

Economic Watch

Argentina

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Economic Analysis

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Myths and realities of investment

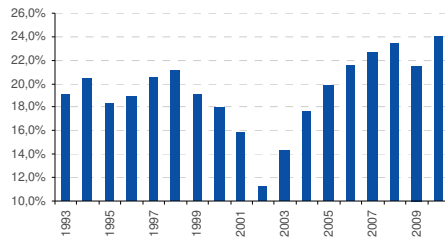
- Gross domestic fixed investment is not only at record levels as a proportion of GDP, but its growth is boosted by capital goods, thus contributing to the economy's productive capacity.
- Imports of capital goods have shown a significant growth in real terms, even excluding cell phone telephony, in the period 2003-2010.
- Investment is mainly targeted at the quickest growing sectors in the economy: transport, agriculture, and the manufacturing sector, despite the institutional uncertainties.
- The level of investment is still insufficient, given that the use of installed capacity in industry is at all-time highs. It is important to increase participation by the private sector in energy sector investment.

Rising contribution of imported machinery to the increase of capital stock

There has been controversy about the real impact of gross domestic fixed investment (GDFI) in the current economic cycle (including the slight decline in 2009) on the country's productive capacity. It has been alleged that it has been excessively focused on the construction sector.

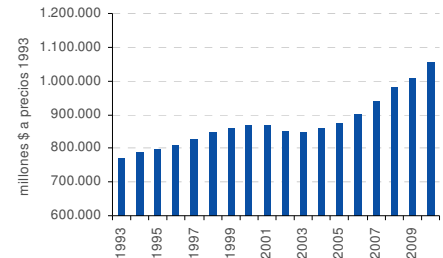
Over this period, GDFI grew at above the notable increase registered in GDP and increased its share of GDP to 23.9% in 2010, a record in the historical series (see Chart 1). Capital stock has grown at average annual rates of 3.2% following the fall resulting from the 2002 crisis, even allowing for its increased rate of amortization (Chart 2). Official data show lower GDFI/GDP ratios because, since they do not include the 2009 recession, their GDP figure is higher. However, comparison of the value of investment from private sources does not reveal any major difference, so we have used official investment data.

Chart 1
Investment/GDP (%)



Source: BBVA Francés Research.

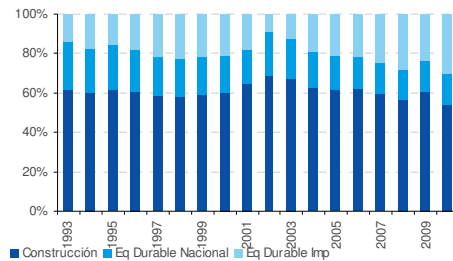
Chart 2
Capital stock



Source: BBVA Francés Research.

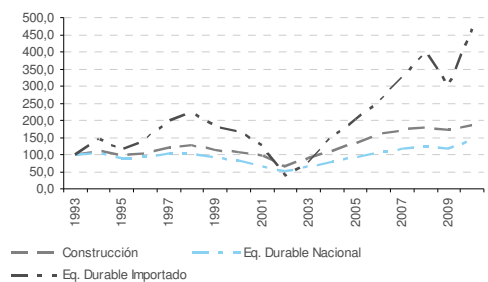
The main component of GDFI is Construction (see Chart 3). Growth in Construction began to slow in 2007, and this has reduced its share in aggregate GDFI from the highs of 2003-04.¹ Another major component is Capital Goods, which have recently picked up their rate of growth and share of total GDFI, in particular Imported Capital Goods. This is the most dynamic item in the composition of GDFI (see Chart 4).

Chart 3
Breakdown as % GDFI



Source: BBVA Francés Research.

Chart 4
Components of investment



Source: BBVA Francés Research.

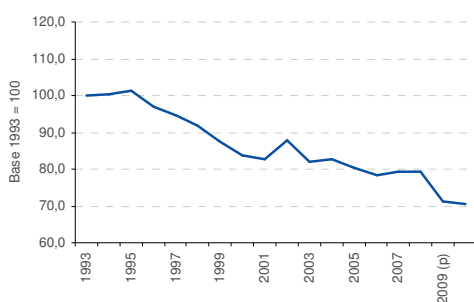
¹ For a more detailed analysis, see Real Estate Watch 2011.

Which sectors is investment targeting?

