March 8, 2021

Latam Daily: Pause in Mexico's Investment & Consumption Rebound; Stall in Auto Sector

- **Mexico: Investment and consumption recovery took a pause in December 2020; auto industry hurt by energy shortages**

MEXICO: INVESTMENT AND CONSUMPTION RECOVERY TOOK A PAUSE IN DECEMBER 2020; AUTO INDUSTRY HURT BY ENERGY SHORTAGES

I. Investment recovery reversed course in December 2020

December gross fixed investment (GFI) data, released on Friday, March 5, by INEGI, showed that Mexico's recovery in capital spending took a pause in the last month of 2020. Sequential growth in GFI fell from 2.3% m/m in November to -2.1% m/m in December, weakened by additional COVID-19-related measures implemented in response to a rise in new case numbers. Looking back over the second half of 2020, monthly gains were considerable during June–August, slowed in September, and resumed a moderate pace of recovery through October and November, but it seems that momentum was lost once again as the year closed.

On an annual basis, December marked a seventh consecutive month in which the gap in GFI compared with a year ago narrowed, in line with the gradual normalization of economic activity. From November's -11.9% y/y loss, the annual contraction in GFI closed marginally to -11.5% y/y in December (chart 1), but fell short relative to analysts' consensus estimate of -11.0% y/y. This marked 23 consecutive months of year-on-year contractions; the average decline of -18.2% y/y during January–December 2020 was the deepest accumulated decrease for a calendar year over the last quarter century.

By components, December's numbers were mixed. Investment in machinery and equipment softened its decline compared with a year ago from -14.6% y/y in November to -8.1% y/y in December. In contrast, construction spending deepened its contraction from -9.8% y/y to -14.1% y/y (chart 1, again).

II. Consumption edged back in December 2020

New private consumption numbers, published on Friday, March 5, by INEGI, recorded a -0.5% m/m contraction in December 2020, which stalled a recovery that had seen six months of positive sequential growth. In line with December's investment numbers, private consumption in the domestic market was likely affected by stricter social distancing measures implemented during the last month of the year to curb the rising tide of COVID-19 infections. We believe that this weak performance was likely to continue into the early months of 2021 due to a highly uncertain economic environment, the intensification of activity restrictions in more states, and soft expectations in the labour market—all of which could tip consumers to maintaining some caution.

Despite the slowdown in consumption growth in December, private consumption narrowed its gap compared with a year ago from -7.4% y/y in

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Chart 1

Sources: Scotiabank Economics, INEGI.

November to -5.3% y/y in December (chart 2). Thus, over January–December 2020, consumption averaged a drop of -11.0% y/y (versus a gain of 0.9% y/y during 2019), the largest annual decline on record for a single calendar year.

In domestic consumption's major components, growth in demand for goods led services. Consumption of domestic services narrowed its gap compared with a year ago from -14.1% y/y in November to -13.3% y/y in December, while the annual variation in the consumption of domestic goods went from -1.9% y/y in November into positive territory at 0.9% y/y in December (chart 2, again).

III. Auto industry hurt by energy shortages

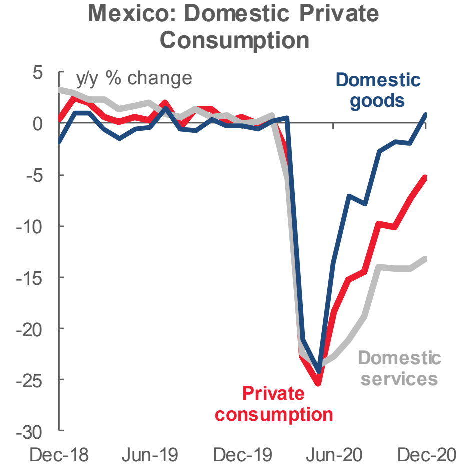
Automobile production in February suffered from the disruptions caused by energy shortages, according to new data released on Friday, March 5: the annual contraction in output deepened from -15.0% y/y in January to -28.8% y/y in February (chart 3). This marked the largest decline for any February since 2009. In sequential monthly terms, production fell by -14.3% m/m owing to technical stoppages arising from shortages of inputs that compounded the challenges posed by power outages stemming from extreme weather in the southern US.

Exports also deepened their annual contraction from -6.4% y/y in January to -21.8% y/y in February (chart 3 again). On a monthly sequential basis, exports eased their decline from -18.7% m/m in January to -4.3% m/m in February. As in production, severe weather conditions affected vehicle exports. We anticipate that exports should rebound as production stabilizes and the fiscal stimulus packages in the US translate into increased consumption.

Finally, in the domestic market, vehicle sales slightly attenuated their annual decline from -22.6% y/y in January to -21.1% y/y in February. In its sequential monthly comparison, sales grew 1.4% m/m in February after having fallen sharply by -22.8% m/m in January. This was consistent with improvements in pandemic-related risk assessments (i.e., the "traffic lights") for several states.

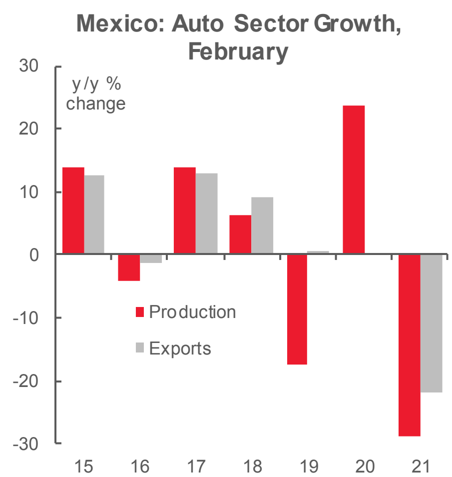
—Paulina Villanueva

Chart 2



Sources: Scotiabank Economics, INEGI.

Chart 3



Sources: Scotiabank Economics, INEGI.