

GFI plunges strongly in April as a result of the pandemic

- **Gross fixed investment (April): -36.9% y/y (nsa); Banorte: -34.6%; consensus: -27.8% (range: -36.0% to -20.0%); previous: -11.0%**
- **Performance in the period was highly impacted by the stoppage in activities related to investment, as a result of the COVID-19 pandemic**
- **In sequential terms, investment declined 28.9% m/m, a new historical low, consistent with the nature of the shock. In this context, the seasonally adjusted index plunged to early 1998 lows**
- **While both sectors were sharply down, construction dragged-on the most at -30.9% m/m, with the residential sector the weakest at -38.7%, while non-residential outperformed at -22.3%**
- **Meanwhile, machinery and equipment declined -25.1%, partly aided by a less challenging base effect as losses were also high in the previous month. Inside, the domestic component plunged 45.1%, resenting the stoppage in non-essential activities**
- **We anticipate investment to remain depressed in coming months, impacted not only by the reduction in the pace of activity but also due to increased uncertainty from the virus outbreak**

GFI falls 36.9% y/y in April. This result was lower than consensus (-27.8%) but closer to our -34.6% forecast. It should be noted this is one of the worst results in history, only trailing a series of declines seen from April through September of 1995, in the midst of the *Tequila Crisis* ([Chart 1](#), below). This weak performance was driven by the COVID-19 pandemic, now showing a more forceful impact on domestic conditions to those observed in March. In this sense, both machinery and equipment (M&Eq.) and construction had very steep contractions, falling 37.9% and 36.2% y/y, respectively ([Chart 2](#)). Within the former, the domestic component was the main drag at -52.6%, although with imported M&Eq. also very low at -28.9%. However, the latter was propped-up by a less challenging base effect, with double-digit declines in the previous year ([Table 1](#)). Finally, in construction, the non-residential component (-31.4%) outperformed –at very low levels– the residential sector (-40.8%), remembering that the big civil engineering projects are accounted for in the former.

Historical decline in monthly terms. GFI plunged 28.9% m/m (sa), a new historical low. This is consistent with the nature of the economic shock relative to other downturns, as the measures undertaken to curb the spread had a more immediate impact on activity. By sector, construction was the most affected at -30.9%. Similar to the annual comparison, non-residential was better at -22.3%, while residential fell 38.7%. As we mentioned, we believe the difference is explained by the continuation of key Federal Government projects (with physical investment in federal spending up 22.2% y/y in real terms). However, lower revenues at the state level, resulting in less public works, coupled with the designation of most of the sector as non-essential, had a massive effect on overall performance.

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



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On M&Eq, the spread among components was greater, resulting in a 25.1% contraction. The imported component was relatively resilient at -12.0%. Inside, transportation was vastly weaker at -47.4%, possibly related to auto plant shutdowns in the US. Meanwhile, ‘others’ came in at -6.6%, which we believe is possibly benefited by some strength abroad –as China started to come back online– and past orders fulfilled until this period. We should mention this happened despite a negative effect from the additional 8.4% depreciation of the Mexican peso in the month. The domestic sector decelerated more forcefully at -45.7%. Similar to the imported component, transportation was the most impacted at -54.8%, consistent with the slowdown in the IP report. However, in this occasion, ‘others’ were also very weak at -31.0%, with restrictions on non-essential activities having a more significant effect. In this context, activity declined 13.7% on a 3m/3m basis, considerably worse relative to the -1.9% in the previous period ([Table 2](#)). In addition, absolute investment levels plunged, with the index now close to early 1998 ([Chart 4](#)) and probably hovering around these levels in the next few months.

