

GFI kept declining in March, with further weakness ahead

- **Gross fixed investment (March): -11.0% y/y (nsa); Banorte: -10.9%; consensus: -10.5% (range: -12.9% to -6.3%); previous: -8.7%**
- **In monthly terms, investment declined 3.1%, its second consecutive fall and with levels of activity at lows not seen since early 2011**
- **Performance was mostly impacted by machinery and equipment, which contracted 6.5% m/m. The imported component was the weakest at -8.8% as already suggested by trade balance figures, in our view also impacted by the depreciation of the Mexican peso**
- **Construction was more resilient at -2.3%, although still dragged down by poor performance in the non-residential sector**
- **Forward-looking information suggests a strong decline in investment in coming months, highly impacted by uncertainty about the COVID-19 pandemic**

GFI falls 11.0% y/y in March. This was lower than consensus (-10.5%) and slightly closer to our -10.9% forecast. In particular, and despite an additional working day in the annual comparison as well as a less challenging base effect, this figure came in below the -8.7% of the previous month ([Chart 1](#), below). An additional detail we must acknowledge is that figures for this month do not show a significant distortion from the *Easter* holiday, as it took place in April in both 2019 and 2020. Nevertheless, due to the additional working day, seasonally adjusted figures show a slightly steeper decline, at 11.1% ([Table 1](#)). We believe these figures clearly reflect some of the first effects from COVID-19 on economic activity, particularly through supply chain disruptions as the virus did not result in such a sizable effect in March relative to other countries. In this sense, while all components were down, the most impacted was machinery and equipment (M&Eq.), down 16.1% (nsa), dragged down by the imported component (-16.9%). Meanwhile, construction was relatively more resilient (-7.2%), benefited by the continuation in domestic activity ([Chart 2](#)).

Strong decline in monthly terms. GFI decreased 3.1% m/m (sa), now adding two consecutive months of hefty declines ([Chart 3](#)). By sector, construction was relatively better at -2.3%, relatively anchored by the stability in residential construction (-0.4%). Nevertheless, and extending its recent trend, non-residential construction plunged 2.7% despite some positive figures about spending by the Federal Government (physical investment: +34.2% y/y in real terms). However, we expect this dynamics to flip in April, as some public works continued while the rest of construction was deemed non-essential.

On M&Eq. and as previously mentioned, the impact was deeper, at -6.5%. The imported component (-8.8%), was dragged down by both transportation (-12.5%) and other M&Eq. (-7.1%). We consider this to be mainly a consequence of supply chain problems abroad due to the COVID-19 pandemic, which started in February but extended to March, as well as a negative effect from the depreciation of the Mexican peso.

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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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Meanwhile, in the domestic front (-7.2%), performance was more mixed, with transportation falling much more (-10.5%) in comparison to the rest (-3.7%). We believe this is explained by the early stoppage in activities in the auto sector, with some manufacturers halting operations since March 18th. Nevertheless, and as suggested by more detailed figures within the IP report, the rest of activities seemed to have continued in the month, relatively benefiting this sector. In this context, activity declined 1.9% on a 3m/3m basis, worsening relative to the -1.2% in the previous period ([Table 2](#)). In addition, absolute levels of investment keep falling, now standing close to those observed in early 2011 ([Chart 4](#)) and likely deteriorating more in coming months.

We keep expecting a strong decline of investment in the coming months.

Although we still forecast an 18.4% y/y contraction in the year for this component of aggregate demand, explained by both COVID-19 related factors and other factors of a more domestic nature, risks to the downside have increased due to the extension of social distancing measures. While the impact from the pandemic started as an external shock, it has been compounded by its effect on domestic activity. This is clearly observed in the evolution of [Banxico's survey](#) answers, in which the top concern about headwinds for growth turned from external to domestic factors in May. In this regard, business confidence has kept plummeting, with both the headline as well as the 'adequate moment to invest' component for construction, commerce and non-financial services at fresh historical lows in May after setting new records in April. For manufacturing, while it hasn't yet reached a new minimum, it is quickly approaching it. Moreover, risk premiums on several asset classes remain elevated, still driven by uncertainty not only in financial markets but the whole economy, dampening the outlook for investment.

In the short-term term, data and anecdotal evidence suggests that the worst performance will be in April and a very sharp contraction in May. In particular, capital goods imports –highly correlated to imported M&Eq– fell 26.7% y/y (-7.4% m/m). Meanwhile, signals in construction remain negative, with historic losses in formal jobs in April (-197.2 thousand), the most impacted sector. In this context, we believe the continuation of public sector works, including flagship projects (with physical investment up 22.2% y/y in real terms), will not provide enough support, possibly being among the worst hit across the economy.

In this regard, and as previously mentioned, we maintain a negative view on investment going forward, as we believe that uncertainty will continue even after social distancing measures start to be rolled back, not fully disappearing until an effective treatment and/or vaccine is found. In addition, effects from stopping some industries and businesses will linger around as their financial position will be more compromised. In this regard, we will watch if loans from the Federal Government and the central bank are effective in minimizing the latter.

