Economic Analysis

Investment in Mexico: mixed signals

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This year, investment in Mexico has experienced notable growth. Between January and July, gross fixed investment grew 20% compared to the same period of the previous year. This is, without a doubt, good news for the Mexican economy since investment not only directly affects current growth (it represents a quarter of GDP) but can also increase future growth by increasing the capital stock.

If we analyze its components, we will see that construction and investment in machinery and equipment grew by 20.6% and 19.2%, respectively. These high rates have reversed the decline in investment seen at the beginning of this administration. The total investment level is 18% higher than what prevailed at the beginning of the current government; construction is also 18% higher, and investment in machinery and equipment is 17% higher.

The more significant investment in machinery and equipment is partly explained because it had been lagging due to the pandemic and the bottlenecks that followed it, with which companies are now catching up. But it also reflects optimism regarding future economic growth, and in particular, I believe that behind this dynamism are - now - the first signs of nearshoring: companies are preparing for the new investments and economic activity that this phenomenon can generate. Finally, we must consider the possibility that the peso's appreciation has led some companies to advance their purchases of imported machinery and equipment.

On the other hand, when it comes to construction, the data gives mixed signals. The residential component has contracted this year by 1.3%, while the non-residential segment has grown at an impressive rate of 43%. Thus, the level of residential construction is 18% below the level it had at the beginning of this administration, while that of non-residential construction is 62% above.

The decline in residential construction is a cause for concern. It seems to me that it is due to the widespread cancellation of permits at the beginning of the administration and the withdrawal of subsidies for social housing (it was correct to eliminate the subsidies since these almost did not reach the consumer, but it would have been desirable to replace them by better-designed ones) and to the erroneous policy of promoting self-construction that results in a lower value of production, in lower quality housing and in disorder in terms of urban planning.

As for non-residential construction, it has grown in part (5 percentage points of 43%) due to more private investment - which I estimate is at least partially explained by the construction of industrial warehouses in anticipation of nearshoring, which is also undoubtedly positive - but the increase in public sector construction explains the majority of the growth (the remaining 38 percentage points). If it were public investment in productive infrastructure, we would be facing good news, but what we see is explained by the effort to finish the flagship projects - which will not generate positive externalities for the economy.

Indeed, refining is an activity that generates losses in Mexico and around which there is high uncertainty regarding its future demand due to the evolution that electric vehicles may have (it would have been more efficient to import gasoline or even acquire more refineries in the United States). For its part, the Mayan Train will hardly produce profits - in general, passenger trains show losses worldwide - implying more significant pressures on public finances regarding subsidies for its operation. Finally, the project that has the most potential to boost growth is the Transisthmian Corridor, but it is the one that shows the most significant delay.

In the future, it would be desirable for public investment projects to be selected by cost-benefit analysis, considering environmental impacts, social externalities, and financing costs, among other criteria.

Today, investment is growing in the country, boosting growth in the short term and laying the foundations for higher growth rates in the future, mainly if it focuses on increasing the economy's potential.

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