

GFI rebounded modestly in April, led by the domestic component

- **Gross fixed investment (April): -5.7% yoy (nsa); Banorte: -6.5%; consensus: -5.6% (range of estimates: -10% to -3.8%); previous: -2.4%**
- **The fall was exacerbated by the distortion generated by the timing of the Holy Week. In this respect, construction declined 4.4% and machinery and equipment stood at -7.4%, albeit with the domestic component inching 0.5% higher**
- **Performance was stronger when adjusted for the latter, with GFI up 2.5% m/m after two consecutive months in contraction**
- **Despite of the latter, investment remains weak, maintaining our view that it will contract in FY19. We believe that appetite from the private sector will remain limited, outweighing for the possibility of a gradual pickup in the public sector during 2H19**

GFI fell 5.7% yoy in April, virtually in line with consensus. GFI was in contraction for a third consecutive month at -5.7% yoy in April, practically in line with consensus but stronger than our -6.5% forecast. We should note that a negative print was anticipated by all analysts given that the month was distorted by the timing of the Holy Week. In this respect, all sectors were down on an annual basis. In particular, we highlight the 7.4% fall in machinery and equipment, driven by a steep drag from the imported component at -11.8%, broadly consistent with the -9.2% in capital goods imports. This was moderated by a relatively better performance in the domestic component (+0.5%), supported by transportation which climbed 16.6%. On the other hand, construction declined 4.4%, led by the non-residential sector at -5.1% (likely still dampened by austerity measures by the Federal Government continue), while residential fell 3.8%.

With this figure, GFI faces an uphill battle to attain a positive yearly performance in 2Q19, likely extending the weak performance already experienced in the first quarter at -0.9% yoy. In our view, overall conditions for investment remain weak, with headwinds from several factors. Among them, we highlight: (1) The slow start of the year in terms of public investment, which is not unusual in the first year of a new Federal Administration; (2) lower projections for economic growth, which should be more negative for domestic-facing industries; (3) high local and global uncertainty, in particular about trade, coupled with recent negative actions on Mexico's sovereign rating; and (4) high local financing costs. We expect these conditions to keep limiting higher dynamism in investment.

July 5, 2019

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

% yoy, nsa

	Apr-19	Apr-18	Jan-Apr'19	Jan-Apr'18
Total	-5.7	9.6	-2.1	3.0
Construction	-4.4	6.5	-0.8	1.5
Residential	-3.8	12.4	0.7	6.1
Non-residential	-5.1	0.9	-2.2	-2.6
Machinery and equipment	-7.4	14.0	-3.9	5.1
<i>Domestic</i>	0.5	1.0	-4.2	-2.9
Transportation equipment	16.6	-2.7	2.4	-7.4
Other machinery and equipment	-19.2	5.8	-12.8	3.9
<i>Imported</i>	-11.8	22.9	-3.7	10.7
Transportation equipment	-16.8	18.1	-0.2	5.0
Other machinery and equipment	-10.9	23.8	-4.3	11.7

Source: INEGI

Monthly figures were more positive, with GFI advancing 2.5% m/m. The latter meant a break with two consecutive months of decline at a pace of at least 3% m/m. In this respect and despite being positive, it was not enough to compensate for the recent slowdown, with some support during the period stemming from the downwardly-revised figure for March, to -3.5% from -3.0% originally. Construction picked-up 3%, with an almost even advance in both the residential (2.2%) and non-residential sectors (2.1%). Moreover, machinery and equipment was also higher, up by 1.3%. In our view, the main surprise was the acceleration in the domestic component as it stood at +3.8%, above the +1.7% of the previous month. This was due to transportation which surged 9.1%, confirming its relative resiliency. Nevertheless, timely data for May show that production is slowing down. On the contrary, the imported component declined 1.1%, down for third consecutive month. In particular, transportation plunged 12.2%, weakest since January 2018.

The 3m/3m saar metric shifted back to negative territory at -2.4% from +6.8% in the previous month, which is consistent with a still muted performance. Nevertheless, it should be noted that the magnitude was exacerbated by a base effect due to the strong rebound registered in January 2019, which this month turned into a drag.

Gross fixed investment

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

	% m/m			% 3m/3m saar	
	Apr-19	Mar-19	Feb-19	Feb-Apr'19	Jan-Mar'19
Total	2.5	-3.5	-3.0	-2.4	6.8
Construction	3.0	-4.6	-2.7	-6.7	4.6
Residential	2.2	-4.1	-3.7	-6.2	8.9
Non-residential	2.1	-3.4	-2.6	-5.8	4.5
Machinery and equipment	1.3	-0.8	-2.4	8.7	13.0
<i>Domestic</i>	3.8	1.7	0.9	32.4	24.3
Transportation equipment	9.1	2.3	4.2	109.1	79.1
Other machinery and equipment	-3.8	-0.1	-3.1	-22.1	-16.3
<i>Imported</i>	-1.1	-3.0	-4.2	-7.2	4.2
Transportation equipment	-12.2	-3.0	5.1	-1.1	-4.0
Other machinery and equipment	0.0	-2.6	-6.0	-10.1	3.9

Source: INEGI

The outlook for investment remains weak. Despite of sequential growth being better than our expectations, we highlight that investment was down 4.0% yoy during the two months of March-April, based on original figures (in order to eliminate the distortion generated by the Holy Week) and -2.1% year-to-date. In our view, this suggests that the signal remains negative. Based on the abovementioned factors, we reiterate our view that investment will contract this year. We reiterate our expectation that the private sector will maintain limited appetite for new projects, likely outweighing for the possibility of more dynamism in public spending in 2H19. In this respect, we continue seeing investment as the weakest link in terms of overall GDP growth this year.

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 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.

Reference	
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	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
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
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
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	Manager, 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