Investment and consumption rebound in June, although remaining limited

- **Gross fixed investment (June): -24.1% y/y (nsa); Banorte: -23.3%; consensus: -24.4% (range: -32.0% to -21.0%); previous: -39.9%**
- **Private consumption (June): -18.3% y/y (nsa); previous: -24.8%**
- **Investment and consumption improved –similar to other data for the month–, benefited by the efforts to reopen the economy. Nevertheless, for both, the annual comparison remains weak, still impacted by pandemic**
- **In sequential terms, investment climbed 20.1% m/m, although not being enough to reverse previous losses. The main boost was from machinery and equipment (+25.8%), with construction also favorable (+13.7%)**
- **On the other hand, consumption increased 5.5% m/m. Inside, domestic goods and services stood at +4.5%, while imported goods came in at +10.6%**
- **We anticipate domestic demand to stay limited, with the recovery likely led by external demand. In particular, we still expect uncertainty to keep weighing both investment and consumption in coming months**

GFI improves in June. This came in at -24.1% y/y (see Chart 1), standing above consensus (-24.4%) but lower relative to our estimate (-23.3%). Similar to other data for the month, this category was benefited from different efforts to reactivate the economy. Nevertheless, and seen in annual figures, activity remains very weak, still distorted by the effects from the pandemic. Another factor that aided this print was that the month had two additional working days relative to the same period of 2019. The weakest sector was construction at -26.0% (Chart 2), while machinery and equipment (M&Eq.) recovered with more force to -21.4%. Within the former, the non-residential branch lagged behind at -28.3% (previous: -30.7%), while the residential bounced back more clearly due to the reopening efforts, which benefited more the private sector, coming in at -23.6% (Table 1), from -37.5% in May.

With seasonally adjusted data, investment increased 20.1% m/m, which although being a historical high, is not enough to compensate for the accumulated declines in the previous four months, especially April's (Chart 3). In particular, construction expanded by 13.7%, boosted by the residential sector and with a more moderate performance in the non-residential (Table 2). We believe that this is explained by the designation of construction as an essential activity, which in relative terms, benefited the former more, specifically the private sector, given that during the lockdown period –in April and May– activity in some infrastructure projects continued. On top of this, we must mention that spending data from the Federal Government in this category showed a deceleration relative to May.

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Meanwhile, M&Eq. rebounded more strongly at +25.8%. Specifically, here we highlight that the domestic component (+34.9%) rose more relative to imported (+18.9%). In our view, this is explained by a more marked reopening in our country during the month, considering that in the US and in other countries activities had continued in previous months. This in turn resulted in a more favorable base in the first component relative to the second. We also noted the performance within transportation equipment, increasing sharply in both imported (+49.2%) and domestic (+38.3%), aided by the designation of this type of industry as essential in our country. As a result, the index now stands at levels last seen in late 2004 (Chart 4), still suggesting a complex and weak situation.

Private consumption also recovers in the month. The figure stood at -18.3% y/y, also better than the -24.8% seen in the previous month (Chart 5). It should be noted that this was similar to what retail sales suggested, although the improvement was more moderate in today's print. Despite of this, we continue seeing a strong difference by type of good. Specifically, durable and semi-durable continue showing greater weakness relative to non-durable, situation which is shown both at a domestic as well as an imported level (Table 3). Meanwhile, services stood at -22.4%, not gaining much momentum despite reopening efforts. This is still not very consistent with the dynamic seen in mobility data. In this sense, we believe there remains an important challenge, given that some categories –such as those associated to tourism and entertainment– will probably remain limited in coming months. This has been observed in a timelier manner within the GDP proxy figures for this period.

With seasonally adjusted figures, consumption advanced 5.5% m/m after four months of declines (Chart 7). Imported goods posted a more significant expansion (10.6%) relative to domestic (7.9%), which in our opinion is probably influenced by exchange rate dynamics, averaging 22.30 per dollar in the period, appreciating relative to May. Meanwhile, domestic services edged-up 1.5%. In this case, the level of the total index stands close to what was seen in early 2011 (Chart 8). Although the recovery is favorable, fundamentals for consumption remain deteriorated, which we believe will limit the recovery in the short-term.

