# GFI – June's contraction explained by lower capital goods imports

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- **Gross fixed investment (June): -0.9% yoy (nsa); Banorte-Ixe: -1%; consensus: -0.6% (range of estimates: -2.5% to 1.5%); previous: 2.3%**
- **In seasonally adjusted terms, GFI posted a 1% m/m contraction, given the 2.4 m/m reduction in capital goods imports**
- **Looking ahead, we believe that GFI will maintain a downward trend as a result of:**
  **(1) The fiscal cuts implemented by the federal government, which have affected Mexico's public investment projects; and**
  **(2) The uncertainty surrounding Mexico's economic and political environment**

**June's contraction in line with our forecast.** According to *INEGI's* report, gross fixed investment posted a 0.9% yoy contraction in June, marginally above our -1% yoy forecast (consensus: -1.6% yoy). In seasonally adjusted terms, GFI declined 1% m/m.

Taking a look at the breakdown, and analyzing the seasonally adjusted series, investment in construction posted a 0.7% gain, as a result of the 1.4% expansion in residential construction. In addition, non-residential construction increased 0.2% m/m. By contrast, investment machinery and equipment decreased 2.4% m/m, as a result of the 5.3% contraction in the imported component (refer to the table below).

With today's figures, GFI posted a 1.9% 3m/3m saar expansion. However, construction fell 2.5% as a result of the 3.6% reduction in non-residential construction, which has a strong correlation with public investment (refer to the charts on the next page).

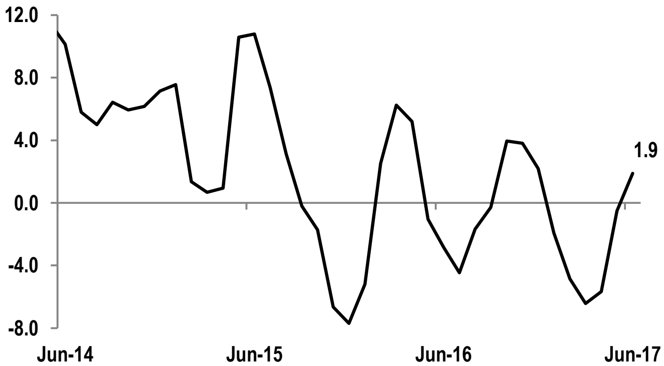
**Gross fixed investment: June 2017**
% m/m; sa

| | Jun-17 | May-17 | Apr-17 | Difference |
|---|---|---|---|---|
| **Total** | **-1.0** | **2.3** | **-1.1** | **-3.3** |
| **Construction** | **0.7** | **2.3** | **-1.7** | **-1.6** |
| Residential | 1.4 | 2.0 | -1.8 | -0.6 |
| Non-residential | 0.2 | 1.7 | -0.5 | -1.5 |
| **Machinery and equipment** | **-2.4** | **2.3** | **-0.2** | **-4.6** |
| Domestic | 0.5 | -6.0 | 2.7 | 6.5 |
| Transportation equipment | 1.4 | -6.4 | -0.2 | 7.7 |
| Other M&Eq | 1.6 | -5.5 | 4.3 | 7.1 |
| Imported | -5.3 | 8.0 | -0.9 | -13.3 |
| Transportation equipment | -6.3 | 17.6 | -8.4 | -23.8 |
| Other M&Eq | -4.8 | 6.3 | 0.2 | -11.0 |

Source: INEGI

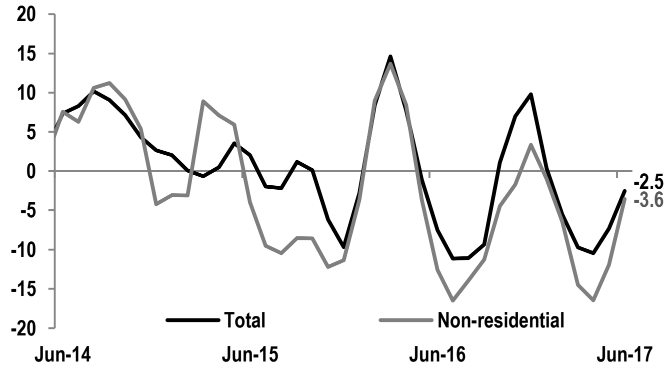
Looking ahead, we believe that GFI will maintain a downward trend. Today's figures validate our view of a deceleration of investment levels. We believe that the contraction stems from: (1) The fiscal cuts implemented by the federal government which have affected Mexico's public investment projects; and (2) the uncertainty surrounding Mexico's economic and political environment. Looking ahead, we expect these factors to continue to weigh on investment decisions in our country in the coming months.

**Gross fixed investment**
% 3m/3m saar




Source: Banorte-IXE

**Construction: Total and Non residential**
% 3m/3m saar




Source: Banorte-IXE

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