We expect investment to remain muted in coming months, with uncertainty weighing heavily on sentiment. In the short-term, signals remain mixed about whether the possibility of a sequential recovery as soon as May. In particular, capital goods imports within the trade balance –highly correlated to imported M&Eq– plunged further, to -38.3% y/y from -26.7% in April. In addition, employment in construction kept declining, with 32.2 thousand jobs lost in May on top of the 230.1 thousand workers that were laid-off in the previous two months. On the contrary, reports suggest that public works may have gathered some momentum, while flagship projects continued, as evidenced by the strong 48.4% y/y increase in real terms in physical investment spending by the Federal Government. Nevertheless, several reports, as well as anecdotal evidence, suggests activity in the private sector remained on hold, as it was not rebranded as an essential activity until June.

On top of the latter, confidence indicators across all sectors, including perceptions on investment, continued to deteriorate in May, with three of the four main subsectors (construction, commerce and non-financial services) at new historical lows. While signals in June’s survey were slightly better, overall levels remain depressed, which is not favorable looking forward. In this sense, and considering the evolution of the outbreak, we think domestic categories will continue to underperform. This is consistent with Banxico’s data, which in its [monthly survey](#) continues to suggest that domestic weakness remains as the main headwind for activity.

When [we recently revised our GDP forecast](#) for this year to -9.8% y/y, we adjusted our estimate for investment lower, to -20.6% (previous: -18.4%). Nevertheless, and as we have mentioned previously, we continue to believe that risks are tilted to the downside, with uncertainty weighing heavily going forward. In this sense, and as an effective treatment or vaccine are still not found, we maintain our view that businesses will postpone their investment decisions until the outlook starts to clear up, which as evidenced by signs of a second contagion wave in the US, might still take a long time.

Table 1: Gross fixed investment

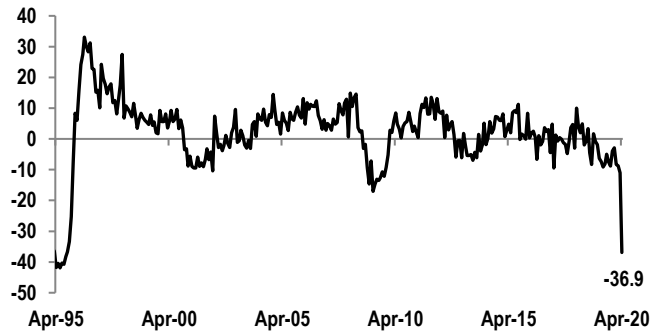
% y/y nsa

| | nsa | | | | sa | |
|--------------------------------|--------------|-------------|--------------|-------------|--------------|-------------|
| | Apr-20 | Apr-19 | Jan-Apr '20 | Jan-Apr '19 | Apr-20 | Apr-19 |
| Total | -36.9 | -6.3 | -15.9 | -1.8 | -37.1 | -3.1 |
| Construction | -36.2 | -4.4 | -14.1 | -0.3 | -36.3 | -1.6 |
| Residential | -40.8 | -3.7 | -14.6 | 1.3 | -41.1 | -1.5 |
| Non-residential | -31.4 | -5.0 | -13.7 | -1.8 | -31.3 | -2.4 |
| Machinery and equipment | -37.9 | -8.9 | -18.4 | -4.0 | -38.0 | -5.1 |
| Domestic | -52.6 | -3.7 | -19.5 | -4.4 | -53.4 | 1.1 |
| Transportation Equipment | -63.2 | 8.5 | -24.0 | 3.4 | -64.1 | 15.3 |
| Other machinery and equipment | -34.3 | -19.4 | -11.9 | -15.2 | -34.1 | -16.3 |
| Imported | -28.9 | -11.9 | -17.7 | -3.8 | -28.0 | -7.8 |
| Transportation Equipment | -53.9 | -16.6 | -24.3 | 0.0 | -53.5 | -15.4 |
| Other machinery and equipment | -24.8 | -11.1 | -16.5 | -4.4 | -24.2 | -6.9 |