We still expect that the economic recovery will be driven by external demand. With this results, private consumption and investment accumulate a year-to-date contraction of 11.3% and 21.4% y/y, respectively. Specifically, and considering that performance was similar to what we saw in supply-side indicators –for which we have more timely data– we believe the worst for these categories has already passed. We will be looking closely to the performance these could show in coming months, although we expect that it could be more moderate relative to categories associated to external demand.

Although this dynamic has already been somewhat evident since June, data from July's trade balance seem to corroborate that in said month, activity kept improving. Specifically, exports remained strong, especially manufacturing. Meanwhile, capital –associated more closely with investment– and non-oil consumption goods imports –more related to purchases of goods– also grew, albeit with a more moderate performance. This situation was influenced partly by a much more challenging base effect. Anyway, it still supports our hypothesis.

We consider that external demand is positioned for a more vigorous rebound, with expansionary economic policies –both monetary and fiscal– playing a key role. Meanwhile, we perceived a greater impact at a local level. Despite an additional recovery in employment, it seems that it is losing steam. In this sense, consumer credit keeps decelerating, which represents an additional headwind. Certainly, remittances remain very positive, although we believe that risks towards August and September have increased after the suspension of key support programs for unemployed people. We still think that changes in consumption patterns will be clearly visible in the next few months, with people favoring the purchases of basic goods and services. This would result in an important lag in categories such as durable goods and lodging and entertainment services –mainly those that involve a higher degree of social interaction–. Nevertheless, we should mention that they probably improved on the margin as more activities reopen and due to weariness from persons given the amount of time distancing measures have been in place.

For investment the scenario remains quite complex. Specifically, we saw a marginal decline in business confidence in August across the four main sectors. We think that uncertainty over the evolution of the pandemic and how the return to a new type of 'normality' will have an important weight on firms' decisions. We should also mention that the outlook for growth going forward remains low. Meanwhile, and given the deceleration in activity, many companies have seen their financial position compromised, which could also delay investment decisions. Lastly, many businesses probably will not have to allocate additional resources for the implementation of sanitary measures given constraints to fully use their installed capacity, thus limiting to replace assets that get worn down or that become highly depreciated. It should be mentioned that most of these factors might exacerbate in the private sector. Meanwhile, on the public front, this week we will be looking into the *2021 Budget Proposal* to evaluate with greater detail the Federal Government's strategy in this matter.

As long as the pandemic and its effects –both direct and indirect– continue to weigh on the economy and its outlook, we continue to expect a significant drag in domestic demand. Specifically, for 2020 we anticipate 9.7% y/y decline in private consumption, while investment could plunge 20.7% y/y.

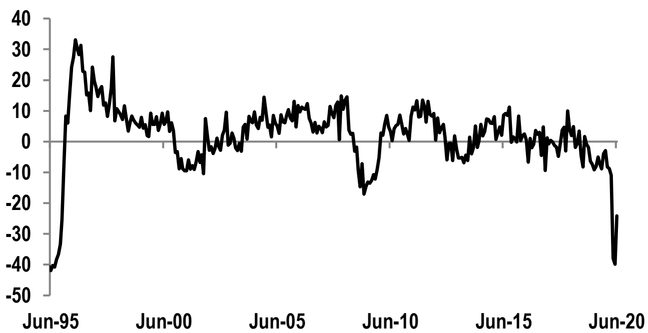
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Jun-20	Jun-19	Jan-Jun '20	Jan-Jun '19	Jun-20	Jun-19
Total	**-24.1**	**-9.2**	**-21.4**	**-4.1**	**-25.2**	**-8.0**
Construction	**-26.0**	**-4.9**	**-19.5**	**-2.5**	**-26.6**	**-5.0**
Residential	-23.6	-5.9	-20.1	-1.7	-23.9	-5.2
Non-residential	-28.3	-4.0	-18.9	-3.3	-29.0	-4.6
Machinery and equipment	**-21.4**	**-14.5**	**-24.1**	**-6.2**	**-25.3**	**-11.4**
Domestic	-36.1	-6.3	-29.5	-5.1	-38.0	-5.6
Transportation Equipment	-39.3	1.0	-34.3	2.3	-41.6	1.5
Other machinery and equipment	-29.1	-19.0	-20.4	-16.5	-31.2	-16.7
Imported	-9.3	-20.4	-20.5	-6.9	-15.3	-16.5
Transportation Equipment	-52.5	-9.1	-37.2	-0.3	-52.1	-8.8
Other machinery and equipment	-0.3	-22.4	-17.4	-8.0	-7.9	-17.9

