

## GFI – March’s 3% yoy contraction explained by the *Holy Week* calendar effect

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- **Gross fixed investment (March): -3% yoy; Banorte-Ixe: -3.6%; consensus: -2.9% (range of estimates: -4.6% to 0.5%); previous: 5.2%**
- **GFI’s contraction in March was explained by an adverse calendar effect, given that the *Holy Week* subtracted two working days to the annual comparison**
- **With calendar adjusted figures, GFI increased 1.2% yoy**
- **In seasonally adjusted terms, GFI expanded 0.3% m/m**
- **Looking ahead, we believe that GFI figures will show a significant deceleration during the second quarter of the year**

**March’s contraction explained by an adverse calendar effect.** According to *INEGI’s* report, gross fixed investment in March posted a 3% yoy contraction, above our -3.6% yoy forecast (Consensus: -2.9%; previous: 5.2). We highlight that GFI’s poor performance in March was explained by an adverse calendar effect, given that the *Holy Week* subtracted two working days to the annual comparison. With calendar adjusted figures, gross fixed investment increased 1.2% yoy.

Taking a look at the breakdown, and using the calendar-adjusted figures, investment in domestic machinery and equipment edged-up 12.3% yoy, while the imported component declined 3% yoy given the significant depreciation of the Mexican currency during the first quarter of the year.

Moreover, construction investment increased 1.6%, as a result of a scant 1.5% expansion in non-residential construction investment given the reduction in public investment projects. However, residential construction increased 2.5% yoy, as shown in the table on the next page.

**Gross fixed investment: March 2016**

<b>% yoy, original figures</b>	<b>Mar-16</b>	<b>Mar-15</b>
<b>Total</b>	-3.0	6.7
<b>Construction</b>	-1.6	4.5
Residential	-1.3	6.6
Non-residential	-1.8	2.8
<b>Machinery and equipment</b>	-5.0	10.1
Domestic	8.7	7.8
Imported	-10.5	11.1
<b>% yoy, calendar-adjusted figures</b>	<b>Mar-16</b>	<b>Mar-15</b>
<b>Total</b>	1.2	5.7
<b>Construction</b>	1.6	4.2
Residential	2.5	6.7
Non-residential	1.5	2.9
<b>Machinery and equipment</b>	0.6	6.8
Domestic	12.3	7.0
Imported	-3.6	7.0

Source: INEGI

**In seasonally adjusted terms, investment increased 0.3% m/m in March.**

Taking a look at the breakdown, investment in domestic machinery and equipment posted a 4.4% expansion, while the imported component decreased 0.1% m/m. Finally, investment in the construction sector increased 0.9% m/m, as shown in the table below.

**Gross fixed investment: March 2016**

<b>%m/m sa</b>	<b>Mar-16</b>	<b>Feb-16</b>	<b>Difference</b>
Total	0.3	-0.1	0.4
Construction	0.9	-1.8	2.7
Machinery and equipment	-0.2	-2.1	2.0
Domestic	4.4	-3.8	8.2
Imported	-0.1	-2.1	2.1

Source: INEGI

**Looking ahead, we believe that GFI figures will show a significant deceleration in the second quarter of the year.** Despite the 0.3% m/m growth in March's seasonal-adjusted GFI figures, we believe that the outlook for the second quarter will be more negative. In particular, the latest trade balance report published by Banxico and *INEGI* shows that M&Eq imports fell 4.1% yoy in April.

Moreover, we believe that construction output will be significantly lower as a result of the decline in public investment projects given the fiscal cut announced by the Federal Government on November 2015. In addition, the new fiscal cut announced by the *MoF* on February 17 will further limit the government's ability to invest in public projects, which will be reflected in lower domestic investment figures throughout the second quarter of the year.

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