

GFI extends its weakness in December

March 8, 2019

- **Gross fixed investment (December): -6.8% yoy (nsa); Banorte: -5.1%; consensus: -4.9% (range of estimates: -6.5% to -2.8%); previous: -3.2%**
- **The fall was explained by all sub-indices, highlighting the 11.7% and 7.7% decline in domestic and imported machinery and equipment, respectively**
- **With these results, GFI grew only 0.6% yoy in full-year 2018, stronger than the 1.6% decline of the previous year**
- **In the monthly comparison GFI edged-down for second consecutive month and by 0.7% m/m**
- **We continue expecting weakness in investment in 1H19 on lower expectations over economic growth, relatively tighter financial conditions, and a cautious stance among businesses**

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GFI fell 6.8% yoy, weaker than market consensus. GFI stayed in contraction territory for a second month in a row. With today's figures, GFI posted 0.6% growth in 2018, above the 1.6% contraction in 2017, driven by acceleration in imported machinery and equipment (6.5% vs 2.6% in 2017) and a moderation in the decline of non-residential construction (-2.4% vs -7%) in an electoral year. As a result, construction fell 0.3% while machinery and equipment rose 1.8%.

Returning to December, construction plunged 5% yoy, higher than the 4.3% reduction observed in industrial production. Inside, this was driven by contractions in both residential (-1.9%) and non-residential (-7.8%). We believe weakness in the latter subcategory will extend given the typical slowdown in infrastructure spending by the Federal Government at the start of a new administration. Going into M&Eq, overall investment fell 9.3%, with the domestic component plunging 11.7%, now contracting for six straight months. Imported machinery and equipment fell 7.7%, also above the 4% reduction in capital goods imports according to the trade balance figures. Overall, the report is consistent with the strong deceleration in economic activity observed in the last month of 2018. Nevertheless, and in contrast to other sectors that have shown tentative signs of a rebound, we believe the slowdown in investment will extend at least to 1H19.

Gross fixed investment

% yoy, nsa

	Dec-18	Dec-17	2018	2017
Total	-6.8	-0.9	0.6	-1.6
Construction	-5.0	2.9	-0.3	-3.0
Residential	-1.9	9.1	1.9	1.9
Non-residential	-7.8	-1.9	-2.4	-7.0
Machinery and equipment	-9.3	-5.9	1.8	0.4
Domestic	-11.7	-15.7	-5.0	-2.7
Transportation equipment	-17.4	-21.6	-7.0	-6.6
Other machinery and equipment	-3.6	-5.5	-2.0	3.9
Imported	-7.7	1.9	6.5	2.6
Transportation equipment	-10.3	14.2	5.0	1.2
Other machinery and equipment	-7.3	0.0	6.7	2.8

Source: INEGI

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In the monthly comparison GFI contracted 0.7% m/m, rounding up a very weak quarter. In particular, it fell 3.3% relative to the previous quarter (3m/3m saar at -12.5%), this being its worst performance since 2009. It is worth mentioning that residential construction and domestic machinery and equipment were the only components in positive territory. In contrast, non-residential construction will be the weakest link in coming months. Moreover, imported M&Eq plunged 6.6%, lowest in a little more than two years. Despite of the latter, this component will likely rebound in January, as suggested by the trade balance report.

Gross fixed investment

% m/m sa, % 3m/3m saar

	% m/m			% 3m/3m saar	
	Dec-18	Nov-18	Oct-18	Oct-Dec'18	Sep-Nov'18
Total	-0.7	-3.5	0.0	-12.5	-9.7
Construction	0.7	-1.8	-0.1	-5.3	-5.9
Residential	2.3	-2.5	2.3	3.4	0.0
Non-residential	-0.9	-0.7	-2.6	-12.7	-10.9
Machinery and equipment	-3.8	-4.1	-1.1	-22.1	-14.2
Domestic	0.2	-4.6	-4.8	-26.4	-23.7
Transportation equipment	3.8	-12.8	-6.6	-47.0	-40.5
Other machinery and equipment	-0.8	1.6	-3.1	-6.3	-7.0
Imported	-6.6	-3.7	0.2	-17.9	-2.0
Transportation equipment	-4.1	-10.8	19.1	23.1	9.4
Other machinery and equipment	-5.6	-2.7	-2.5	-22.2	-3.6

Source: INEGI

In our view, today's report is consistent with further weakness in coming months. We maintain our view that investment will slow down further in 2019 and could even contract once again. First and foremost, overall economic activity, both locally and globally, could decelerate further than what we have observed so far, with our GDP forecast for this year at 1.5% yoy, below the 2.0% of the previous year. Additionally, dynamism could be lower than in 2018, considering that the latter was partially benefitted by the electoral year, which is typically associated with higher infrastructure spending. Moreover, financing costs are higher, making it harder for companies to develop existing or potential opportunities. Confidence among businessmen remains muted despite picking up in February, with the component measuring the adequate moment to invest tracking lower in the first two months of the year relative to the average in 4Q18 in both construction and manufacturing, albeit stronger in services.

We believe that an extension of the weaker performance at the end of last year could be observed in 1H19, without discarding an extension to the rest of the year. In particular, it is our take that investment is likely the most vulnerable component of aggregate demand in terms of the potential impact of recent transitory shocks, given their effect on levels of activity and inventories, among others.

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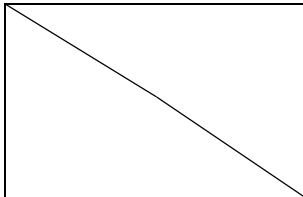
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