

Investment falls 18.2% and consumption by 11.0% in full year 2020

- **Gross fixed investment (December): -11.5% y/y (nsa); Banorte: -11.3%; consensus: -10.2% (range: -11.3% to -9.1%); previous: -11.9%**
- **Private consumption (December): -5.3% y/y (nsa); previous: -7.4%**
- **As a result, investment and consumption fell 18.2% and 11.0% in full-year 2020, with the latter at its weakest since the series is available (1994)**
- **In sequential terms, investment declined 2.1% m/m, backtracking after two months stronger. Construction was the main drag (-2.5%), with machinery and equipment (-1.4%) slightly better on a less negative performance from the imported component (-0.2%)**
- **Consumption declined 0.5% m/m, in our view somewhat affected after *El Buen Fin* in November. In this context, most categories were higher, with domestic goods being the only drag at -0.5%**
- **Domestic demand remains muted, with recent job losses and uncertainty still dampening prospects of a meaningful acceleration**

GFI remained low at the end of last year. This came at -11.5% y/y (see [Chart 1](#)), below consensus (-10.2%), but much closer to our -11.3%. The month had a positive calendar effect as it had two more working days in the annual comparison. Adjusting for this with seasonally adjusted data, it declined 12.9%, lower relative to last month's -11.3%. Back to original figures, construction was the main drag, contracting 14.1% ([Chart 2](#)), as the non-residential sector remains contained. This was very different from public finance figures showing a boost in investment by the Federal Government, albeit it is common to see a sizable pick up in the last month of the year due to ministries' budget considerations (accrued but not spent). The residential sector stood at -9.2%. Meanwhile, machinery and equipment (M&Eq.) was better relative to November, at -8.1%. Inside, the imported component improved to -5.4% ([Table 1](#)), as signaled by capital goods within trade balance data. Specifically, transportation was the source of weakness at -32.4%, with 'other' at -0.8%. The domestic one reached -12.4%, remaining lagged. With these results, investment plunged 18.2% in full-year 2020, with construction down 17.4% and M&Eq lower by 19.3%.

Using seasonally adjusted data, investment declined 2.1% m/m, which is not that surprising after two straight months of gains ([Chart 3](#)). As of the end of last year, this component of aggregate demand was 11.8% below February's level (before COVID-19) and -23.5% relative to its peak on July 2018 ([Chart 4](#)). Construction was sharply down 2.5% after the last two months accumulated gain of +7.7%. In the detail, the residential sector was the most impacted at -6.0%, with the non-residential at -1.1%. While there could be an impact from renewed lockdowns in some states in the month, we remain cautious about performance going forward, considering several risks which are outlined in a section below.

March 5, 2021

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Machinery and equipment was slightly better at -1.4%. The imported component fell at the margin (-0.2%), with 'other' positive at +0.5%. Meanwhile, domestic M&Eq. was somewhat weaker at -1.4%, contrasting with the performance in related sectors within the industrial production report ([Table 2](#)).

Private consumption takes a slight step back, with seemingly modest distortions from *El Buen Fin*. The figure stood at -5.3% y/y, better than the -7.4% of the previous month ([Chart 5](#)). However, similar to GFI, the calendar effect also boosts performance in this sector, resulting in a 6.5% y/y contraction with seasonally adjusted figures, much closer to November's -6.8%. We believed that there would have been a much more noticeable effect from shifting purchasing patterns triggered by discounts from *El Buen Fin* (Mexico's Black Friday), as suggested by more timely data such as retail sales and the monthly GDP-proxy. In addition, we also expected a more significant negative effect from renewed lockdowns in key states, impacting non-essential activities. In this context, and back to original figures, imported goods continued as the outperformer, rising 5.1%, with durable and non-durable remaining strong ([Table 3](#)). In domestic goods (+0.9%) there was a boost from a more favorable base for durables, standing at -3.9%. Lastly, services were also slightly higher at -13.3% ([Chart 6](#)), albeit remaining contained due to the pandemic's effect on the sector. In this context, private consumption fell 11.0% a/a in whole-year 2020, with weakness centered in imported goods (-15.1%) and services (-14.1%), while domestic goods were relatively more stable (-6.6%).

