

## GFI remains weak in spite of a healthy monthly advance in September

December 6, 2018

www.banorte.com  
@analisis\_fundam

**Juan Carlos Alderete, CFA**  
Senior Economist, Mexico  
juan.alderete.macal@banorte.com

**Francisco Flores**  
Economist, Mexico  
francisco.flores.serrano@banorte.com

- **Gross fixed investment (September): -0.9% yoy (nsa); Banorte: -1.8%; consensus: 0.2% (range of estimates: -1.8% to 1.5%); previous: -2.4%**
- **For a second consecutive month, the decrease in GFI was driven by the domestic front, with contractions in both transportation (-6.1%) and machinery and equipment (-3.0%). Construction fell 1.4%, impacted by the residential sector**
- **In the monthly comparison GFI picked up 0.8% m/m (seasonally adjusted), with all components back to positive territory. Nevertheless, in our view this could be related to a favorable base effect**
- **In our opinion, investment is likely to be muted as the global backdrop remains challenging, exacerbated by higher local uncertainty and tighter financial conditions**

**GFI fell 0.9% yoy in September, below expectations.** In this respect, GFI extended the decline of 2.6% in the previous month, with both construction (-1.4%) and machinery and equipment (-0.2%) falling in the annual comparison. Regarding the former, the weakness was concentrated in the residential sector, falling 3.2%, while non-residential was marginally positive at 0.3%. In this respect, this figure was weaker than the one implied by industrial production figures. Going to the latter, the decline was driven exclusively by domestic M&E, plunging 5.0% as both components contracted, moderated by imported machinery and equipment that increased 3.2%.

In our view, investment is likely to remain depressed, with higher uncertainty both in the domestic and external front. Nevertheless, we believe there may be a silver lining in terms of the imported machinery and equipment component, which could be related to lower trade uncertainty after the trade agreement with the US at the end of August. Adding to the latter, we must take into account that the Mexican peso had strengthened significantly relative to lows of the year in June, which could have also helped to this category.

### Gross fixed investment

% yoy, nsa

	Sep-18	Sep-17	Jan-Sep, '18	Jan-Sep, '17
<b>Total</b>	-0.9	-2.6	1.6	-1.1
<b>Construction</b>	-1.4	-1.2	0.5	-3.1
Residential	-3.2	6.3	2.7	2.1
Non-residential	0.3	-7.5	-1.6	-7.6
<b>Machinery and equipment</b>	-0.2	-4.4	3.0	1.8
Domestic	-5.0	-3.1	-3.7	0.9
Transportation equipment	-6.1	-4.8	-5.3	-1.8
Other machinery and equipment	-3.0	-0.2	-1.1	5.2
Imported	3.2	-5.3	7.7	2.5
Transportation equipment	-1.3	-16.3	4.2	0.6
Other machinery and equipment	4.0	-3.2	8.3	2.8

Source: INEGI

Document for distribution among public

**In contrast, in the monthly comparison, GFI bounced back by 0.8% m/m, although after the strong decrease of 2.9% in August.** In this respect, we note that the decrease in the previous month was revised higher (from -3.4%), but remained at its lowest since April 2017. Therefore, we suspect that the pickup in September was influenced by a positive base effect. Going into the main components, construction grew 0.9%, with the residential sector leading at 1.6%. On the other hand, machinery and equipment increased 0.8%, with the domestic and imported components at 3.7% and 0.7%, respectively. Lastly, the 3m/3m saar figure fell for a third consecutive month at -2.8% from -1.9% in the previous month, albeit higher than the -5.2% level at the end of 2Q18.

**Gross fixed investment**

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

	% m/m			% 3m/3m saar	
	Sep-18	Ago-18	Jul-18	Jul-Sep18	Jun-Ago'18
<b>Total</b>	<b>0.8</b>	<b>-2.9</b>	<b>0.8</b>	<b>-2.8</b>	<b>-1.9</b>
<b>Construction</b>	<b>0.9</b>	<b>-2.6</b>	<b>0.2</b>	<b>-1.1</b>	<b>1.9</b>
Residential	1.6	-4.3	2.5	0.2	-1.8
Non-residential	0.2	0.4	-1.8	-0.6	3.7
<b>Machinery and equipment</b>	<b>0.8</b>	<b>-3.1</b>	<b>1.7</b>	<b>-2.6</b>	<b>-5.4</b>
Domestic	3.7	-5.5	-2.9	-16.2	-14.4
Transportation equipment	2.2	-3.0	-3.8	-5.7	-0.6
Other machinery and equipment	3.8	-4.0	-2.0	-19.7	-23.4
Imported	0.7	-1.9	4.0	10.9	4.4
Transportation equipment	-2.4	-4.7	-0.2	-14.5	-6.0
Other machinery and equipment	1.4	-2.2	6.6	18.8	6.9

Source: INEGI

**In our opinion, investment is likely to be muted as the global backdrop remains challenging, exacerbated by higher local uncertainty and tighter financial conditions.** In this respect, we believe that overall conditions for investment have worsened since last October, as reflected by losses in the Mexican peso and pressures in interest rates, resulting in a higher bar for investment projects in terms of the required IRR. Externally, the outlook for global growth has weakened, while trade uncertainties remain high despite some advances between the US and China. We also note that growth has moderated on a YTD-basis, falling for two straight months from 2.2% in June to 1.6% currently. Moreover, business confidence has been declining persistently and in all sectors since the highs observed in August. Additionally, recent data such as auto production and US industrial activity have showed signs of moderation, which coupled with a more uncertain short- and mid-term outlook for the Mexican economy, could result in weaker investment prospects at least for the next couple of quarters.

**Disclaimer**

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

## Analyst Certification

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer, Jorge Antonio Izquierdo Lobato and Leslie Thalia Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

## Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

## Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte Ixe and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

## Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

## Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

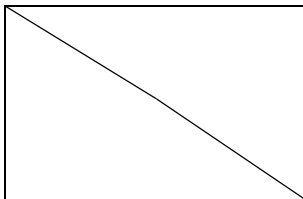
## Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

## Guide for investment recommendations.

	<b>Reference</b>
<b>BUY</b> <b>HOLD</b> <b>SELL</b>	When the share expected performance is greater than the MEXBOL estimated performance. When the share expected performance is similar to the MEXBOL estimated performance. When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

## Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V., since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

*The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.*

**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**
**Research and Strategy**

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

**Economic Analysis**

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

**Fixed income and FX Strategy**

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

**Equity Strategy**

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Francisco Duarte Alcocer	Analyst	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

**Corporate Debt**

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

**Wholesale Banking**

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454