GFI on a downward path in February, with some early impact from COVID-19

- **Gross fixed investment (February): -8.6% y/y (nsa); Banorte: -8.7%; consensus: -8.3% (range: -10.2% to -3.2%); previous: -8.7%**
- **We note that the annual print is biased to the upside due to the leap year. Adjusting for this effect with seasonally adjusted figures, GFI fell 10.2%**
- **In the monthly comparison we observed a 1.7% decline, more than reversing the +1.5% of the previous month**
- **Construction was relatively stronger at -1.0% m/m, dragged by the 4.4% decline in the non-residential sector. On the other hand, residential edged-down by 0.1%**
- **Moreover, machinery and equipment fell 3.2%, with the plunge in the imported component (-6.8%) more than compensating for the advance 1.5% advance in the domestic sector**
- **Available information points to an additional and strong contraction in investment this year, with sentiment and economic activity severely affected by the COVID-19 pandemic**

GFI declines 8.6% y/y in February. This was slightly higher than consensus (-8.3%) but closer to our -8.7% forecast. It was also similar to the previous month, which was dragged by a challenging base effect. Nevertheless, we should mention that this month's figure was biased to the upside because of the additional day added due to the leap year. Correcting for this, using seasonally adjusted figures, GFI fell 10.2% (Table 1, below). In this regard, investment was already weak even before concerns about the Coronavirus picked up, which makes us believe that the contraction will be steeper in coming months. Inside, and using seasonally adjusted figures, the fall was broadly-based, albeit with construction showing a slightly better performance at -8.7%. Meanwhile, machinery and equipment (M&Eq.) declined 11.5%.

Deterioration in monthly terms, despite some strength in domestic M&Eq. GFI declined 1.7% m/m (sa), which we see as very negative as it more than erased the 1.5% expansion seen in January (Chart 3). By sector, construction was relatively better at -1.0%. Inside, dynamics were mostly explained by the 4.4% contraction in the non-residential sector. This contrasts with other figures such as physical investment by the Federal Government, which expanded 4.5% y/y in real terms. Meanwhile, the residential sector edged down 0.1%, adding two consecutive months of declines. Machinery and equipment fell by 3.2%. In particular, the performance of the domestic sector was surprising, at +1.5%. This was boosted by the 2.8% advance in transportation equipment, which was favorable after last month's gains (2.3%). Meanwhile, the imported component was considerably weaker at -6.8%, worst since last June. Inside, dynamics were highly mixed, as transportation climbed 18.3% but the rest of M&Eq. fell 10.1%.

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Nevertheless, the rebound in the former, is explained by a base effect, as imports decreased 16.9% in January. Overall, we believe the contraction in imported M&Eq. is likely related to supply chain disruptions, starting to be impacted by the COVID-19 pandemic. In this context, activity declined 1.0% on a 3m/3m basis, improving relative to the -1.1% in the previous period (Table 2). Nevertheless, absolute investment levels continued to fall, now standing close to 2013 lows (Chart 4), situation we expect to sharply deteriorate in coming months.

We expect a steep fall in investment in 2020. We continue to anticipate an 18.5% contraction in investment this year, explained by both external and domestic factors. In particular, and as mentioned previously, the main shock comes from the COVID-19 pandemic. Although in February its effect was mainly external –impacting supply chains due to factories closing in China and other trade partners–, it has turned domestic, with social distancing measures strongly impacting the economy since late March and exacerbating in April. One indicator that has captured this is the Banxico's expectations survey, especially the question about headwinds for growth, in which although external factors remain in the lead, domestic conditions significantly closed the gap in April. Moreover, sentiment indicators such as business confidence have fallen sharply, especially in the 'adequate moment to invest' component, plunging to new historical lows for three out of the four largest sectors (construction, commerce and non-financial services). Besides, the increase in risk premiums on the back of higher volatility and risk aversion in global markets has pushed long-term interest rates higher relative to the levels observed before the pandemic hit, which in addition to economic weakness, is an additional challenge for investment.

In the very short term, data for March already points to a steeper contraction. In particular, capital goods imports –highly related to imported machinery and equipment–, fell 18.1% y/y (-9.8% m/m). Meanwhile, signals in construction are also negative, at least in the private sector, with IMEF's non-manufacturing PMI –where construction is included–, falling to a new historical low. On the contrary, some support could come from government investment, with public finance figures pointing showing that physical investment surged 34.2% y/y in real terms in the same period.

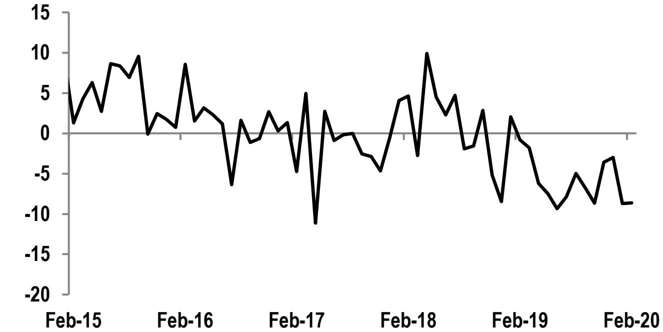
All in all, we recognize that considerable risks remain in terms of investment, as its final magnitude still depends on the duration and ultimate effect of the pandemic, which remains uncertain. On the other hand, we will need to see if loan programs implemented by both the Federal Government and Banxico can smooth at least part of its adverse effect, which would lay the groundwork for a faster recovery once economic activities can normalize.