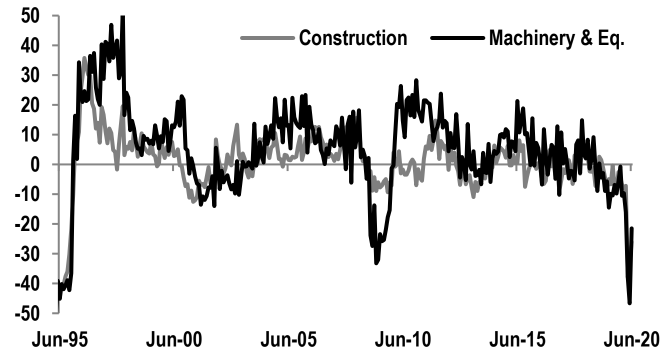
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



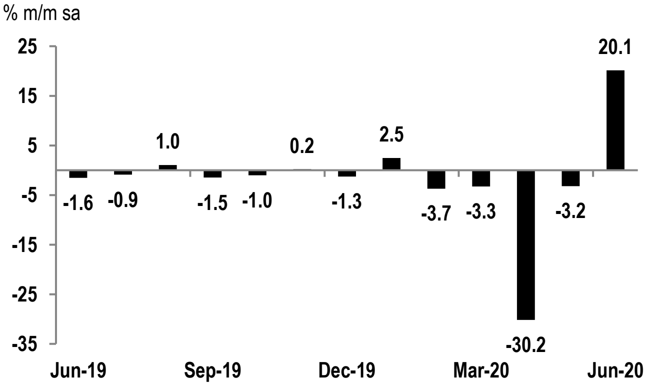
Source: INEGI

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

	% m/m			% 3m/3m	
	Jun-20	May-20	Apr-20	Apr-Jun'20	Mar-May'20
Total	**20.1**	**-3.2**	**-30.2**	**-29.7**	**-24.8**
Construction	**13.7**	**1.7**	**-32.9**	**-30.6**	**-23.9**
Residential	21.4	7.0	-41.1	-34.3	-27.0
Non-residential	4.1	-0.9	-23.3	-25.2	-19.2
Machinery and equipment	**25.8**	**-9.5**	**-25.1**	**-28.2**	**-26.0**
Domestic	34.9	-1.6	-45.7	-43.1	-35.8
Transportation Equipment	38.3	17.5	-54.8	-46.8	-40.1
Other machinery and equipment	25.6	-17.8	-31.1	-36.6	-28.1
Imported	18.9	-9.7	-11.7	-18.6	-20.6
Transportation Equipment	49.2	-29.4	-47.6	-53.7	-42.5
Other machinery and equipment	14.7	-7.0	-6.5	-13.5	-17.2

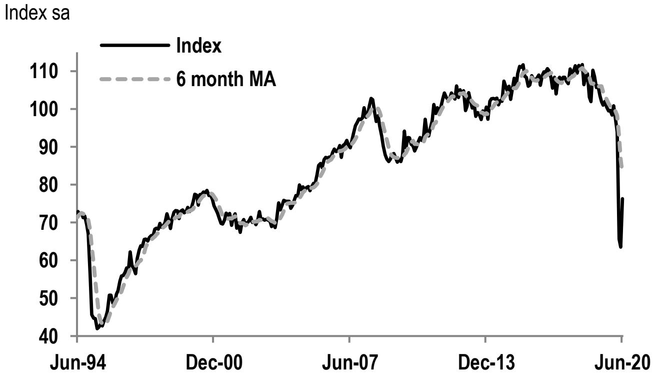
Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

