------------------	-----------------------------	----------------------------	------------------

Fixed income and FX Strategy

Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755

Corporate Debt

Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Economic Studies

Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454