Source: INEGI

Chart 1: Gross fixed investment

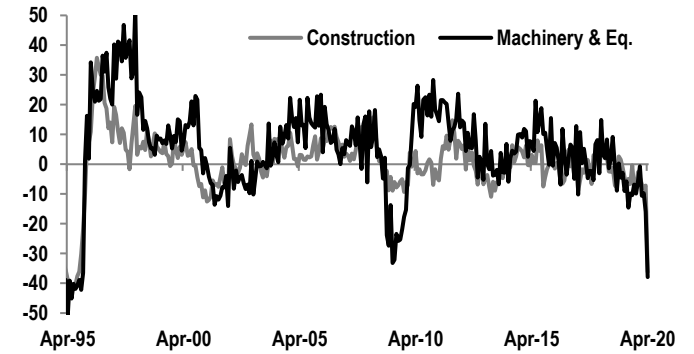
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector

% y/y



Source: INEGI

Table 2: Gross fixed investment

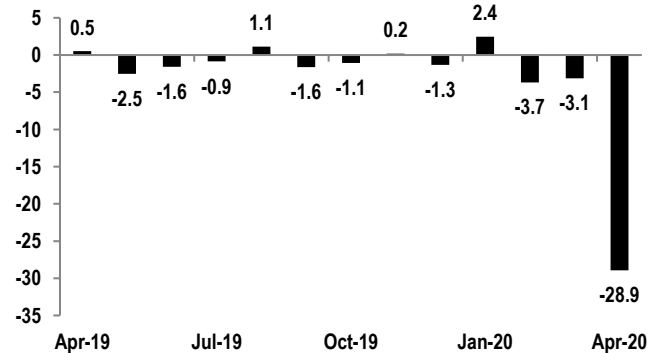
% m/m sa; % 3m/3m sa

| | Apr-20 | % m/m | | | % 3m/3m | |
|--------------------------------|--------------|-------------|-------------|--------------|-------------|--|
| | | Mar-20 | Feb-20 | Feb-Apr'20 | Jan-Mar'20 | |
| Total | -28.9 | -3.1 | -3.7 | -13.7 | -1.9 | |
| Construction | -30.9 | -2.4 | -1.8 | -11.9 | 0.6 | |
| Residential | -38.7 | -0.2 | -1.4 | -14.4 | -0.5 | |
| Non-residential | -22.3 | -2.8 | -3.4 | -10.3 | -0.5 | |
| Machinery and equipment | -25.1 | -6.4 | -3.6 | -16.4 | -6.6 | |
| Domestic | -45.7 | -7.3 | -0.2 | -20.1 | -3.8 | |
| Transportation Equipment | -54.8 | -10.6 | 1.6 | -22.6 | -2.4 | |
| Other machinery and equipment | -31.0 | -3.6 | -2.4 | -14.1 | -2.9 | |
| Imported | -12.0 | -8.5 | -4.2 | -14.3 | -7.7 | |
| Transportation Equipment | -47.4 | -12.6 | 16.6 | -19.5 | -8.9 | |
| Other machinery and equipment | -6.6 | -6.8 | -8.1 | -13.8 | -7.7 | |

Source: INEGI

Chart 3: Gross fixed investment

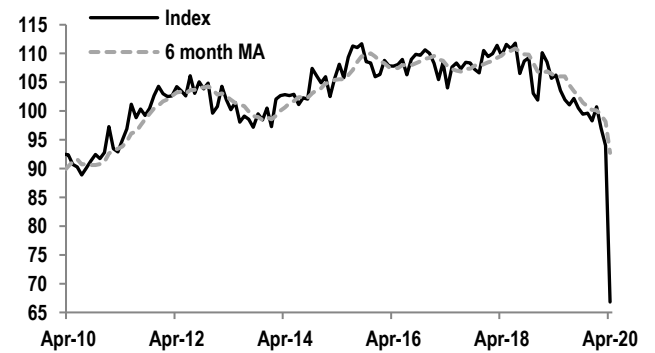
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment

Index sa



Source: INEGI

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| | |
|-------------|---|
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