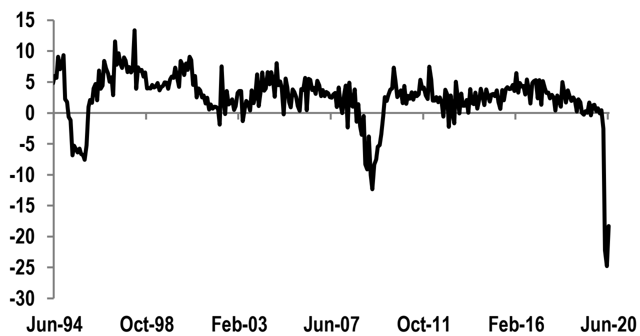
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Jun-20	Jun-19	Jan-Jun '20	Jan-Jun '19	Jun-20	Jun-19
Total	**-18.3**	**0.0**	**-11.3**	**0.7**	**-19.6**	**1.2**
Domestic	-18.2	0.6	-10.8	0.6	-19.2	1.4
Goods	-13.8	-0.3	-9.2	0.0	-15.7	1.1
Durables	-26.8	-10.4	-21.4	-11.9	--	--
Semi-durables	-43.2	-1.4	-37.2	2.9	--	--
Non-durables	-6.7	1.3	-2.2	1.1	--	--
Services	-22.4	1.5	-12.3	1.2	-22.5	1.5
Imported goods	-19.0	-5.1	-15.7	0.9	-25.4	-0.1
Durables	-37.9	-14.0	-29.2	-4.4	--	--
Semi-durables	-20.0	-0.2	-16.2	6.5	--	--
Non-durables	-3.5	0.7	-3.9	3.1	--	--

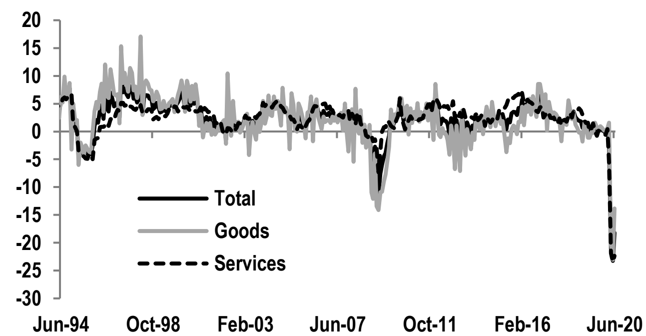
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

Chart 6: Domestic consumption: Goods and services
% y/y



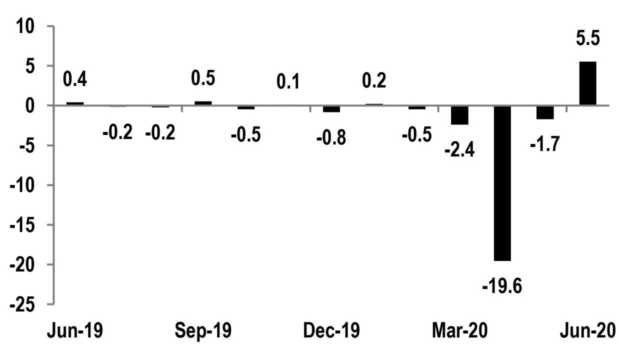
Source: INEGI

Table 4: Private consumption
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Jun-20	May-20	Apr-20	Apr-Jun'20	Mar-May'20
Total	**5.5**	**-1.7**	**-19.6**	**-20.4**	**-15.8**
Domestic	4.5	-1.5	-18.9	-19.6	-14.7
Goods	7.9	-1.4	-20.2	-18.7	-13.3
Services	1.5	-1.4	-17.5	-21.0	-17.0
Imported goods	10.6	-6.3	-21.2	-28.5	-25.7

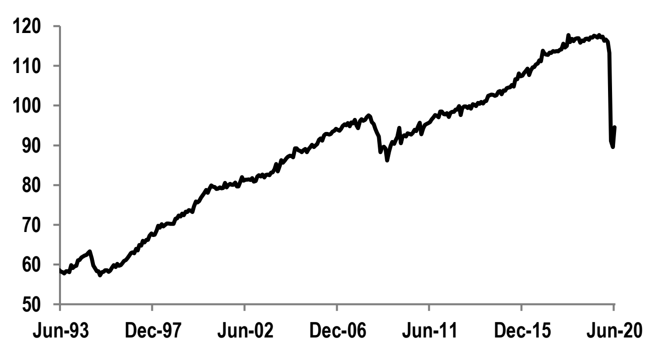
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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