GFI plunged in May, with a still challenging outlook in coming months

August 6, 2019

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- **Gross fixed investment (May): -7.4% yoy (nsa); Banorte: -6.6%; consensus: -8.0% (range: -10.3% to -5.0%); previous: -5.8%**
- **The fall was led by construction (-9.1% yoy), declining at its fastest pace since July 2013 when considering periods not distorted by the timing of the Holy Week. Machinery and equipment fell (-5.4%), with the domestic and imported components at –5.7% and –5.2%, respectively**
- **In seasonally adjusted terms, GFI plunged 2.7%, more than reversing the 1.2% advance of the previous month**
- **Investment remains weak, with more timely indicators suggesting additional declines. We maintain our view that investment will contract 2.9% in FY19, with risks tilted to the downside**

GFI fell 7.4% yoy in May, slightly higher than consensus. GFI contracted for a fourth consecutive month at -7.4% yoy in May, slightly better when compared to consensus (-8.0%) and weaker than our already downbeat -6.6% forecast. Contrary to the previous month, this figure was not distorted by calendar effects, making the result more worrisome than the -5.8% observed in April. All sectors were down on an annual basis. We highlight the 9.1% fall in construction. In particular, this is the weakest print since July 2013 when excluding periods distorted by the timing of the Holy Week. The residential sector plunged 8.4%, which as we have mentioned in other publications, we believe has been affected to a great extent by the suspension of projects in Mexico City. On the other hand, the non-residential sector fell 9.7%, in our view more related to the slow execution of government spending.

Despite these transitory factors, machinery and equipment was also weak at -5.4%, its 7th month in a row in negative territory. The domestic component stood at -5.7% in spite of some support from transportation, which rebounded to 3.7% from -1.1% in April. The imported component was also in contraction at -5.2%, also dragged by non-transportation which was at -7.2%.

With this figures, GFI accumulates a year-to-date contraction of 3.2% yoy (1Q19: -0.9%, Apr-May: -6.6%). It should be noted that this is weaker than the same period of the previous two administrations (-1.6% in 2013, +4.3% in 2007, -7.2% in 2001). In this respect, we welcome the recent announcement of the Federal Government to speed-up spending during the rest of the year by MXN$485 billion (US$ 24.7 billion) which represents around 2% of GDP. In particular, the program includes at least MXN$50 billion (US$2.6 billion) specifically tagged for infrastructure, which we see as very relevant given that non-residential investment, more closely related to these kind of projects, has being the weakest component within GFI (-2.6% ytd). For details, see: "*MoF appoints Undersecretary and announces measures to support economic activity*", <pdf>.

Gross fixed investment
% yoy, nsa

	May-19	May-18	Jan-May'19	Jan-May'18
Total	-7.4	0.5	-3.2	2.5
Construction	-9.1	-1.3	-2.4	0.9
Residential	-8.4	0.0	-1.1	4.8
Non-residential	-9.7	-2.6	-3.7	-2.6
Machinery and equipment	-5.4	2.9	-4.2	4.6
Domestic	-5.7	3.1	-4.6	-1.5
Transportation equipment	3.7	-1.1	2.7	-5.9
Other machinery and equipment	-21.1	10.7	-14.6	5.3
Imported	-5.2	2.8	-4.0	8.9
Transportation equipment	7.5	-6.8	1.4	2.4
Other machinery and equipment	-7.2	4.5	-4.9	10.1

Source: INEGI

Seasonally-adjusted figures show investment levels at lows since mid-2014. In particular, GFI declined 2.7% m/m, more than reversing the 1.2% advance of the previous month which only came about after two consecutive months of contracting at an average rate of 3.0%. As a result, the index is at a level not observed since in almost five years, with the 3m/3m saar rate declining further to -10.8% from -3.3% in the previous month. By sector, construction plunged 5.5% m/m, with the residential sector declining -7.6% -weakest since April 2017-, while the non-residential sector stood at -4.3%. On the other hand, machinery and equipment (M&Eq) declined more modestly, at -0.3%. The domestic component fell 1.0%, with both transportation (-0.7%) and other M&Eq (-0.9%) on the downside. Therefore, the main positive surprise was the 1.2% advance in the imported component, with transportation surging 16% but only after a 13.3% contraction in April.

Gross fixed investment
% m/m sa, % 3m/3m saar

	% m/m			% 3m/3m saar	
	May-19	Apr-19	Mar-19	Mar-May'19	Feb-Apr'19
Total	**-2.7**	**1.2**	**-2.9**	**-10.8**	**-3.3**
Construction	**-5.5**	**1.0**	**-3.8**	**-20.2**	**-8.5**
Residential	-7.6	1.5	-4.2	-23.8	-8.3
Non-residential	-4.3	0.7	-3.1	-17.0	-8.1
Machinery and equipment	**-0.3**	**1.2**	**-0.9**	**5.1**	**8.2**
Domestic	-1.0	3.5	1.6	25.8	30.5
Transportation equipment	-0.7	8.4	2.2	75.4	103.8
Other machinery and equipment	-0.9	-4.0	-0.3	-21.6	-22.7
Imported	1.2	-1.1	-3.0	-9.9	-7.0
Transportation equipment	16.0	-13.3	-2.9	-10.3	-1.4
Other machinery and equipment	-0.3	0.1	-2.6	-11.7	-10.0

Source: INEGI

We believe risks to investment remain tilted to the downside. The report today shows that GFI during 2Q19 is poised to be very weak as it is tracking at -6.6% yoy. Although this is partially a result of a negative calendar effect, the performance in seasonally-adjusted terms and other data confirms this signal. In particular, we note that capital goods imports within the trade balance report plunged 21.2% in June, a performance not observed since 2009 in the midst of the financial crisis. Considering the latter, risks to our -6.1% yoy forecast for investment in 2Q19 GDP is clearly skewed to the downside.

We believe that overall conditions for investment will remain weak, highlighting: (1) Lower projections for economic growth, which should be more negative for domestic-facing industries as it will likely be driven by less dynamism in private consumption; (2) high local financing costs; (3) elevated global uncertainty about trade, with renewed concerns on the recent escalation between the US and China; and (4) low business confidence, highlighting the "adequate moment to invest component", which dipped further in June and July.

On a more positive note, a better performance could be in store for 2H19. In particular, further easing measures by global central banks could help reduce financial costs (including Banxico, starting in September) and countercyclical fiscal measures could provide another boost. Despite of the latter, it is our take that the risk to our forecast for investment in full-year 2019 of -2.9% yoy remains skewed towards a higher contraction, with investment still as the weakest link in terms of overall GDP growth this year.

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