Analysis of the disaggregated data on imports of capital goods² and information on Foreign Direct Investment (FDI) by investment sector show that the manufacturing industry is the main recipient of investment.

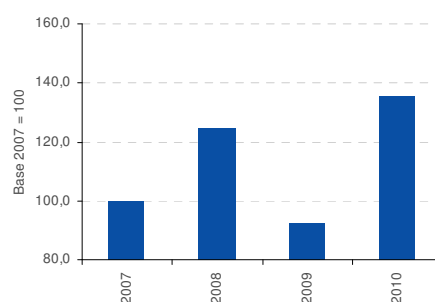
The fall in international prices of capital goods (see Chart 5), combined with the relative stability of the exchange rate, have led to a growth in imports of capital goods in real terms of 35.6% over the last 3 years, despite the slump in 2009. This increase is significant, above all taking into account that it does not include cellular telephony, which in many cases is erroneously classified as an investment. Imports in real terms are shown in Chart 6.

Chart 5
Index of capital goods prices



Source: BBVA Francés Research

Chart 6
Imports of capital goods
excl. cell phone equipment



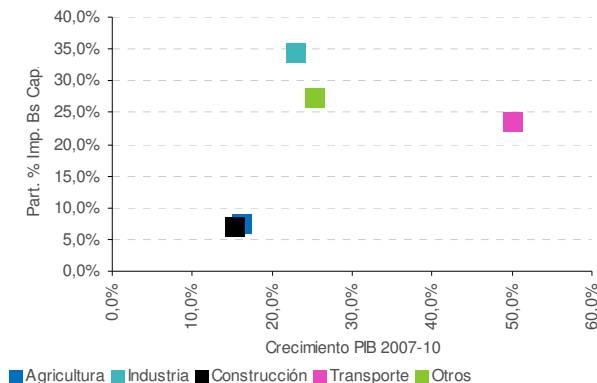
Source: BBVA Francés Research

If we aggregate the customs information available by economic sectors and relate it to the performance of these sectors in the period under analysis (see Chart 7) we can see:

- a) The high rate of growth and significant share of total imports of the transport services sector. This is due to the re-equipment program for the national airline, as well as the incorporation of highway equipment not manufactured in the country, mainly for freight transport.
- b) Significant investment in the Agricultural Sector through the purchase of tractors and machinery and in Construction through the acquisition of different types of specific machinery, such as cranes, winches, etc.
- c) Finally, in the Manufacturing Industry a number of items have had to be assumed, as there is not sufficient information in this respect. There has been a significant growth in activity, accumulating a growth of 22.9% over the period, while more than 30% of imports of capital goods were for this sector.

² We are limiting our analysis to the period from 2007 to the present date, after the recovery following the crisis of 2002 was consolidated. For this purpose, we have taken into consideration the goods included under this denomination and we have extracted Cellular Telephony Equipment, and deflated this by the Index of Prices of Capital Goods.

Chart 7
Growth and imports of capital goods 2007-10



Source: BBVA Francés Research.

To give a more complete view of the sectors to which investment is targeted in Argentina, we have also analyzed the destination of Foreign Direct Investment (FDI).

Although the share of FDI was reduced following the 2002 crisis because of the uncertainties in the institutional framework, it is still a significant indicator for characterizing the investment process. From an annual average share in the 1990s of 2.8% of GDP, FDI fell to 2.1% after the exit from the crisis to the present day. If we take into consideration the five-year period 2005-09, we obtain a total of USD 35.4 billion of FDI. Its main destination is the different subsectors of manufacturing industry, at 38.1% of total FDI (see Annex II). The main subsectors in this segment are Automotive, Chemicals, and Common Metals (steel and aluminum), at around USD 2.6 billion. They are followed in decreasing order of importance by the extractive sectors, such as Oil and Mining, Communications and Retail Trade.

Still not enough, above all in the energy sector

The conclusion is that investment in capital goods has been significant in this period, particularly in manufacturing industry. However, it is clear that there is a need to strengthen this trend, bearing in mind that utilization of industrial capacity at the middle of this year is at around 75%. This is also a core sector in terms of its ability to sustain an expansion of economic activity.

At the same time, much of the investment effort in the energy sector has been carried out by the government. In recent years it has completed the work on the Yacyretá Dam, raising its height to 83 meters, and constructed the General Belgrano and General San Martín thermal power stations; the nuclear power plant Atucha II is close to its completion stage (this is among the major works within the field of electrical energy generation); and work was completed on high-voltage electrical energy transport and gas distribution, both long-distance and regional.