With seasonally adjusted figures, consumption backtracked 0.5% m/m, breaking with six straight months of improvements ([Chart 7](#)). With this, the absolute level of consumption stands 6.9% below February ([Chart 8](#)), before the pandemic struck. Contrary to our expectation, most components were a tick higher, highlighting imported goods at 0.3%, building up on the +20.6% of the previous month. Meanwhile, domestic goods backtracked 0.5%, although not enough to reverse November's gains. Finally, services were the outperformer at 0.6%, contrasting with worsening epidemiological conditions in the period.

Difficulties for domestic demand remain at the start of 2021. In our view, today's report does not provide any meaningful cue about a positive change in terms of the muted recovery trend in domestic demand. The difficult backdrop likely continued in 1Q21, particularly considering that COVID-19 dynamics worsened throughout mid-February according to the traffic light indicator. Hence, we continue seeing these components, particularly investment, as weak despite the expectation of a rebound in economic growth this year.

On the latter, we believe businesses remain cautious about increasing their total capacity, with recent news not helping either. For example, December figures show that factory utilization in manufacturing reached 78.6% of installed capacity, gradually recovering from a historical low of 45.2% in April, which was the first month of strict lockdowns. Although this increase is positive, the level is still below its long-term pre-pandemic average of 80.1%. In this backdrop, we note that uncertainty remains high. One important concern in the business community has been a series of legislative proposals against a free market economy in several industries.

We see another two negative drivers. First, the global recovery has been accompanied with some bottlenecks, with reports of scarcity of some raw materials (*e.g.* semiconductors) and containers for the transportation of goods. According to experts, these may take some time to resolve, a situation which could at least limit growth. Second, we may see a decline in activity in February due to the blackouts in the US and northern Mexico at the middle of the month. Nevertheless, its effect on investment will likely be marginal, given its temporary nature. On a more positive note, capital goods imports in [January's trade balance](#) kept increasing sequentially, signaling that the recovery in machinery and equipment continued. Meanwhile, business confidence kept increasing in all sectors, both in the headline index and the 'adequate moment to invest component'.

Going to consumption, marginal information has been mostly negative. In this respect, sales of durable goods remain dampened, most visible in domestic auto sales standing at -21.1% y/y, maintaining double-digit declines since the pandemic broke. We will keep monitoring dynamics in this type of goods, as we believe that an important rebound could be a strong signal of increased confidence and lower uncertainty among consumers. Nonetheless, the increase in global energy prices, which has been reflected at least partially in the [acceleration of non-core inflation on categories such as LP gas and gasoline](#), affects disposable income. In addition, [consumer credit keeps declining](#), while the worsening of epidemiological conditions at the turn the year impacted the recovery of the labor market, with the [unemployment rate higher for the first time since last June](#). In this sense, most fundamentals –with the exception of remittances, which continue to be very strong– show that consumption will remain limited, a situation that is reflected at least to some extent also in the [performance of the IMEF non-manufacturing](#), which until last month accumulated almost two years (21 out of 22 months) in contraction.