Table 1: Gross fixed investment

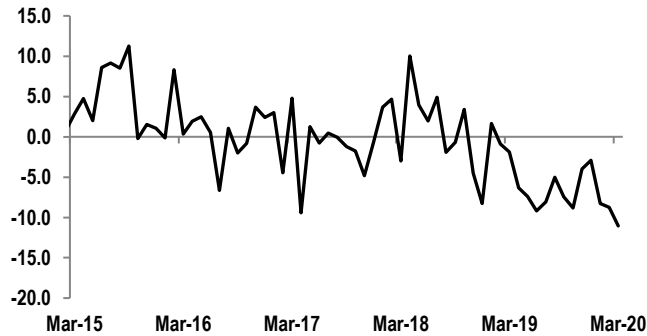
% y/y nsa

	nsa				sa	
	Mar-20	Feb-20	Jan-Mar '20	Jan-Mar '19	Mar-20	Feb-20
Total	-11.0	-8.7	-9.3	-0.4	-11.1	-10.6
Construction	-7.2	-8.1	-7.3	1.0	-6.9	-8.3
Residential	-3.1	-7.6	-6.3	2.9	-3.1	-7.9
Non-residential	-11.3	-8.6	-8.3	-0.8	-11.0	-9.2
Machinery and equipment	-16.1	-9.7	-12.2	-2.3	-18.0	-12.5
Domestic	-14.9	-5.5	-9.1	-4.6	-15.6	-5.7
Transportation Equipment	-19.4	-5.5	-11.5	1.9	-20.3	-6.5
Other machinery and equipment	-6.2	-5.4	-5.0	-13.8	-7.0	-5.1
Imported	-16.9	-12.5	-14.2	-0.9	-19.6	-13.6
Transportation Equipment	-20.8	-2.5	-15.6	6.3	-20.9	-7.5
Other machinery and equipment	-16.1	-14.3	-13.9	-2.0	-19.1	-14.9

Source: INEGI

Chart 1: Gross fixed investment

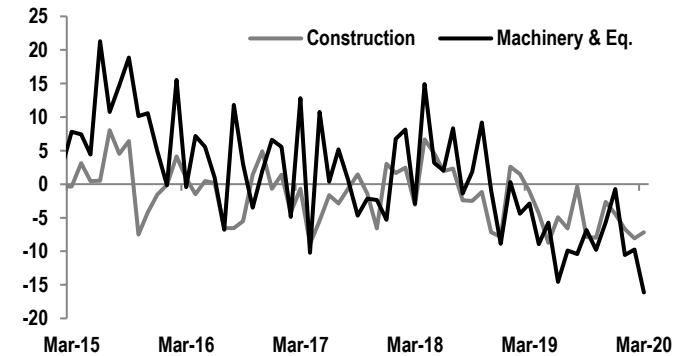
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector

% y/y



Source: INEGI

Table 2: Gross fixed investment

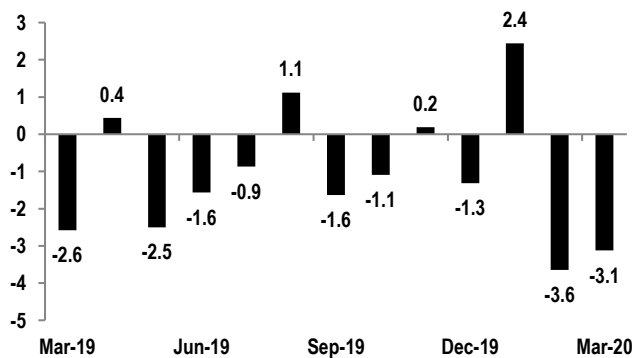
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Mar-20	Feb-20	Jan-20	Jan-Feb'20	Dec'19-Feb'20
Total	-3.1	-3.6	2.4	-1.9	-1.2
Construction	-2.3	-1.7	2.3	0.7	1.5
Residential	-0.4	-1.2	-0.5	-0.6	1.2
Non-residential	-2.7	-3.3	3.8	-0.4	-0.7
Machinery and equipment	-6.5	-3.6	0.4	-6.5	-5.0
Domestic	-7.2	-0.1	0.6	-3.7	-3.6
Transportation Equipment	-10.5	1.7	2.1	-2.2	-2.9
Other machinery and equipment	-3.7	-2.4	2.9	-2.9	-4.3
Imported	-8.8	-4.3	-0.5	-7.9	-4.0
Transportation Equipment	-12.5	16.1	-15.9	-8.7	-3.2
Other machinery and equipment	-7.1	-7.9	1.3	-8.0	-4.1

Source: INEGI

Chart 3: Gross fixed investment

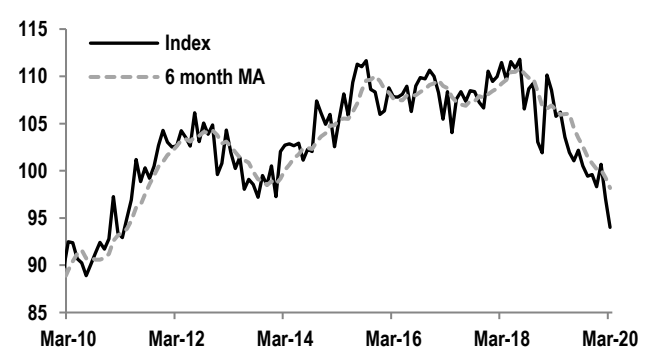
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment

Index sa



Source: INEGI

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