However, the major growth of the economy and resulting demand for electrical power in a context of tariffs and controlled prices has led to new private investment and gradually converted the foreign balance into a deficit. Some of the strategies implemented, such as the Gas Plus and Refino Plus plans, represent a half-hearted attempt to boost private efforts in investment.

ANEXO I
Importaciones de Bienes de Capital por Sectores Demandantes

Sectores demandantes	cifras en u\$d				
	2007	2008	2009	2010	2011*
Construcción	680.690.340	772.020.742	427.428.745	696.331.900	549.808.761
Tractores y Maquinaria Agrícola	788.607.957	989.830.342	276.114.129	738.715.899	421.453.056
Industria Manufacturera	615.583.615	712.946.125	453.748.796	615.313.251	379.315.617
Alimentos y Bebidas	58.439.290	80.822.162	67.947.109	92.645.879	78.553.623
Papel, Cartón, Imprentas y Editoriales	222.277.332	248.347.733	156.907.461	247.890.950	138.673.895
Textiles, Cuero y Calzado	169.752.375	116.971.108	79.403.673	140.105.970	71.600.627
Metales Comunes	165.114.617	266.805.122	149.490.553	134.670.452	90.487.471
Transporte	1.887.256.976	2.542.137.928	1.736.655.407	2.523.104.866	1.521.898.658
Aéreo	790.456.801	1.218.923.364	1.109.790.939	1.338.336.395	445.985.568
Marítimo	53.855.700	81.035.544	44.331.900	69.220.152	309.240.059
Vial	954.417.676	1.214.320.380	573.307.639	1.097.938.493	756.297.235
Férreo	88.526.798	27.858.640	9.224.929	17.609.826	10.375.796
Telefonía celular	1.790.833.951	1.961.396.764	1.519.847.526	1.258.420.315	541.627.589
Maq. Automáticas p/tratamiento de datos	657.390.043	783.259.696	680.803.019	1.021.512.658	609.809.819
Motores, generadores, grupos electrógenos, transformadores y convertidores eléctricos	500.586.375	746.407.371	520.283.622	759.635.432	531.028.406
Otros	3.475.625.484	4.160.131.876	3.042.855.135	4.033.969.085	2.416.431.967
TOTAL	10.396.574.741	12.668.130.844	8.657.736.379	11.647.003.404	6.971.373.872
Bs de Capital s/Telefonía Celular	8.605.740.790	10.706.734.080	7.137.888.853	10.388.583.090	6.429.746.283

* Primer semestre.

Fuente: Research BBVA Francés sobre datos de Indec y elaboración propia.-

ANEXO II
Flujos de Inversión Extranjera Directa (IED)

SECTOR	2005-09	
	mill USD	Part %
PETRÓLEO	4010,7	11,3%
MINERÍA	3000,8	8,5%
INDUSTRIA AUTOMOTRIZ	2879,3	8,1%
INDUSTRIA QUÍMICA, CAUCHO Y PLÁSTICO	2874,0	8,1%
COMUNICACIONES	2609,7	7,4%
METALES COMUNES Y ELABORACIÓN	2495,3	7,1%
SECTOR PRIVADO FINANCIERO	2367,4	6,7%
COMERCIO	2074,3	5,9%
OLEAGINOSAS Y CEREALERAS	1994,8	5,6%
ALIMENTOS, BEBIDAS Y TABACO	1992,4	5,6%
INVERSORA, HOLDING	1257,3	3,6%
MAQUINARIAS Y EQUIPOS	1043,9	3,0%
OTROS SECTOR PRIVADO NO FINANCIERO	992,8	2,8%
AGRICULTURA, GANADERÍA Y OTRAS ACTIVIDADES PRIMARIAS	992,4	2,8%
PRODUCTOS MINERALES NO METÁLICOS	954,3	2,7%
TRANSPORTE	936,0	2,6%
CONSTRUCCIÓN	877,4	2,5%
OTROS SERVICIOS	674,6	1,9%
OTROS INDUSTRIA MANUFACTURERA	489,5	1,4%
INDUSTRIA TEXTIL Y CURTIDOS	401,4	1,1%
INDUSTRIA DE PAPEL, EDICIONES E IMPRESIONES	337,7	1,0%
Resto	116,8	0,3%
TOTAL	35372,8	100,0%

Fuente: BCRA.-

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