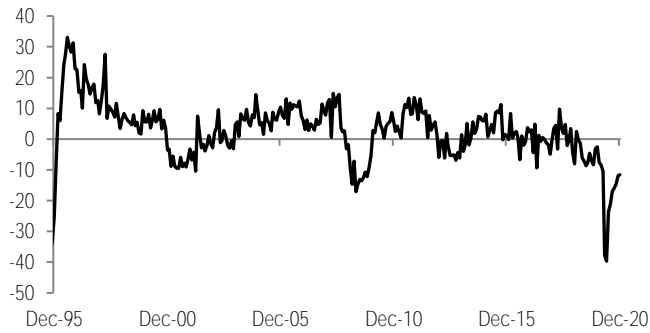
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Dec-20	Dec-19	2020	2019	Dec-20	Dec-19
Total	-11.5	-2.5	-18.2	-4.6	-12.9	-2.9
Construction	-14.1	-4.6	-17.4	-3.3	-14.2	-4.6
Residential	-9.2	2.6	-15.0	-0.3	-9.5	2.2
Non-residential	-19.4	-11.3	-19.7	-6.1	-18.8	-10.2
Machinery and equipment	-8.1	0.6	-19.3	-6.3	-11.5	-1.1
Domestic	-12.4	-0.2	-23.5	-3.5	-15.4	0.0
Transportation Equipment	-17.7	-1.3	-28.6	-4.4	-21.5	0.4
Other machinery and equipment	-5.9	1.2	-15.9	-2.2	-8.0	-0.3
Imported	-5.4	1.1	-16.4	-8.1	-8.5	-2.9
Transportation Equipment	-32.4	1.3	-35.3	-4.6	-32.6	1.2
Other machinery and equipment	-0.8	1.1	-13.1	-8.6	-5.0	-3.3

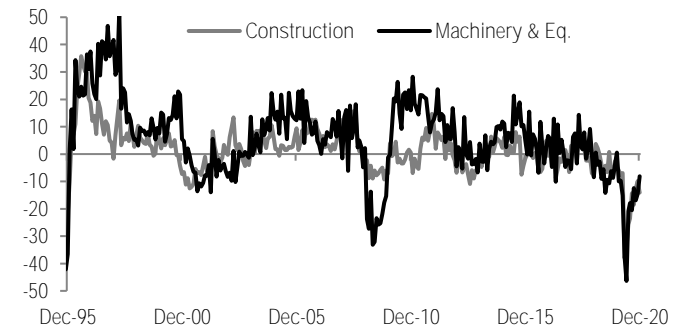
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

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



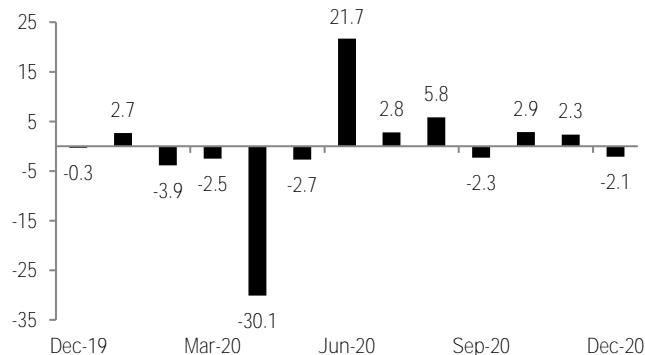
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Table 2: Gross fixed investment
% m/m sa: % 3m/3m sa

	% m/m			% 3m/3m	
	Dec-20	Nov-20	Oct-20	Oct-Dec '20	Sep-Nov '20
Total	-2.1	2.3	2.9	4.0	5.1
Construction	-2.5	2.3	5.3	4.5	4.4
Residential	-6.0	6.2	8.8	11.0	12.0
Non-residential	-1.1	0.0	1.1	0.3	1.3
Machinery and equipment	-1.4	2.2	-0.1	2.3	6.2
Domestic	-1.3	1.9	0.2	2.8	9.7
Transportation Equipment	-0.2	-1.0	-0.5	-3.3	1.9
Other machinery and equipment	-0.6	2.5	-4.3	5.9	18.3
Imported	-0.2	2.0	0.9	3.2	4.4
Transportation Equipment	-4.4	2.7	0.4	6.4	17.7
Other machinery and equipment	0.5	1.5	1.6	3.7	3.9

Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa



Source: INEGI

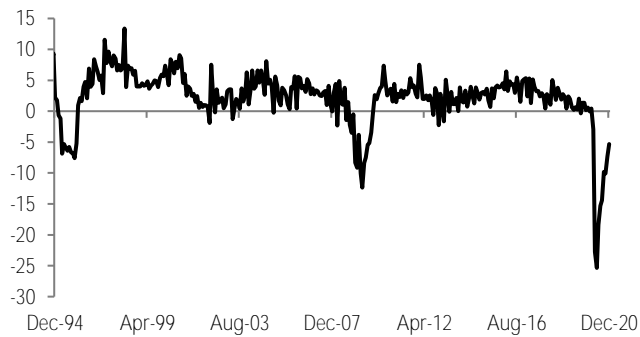
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Dec-20	Dec-19	2020	2021	Dec-20	Dec-19
Total	-5.3	0.6	-11.0	0.9	-6.5	-0.2
Domestic	-6.5	-0.2	-10.5	0.7	-7.4	-0.5
Goods	0.9	-0.2	-6.6	-0.1	-0.8	-0.8
Durables	-3.9	6.3	-15.3	-3.0	--	--
Semi-durables	-2.4	-6.5	-26.1	0.2	--	--
Non-durables	2.0	0.0	-1.6	0.3	--	--
Services	-13.3	-0.1	-14.1	1.4	-13.4	-0.2
Imported goods	5.1	7.7	-15.1	3.1	1.1	2.2
Durables	4.7	2.3	-27.0	1.6	--	--
Semi-durables	0.4	3.1	-16.0	4.4	--	--
Non-durables	7.7	15.4	-3.8	3.8	--	--

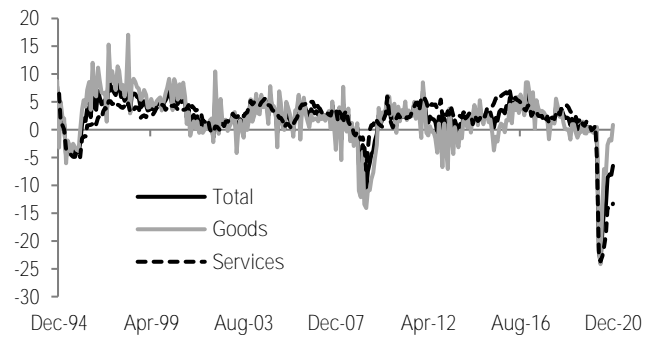
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

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



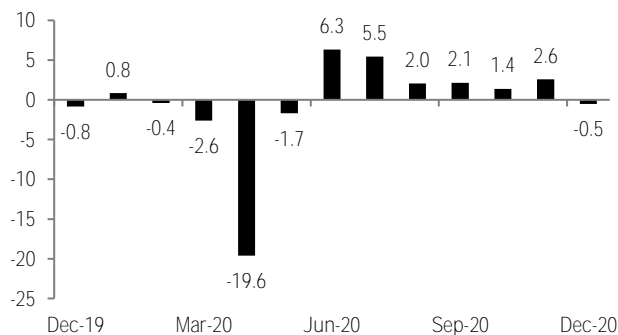
Source: INEGI

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

	% m/m			% 3m/3m	
	Dec-20	Nov-20	Oct-20	Oct-Dec '20	Sep-Nov '20
Total	-0.5	2.6	1.4	5.1	7.2
Domestic	-0.3	0.3	1.6	4.0	6.8
Goods	-0.5	1.0	2.1	3.4	6.2
Services	0.6	0.6	-0.3	4.2	7.0
Imported goods	0.3	20.6	3.0	16.6	11.0

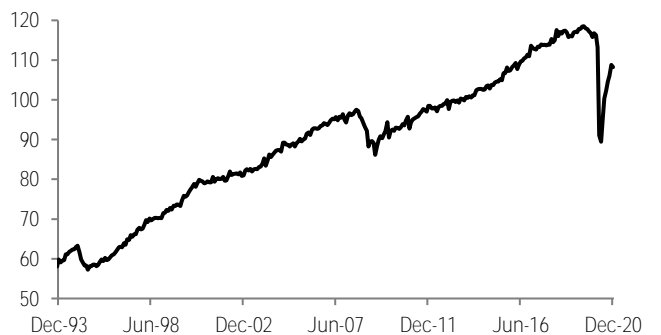
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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