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Feb-20	Jan-20	Jan-Feb '20	Jan-Feb '19	Feb-20	Jan-20
Total	**-8.6**	**-8.7**	**-8.7**	**0.6**	**-10.2**	**-9.3**
Construction	**-8.1**	**-7.0**	**-7.6**	**2.1**	**-8.7**	**-7.6**
Residential	-7.6	-8.8	-8.2	4.3	-8.2	-9.9
Non-residential	-8.7	-5.3	-6.9	-0.1	-9.3	-5.3
Machinery and equipment	**-9.5**	**-11.2**	**-10.4**	**-1.5**	**-11.5**	**-10.9**
Domestic	-4.7	-7.9	-6.3	-2.9	-4.6	-7.4
Transportation Equipment	-5.6	-9.0	-7.3	2.1	-6.0	-7.6
Other machinery and equipment	-3.4	-6.3	-4.9	-9.6	-3.0	-7.0
Imported	-12.5	-13.0	-12.8	-0.6	-15.9	-13.0
Transportation Equipment	-2.6	-22.0	-12.6	8.8	-7.3	-21.0
Other machinery and equipment	-14.3	-11.6	-12.8	-2.0	-16.3	-11.6

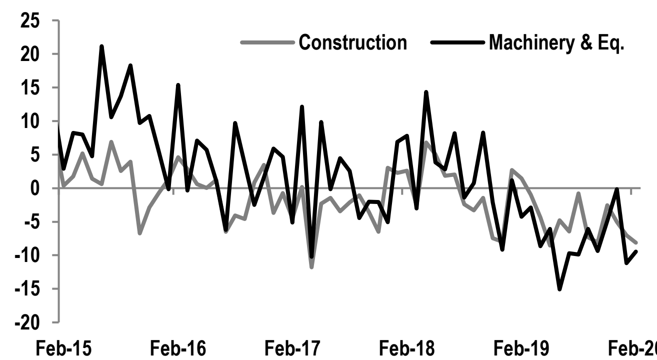
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



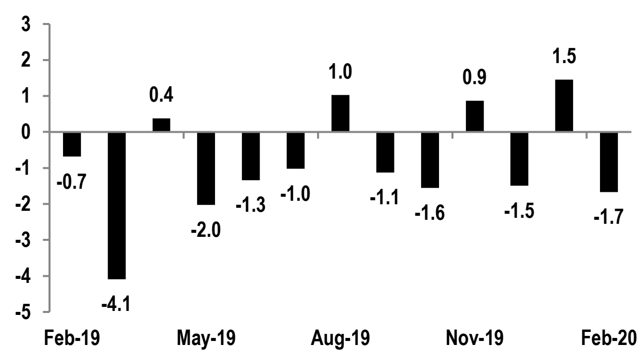
Source: INEGI

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

	% m/m			% 3m/3m	
	Feb-20	Jan-20	Dec-19	Dec'19-Feb'20	Nov'19-Jan'20
Total	**-1.7**	**1.5**	**-1.5**	**-1.0**	**-1.1**
Construction	**-1.0**	**1.3**	**0.3**	**1.3**	**-0.6**
Residential	-0.1	-0.7	0.5	1.6	1.9
Non-residential	-4.4	5.6	-0.4	1.0	-1.6
Machinery and equipment	**-3.2**	**0.4**	**-3.5**	**-3.6**	**-1.2**
Domestic	1.5	1.1	-3.4	-2.8	-2.6
Transportation Equipment	2.8	2.3	-5.1	-2.2	-1.6
Other machinery and equipment	0.0	0.9	-3.2	-4.1	-3.7
Imported	-6.8	-0.3	-2.9	-4.5	-1.4
Transportation Equipment	18.3	-16.9	1.1	-2.6	-3.8
Other machinery and equipment	-10.1	1.2	-2.0	-4.4	-0.8

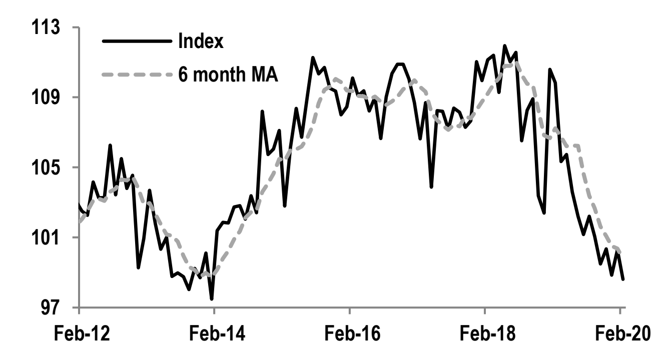
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

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